



Nketoana Local Municipality
Financial statements
for the year ended 30 June 2015
Auditor-General South Africa

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	2
Statement of Financial Position	3
Statement of Financial Performance	4
Statement of Changes in Net Assets	5
Cash Flow Statement	6
Statement of Comparison of Budget and Actual Amounts	7
Appropriation Statement	8 - 7
Accounting Policies	8 - 32
Notes to the Financial Statements	33 - 45

Abbreviations

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

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

The 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 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The external auditors are responsible for independently auditing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The financial statements set out on pages 3 to 45, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

L.I. Mokgathe (Municipal Manager)
Accounting Officer

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014 Restated*
Assets			
Current Assets			
Inventories	2	732 924	776 544
Receivables from exchange transactions	3	11 145 879	3 164 735
Receivables from non-exchange transactions	4	15 046 632	12 818 086
Consumer debtors	5	21 718 016	30 211 174
Cash and cash equivalents	6	9 054 041	789 302
		57 697 492	47 759 841
Non-Current Assets			
Biological assets that form part of an agricultural activity	7	22 700	22 700
Investment property	8	7 824 543	8 263 614
Property, plant and equipment	9	541 676 674	590 782 004
Intangible assets	10	34 581	27 833
Other financial assets	11	4 796 990	4 582 445
Long-term deposit		2 018 500	2 018 500
		556 373 988	605 697 096
Total Assets		614 071 480	653 456 937
Liabilities			
Current Liabilities			
Other financial liabilities	12	-	906 482
Payables from exchange transactions	13	101 786 680	74 118 085
VAT payable	14	14 669 263	13 080 172
Consumer deposits	15	1 305 253	1 251 344
Employee benefit obligation	16	550 000	335 000
Unspent conditional grants and receipts	17	383	3 679 861
Bank overdraft	6	-	1 670 608
		118 311 579	95 041 552
Non-Current Liabilities			
Other financial liabilities	12	9 129 964	10 410 778
Employee benefit obligation	16	10 619 000	11 102 000
Provisions	18	3 778 956	3 778 956
		23 527 920	25 291 734
Total Liabilities		141 839 499	120 333 286
Net Assets		472 231 981	533 123 651
Accumulated surplus		472 231 981	533 123 651

* See Note 37

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	107 605 242	97 801 900
Rental of facilities and equipment	20	356 580	433 839
Interest received (trading)		20 173 637	19 071 015
Other income	21	1 094 839	1 397 571
Interest received - investment	22	583 166	411 307
Total revenue from exchange transactions		129 813 464	119 115 632
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	16 528 904	16 310 082
Transfer revenue			
Government grants & subsidies	24	108 911 163	128 777 666
Public contributions and donations	25	-	8 000
Fines, Penalties and Forfeits		155 100	94 074
Total revenue from non-exchange transactions		125 595 167	145 189 822
Total revenue		255 408 631	264 305 454
Expenditure			
Employee related costs	26	(72 692 047)	(68 647 855)
Remuneration of councillors	27	(6 497 625)	(5 379 215)
Depreciation and amortisation	28	(51 261 496)	(64 210 796)
Finance costs	29	(8 118 097)	(2 917 794)
Lease rentals on operating lease		(4 812 102)	(3 141 412)
Debt Impairment	30	(67 102 428)	(95 804 025)
Repairs and maintenance		(19 669 597)	(10 510 488)
Bulk purchases	31	(27 608 764)	(34 430 699)
Contracted services	32	(8 422 306)	(12 770 134)
General Expenses	33	(50 152 266)	(42 150 416)
Total expenditure		(316 336 728)	(339 962 834)
Operating deficit		(60 928 097)	(75 657 380)
Gain on disposal of assets and liabilities		36 425	654 736
Fair value adjustments	34	-	129 872
Loss on non-current assets held for sale or disposal groups		-	(654 736)
		36 425	129 872
Deficit for the year		(60 891 672)	(75 527 508)

* See Note 37

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	608 651 158	608 651 158
Changes in net assets		
Surplus for the year	(75 527 507)	(75 527 507)
Total changes	(75 527 507)	(75 527 507)
Opening balance as previously reported	532 667 488	532 667 488
Adjustments		
Correction of errors (Note 45)	456 163	456 163
Restated* Balance at 01 July 2014 as restated*	533 123 651	533 123 651
Changes in net assets		
Surplus for the year	(60 891 670)	(60 891 670)
Total changes	(60 891 670)	(60 891 670)
Balance at 30 June 2015	472 231 981	472 231 981

* See Note 37

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Taxation		16 528 904	16 310 082
Sale of goods and services		67 759 637	47 454 440
Grants		98 577 515	126 562 939
Interest income		583 166	411 307
		183 449 222	190 738 768
Payments			
Employee costs		(79 457 672)	(72 650 070)
Suppliers		(81 848 847)	(44 860 253)
Finance costs		(8 118 097)	(2 917 794)
		(169 424 616)	(120 428 117)
Net cash flows from operating activities	36	14 024 606	70 310 651
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(1 704 177)	(60 376 968)
Proceeds from sale of property, plant and equipment	9	36 425	(1 805 538)
Purchase of other intangible assets	10	(19 666)	-
Proceeds from sale of financial assets		(214 546)	(169 600)
Net cash flows from investing activities		(1 901 964)	(62 352 106)
Cash flows from financing activities			
Repayment of other financial liabilities		(2 187 296)	(1 062 377)
Net cash flows from financing activities		(2 187 296)	(1 062 377)
Net increase/(decrease) in cash and cash equivalents		9 935 346	6 896 168
Cash and cash equivalents at the beginning of the year		(881 306)	(7 777 474)
Cash and cash equivalents at the end of the year	6	9 054 040	(881 306)

* See Note 37

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	116 698 000	15 368 000	132 066 000	107 605 242	(24 460 758)	
Rental of facilities and equipment	-	-	-	356 580	356 580	
Interest received (trading)	20 249 000	13 562 000	33 811 000	20 173 637	(13 637 363)	
Other income - (rollup)	-	-	-	1 094 839	1 094 839	
Interest received - investment	425 000	75 000	500 000	583 166	83 166	
Total revenue from exchange transactions	137 372 000	29 005 000	166 377 000	129 813 464	(36 563 536)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 320 000	13 237 000	36 557 000	16 528 904	(20 028 096)	
Transfer revenue						
Government grants & subsidies	82 649 000	-	82 649 000	108 911 163	26 262 163	
Fines, Penalties and Forfeits	-	-	-	155 100	155 100	
Total revenue from non-exchange transactions	105 969 000	13 237 000	119 206 000	125 595 167	6 389 167	
Total revenue	243 341 000	42 242 000	285 583 000	255 408 631	(30 174 369)	
Expenditure						
Personnel	(60 352 000)	1 252 000	(59 100 000)	(72 692 047)	(13 592 047)	
Remuneration of councillors	(6 243 000)	82 000	(6 161 000)	(6 497 625)	(336 625)	
Depreciation and amortisation	(70 995 000)	-	(70 995 000)	(51 261 496)	19 733 504	
Finance costs	(2 800 000)	-	(2 800 000)	(8 118 097)	(5 318 097)	
Lease rentals on operating lease	-	-	-	(4 812 102)	(4 812 102)	
Bad debts written off	-	-	-	(67 102 428)	(67 102 428)	
Repairs and maintenance	-	-	-	(19 669 597)	(19 669 597)	
Bulk purchases	(47 554 000)	(3 495 000)	(51 049 000)	(27 608 764)	23 440 236	
Contracted Services	-	-	-	(8 422 306)	(8 422 306)	
General Expenses	(92 891 000)	(40 055 500)	(132 946 500)	(50 152 265)	82 794 235	
Total expenditure	(280 835 000)	(42 216 500)	(323 051 500)	(316 336 727)	6 714 773	
Operating deficit	(37 494 000)	25 500	(37 468 500)	(60 928 096)	(23 459 596)	
Gain on disposal of assets and liabilities	-	-	-	36 425	36 425	
Deficit before taxation	(37 494 000)	25 500	(37 468 500)	(60 891 671)	(23 423 171)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(37 494 000)	25 500	(37 468 500)	(60 891 671)	(23 423 171)	

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Financial Statements

The 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 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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These 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.

1.3 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity 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 that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity 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 that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost.

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.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Investment property (continued)

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

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 reporting 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 or fair value 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 assets, or a combination of assets 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.

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.

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

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Property, plant and equipment (continued)

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.

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Furniture and fixtures	7 - 10 years
Motor vehicles	5 - 7 years
Office equipment	3 - 5 years
Infrastructure	
• Roads and paving	20 years
• Electricity	20 - 30 years
Community	
• Buildings	30 years
• Recreational facilities	30 years
Other property, plant and equipment	
• Landfill sites	30 years
• Quarries	30 years
• Emergency	5 - 15 years
Bins and containers	5 years
Specialised vehicles	5 - 7 years
Water network	
• Watercraft	15 years

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous 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 or disposal 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.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.6 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.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 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.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

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.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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.

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

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.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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 unissued 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.

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

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

Financial assets measured at amortised cost:

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 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.

Dividends or similar distributions 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.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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.

1.8 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.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 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.

1.9 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.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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).

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 held with the primary 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.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

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.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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).

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 held with the primary 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.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

Accounting Policies

1.12 Employee benefits (continued)

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.

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 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.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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 return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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 financial statements do not differ materially from the amounts that would be determined at the reporting date.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 Employee benefits (continued)

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.

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.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect 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 post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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 deficits.

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.13 Provisions and contingencies (continued)

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.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.13 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 1.10 and 1.11.

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.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Revenue from exchange transactions (continued)

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.

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.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

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.

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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 income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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.

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.

1.17 Investment income

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

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 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.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

1.22 Budget information

Municipality 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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.22 Budget information (continued)

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

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The 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.

1.23 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.

1.24 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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
2. Inventories		
Consumable stores	152 668	196 288
Water	580 256	580 256
	732 924	776 544
Inventories recognised as an expense during the year	-	524 396
3. Receivables from exchange transactions		
Fruitless and wasteful expenditure to be investigated	407 520	407 520
Other debtors	9 660 355	1 679 211
Other receivable - ABSA	1 078 004	1 078 004
	11 145 879	3 164 735
4. Receivables from non-exchange transactions		
Fines	34 750	34 750
Other receivables from non-exchange revenue	10 146	-
Consumer debtors - Rates	15 001 736	12 783 336
	15 046 632	12 818 086
5. Consumer debtors		
Gross balances		
Electricity	8 621 293	7 840 553
Water	59 873 437	50 941 821
Sewerage	36 465 305	33 536 906
Refuse	40 924 850	37 964 484
Regional services levies	100 501 947	108 409 485
Housing rental	376 781	416 639
	246 763 613	239 109 888
Less: Allowance for impairment		
Electricity	(1 687 012)	(2 010 687)
Water	(53 780 713)	(45 051 025)
Sewerage	(33 980 259)	(30 750 903)
Refuse	(39 188 653)	(35 939 518)
Sundry debtors	(96 033 149)	(94 731 062)
Housing rental	(375 811)	(415 517)
	(225 045 597)	(208 898 712)
Net balance		
Electricity	6 934 281	5 829 865
Water	6 092 724	5 890 796
Sewerage	2 485 046	2 786 003
Refuse	1 736 197	2 024 965
Sundry debtors	4 468 798	13 678 423
Housing rental	970	1 122
	21 718 016	30 211 174

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
5. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	3 416 754	2 815 233
31 - 60 days	232 035	188 150
61 - 90 days	126 000	206 439
91 - 120 days	101 085	100 595
121 - 365 days	3 058 407	2 519 448
	6 934 281	5 829 865
Water		
Current (0 -30 days)	1 021 668	2 207 973
31 - 60 days	273 228	313 605
61 - 90 days	182 221	251 031
91 - 120 days	155 290	144 674
121 - 365 days	4 460 317	2 973 513
	6 092 724	5 890 796
Sewerage		
Current (0 -30 days)	325 060	498 545
31 - 60 days	160 859	175 380
61 - 90 days	86 937	158 589
91 - 120 days	67 219	67 180
121 - 365 days	1 844 971	1 886 309
	2 485 046	2 786 003
Refuse		
Current (0 -30 days)	320 544	430 960
31 - 60 days	137 804	193 758
61 - 90 days	88 051	176 177
91 - 120 days	70 116	61 528
121 - 365 days	1 119 682	1 162 542
	1 736 197	2 024 965
Sundry debtors		
Current (0 -30 days)	1 262 982	1 212 039
31 - 60 days	426 752	359 958
61 - 90 days	325 704	362 945
91 - 120 days	376 267	291 557
121 - 365 days	2 077 093	11 451 924
	4 468 798	13 678 423
Housing rental		
Current (0 -30 days)	-	1 122
> 365 days	970	-
	970	1 122
Reconciliation of allowance for impairment		
Balance at beginning of the year	(208 898 713)	(155 804 624)
Contributions to allowance	(48 818 190)	(54 091 024)
Debt impairment written off against allowance	32 671 306	996 935
	(225 045 597)	(208 898 713)

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	94 868	29 766
Bank balances	2 967 271	-
Short-term deposits	5 991 292	758 924
Other cash and cash equivalents	611	611
Bank overdraft	-	(1 670 608)
	9 054 042	(881 307)
Current assets	9 054 041	789 302
Current liabilities	-	(1 670 608)
	9 054 041	(881 306)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA - Operating account - 2170560119	-	1 421 932	217 280	(3 071 214)	(15 530 020)	(1 307 739)
ABSA - Banktel account - 2170142538	-	1 311 877	1 455 032	-	1 400 606	1 441 323
ABSA - Call account - 90741555973	1 725 063	149 658	2 893 883	(5 335 309)	149 658	2 893 883
Total	1 725 063	2 883 467	4 566 195	(8 406 523)	(13 979 756)	3 027 467

7. Biological assets that form part of an agricultural activity

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	22 700	-	22 700	22 700	-	22 700

Reconciliation of biological assets that form part of an agricultural activity - 2015

	Opening balance	Increase/Decrease due to assets acquired through a non-exchange transaction	Gains or losses arising from changes in fair value	Total
Game	22 700	-	-	22 700

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand 2015 2014

7. Biological assets that form part of an agricultural activity (continued)

Reconciliation of biological assets that form part of an agricultural activity - 2014

	Opening balance	Increase/Decrease due to assets acquired through a non-exchange transaction	Gains or losses arising from changes in fair value	Total
Game	11 500	8 000	3 200	22 700

Non - Financial information

Quantities of each biological asset

Blesbok	9	9
Wildebeest	1	1
Zebra	2	2
	12	12

Methods and assumptions used in determining fair value

The latest bid prices from game auctions were used as fair values.

8. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	9 143 386	(1 318 843)	7 824 543	9 143 386	(879 772)	8 263 614

Reconciliation of investment property - 2015

	Opening balance	Other changes, movements	Depreciation	Total
Investment property	8 263 613	(285 904)	(153 166)	7 824 543

Reconciliation of investment property - 2014

	Opening balance	Other changes, movements	Depreciation	Total
Investment property	8 410 204	-	(146 591)	8 263 613

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand 2015 2014

9. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	101 392 410	-	101 392 410	101 392 410	-	101 392 410
Buildings	40 136 442	(8 177 123)	31 959 319	40 136 442	(6 811 655)	33 324 787
Infrastructure	999 588 313	(644 550 820)	355 037 493	948 942 003	(597 857 854)	351 084 149
Community	16 972 967	(5 058 786)	11 914 181	16 972 967	(4 430 319)	12 542 648
Other property, plant and equipment	22 897 374	(14 444 257)	8 453 117	21 193 197	(12 349 984)	8 843 213
Landfill sites	14 518 145	-	14 518 145	9 556 865	-	9 556 865
Other property, plant and equipment # 4	18 402 009	-	18 402 009	74 037 932	-	74 037 932
Total	1 213 907 660	(672 230 986)	541 676 674	1 212 231 816	(621 449 812)	590 782 004

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	101 392 410	-	-	-	-	-	101 392 410
Buildings	33 324 787	-	-	-	(1 365 469)	-	31 959 319
Infrastructure	351 084 149	-	-	50 674 643	(46 721 300)	-	355 037 493
Community	12 542 647	-	-	-	(628 467)	-	11 914 181
Other property, plant and equipment	8 843 213	1 704 177	-	-	(2 094 273)	-	8 453 117
Landfill sites	9 556 865	-	-	4 961 280	-	-	14 518 145
Work-in-progress	74 037 932	-	-	(55 635 923)	-	-	18 402 009
	590 782 003	1 704 177	-	-	(50 809 509)	-	541 676 674

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	101 392 410	-	-	-	-	-	101 392 410
Buildings	34 690 570	-	-	-	(1 365 783)	-	33 324 787
Infrastructure	397 242 394	1 267 965	-	11 613 404	(58 649 851)	(389 763)	351 084 149
Community	13 604 529	-	-	-	(1 061 882)	-	12 542 648
Other property, plant and equipment	9 214 929	2 158 943	-	-	(2 530 659)	-	8 843 213
Landfill sites	6 523 273	573 318	2 460 274	-	-	-	9 556 865
Work-in-progress	31 734 868	56 376 742	-	(14 073 678)	-	-	74 037 932
	594 402 973	60 376 968	2 460 274	(2 460 274)	(63 608 175)	(389 763)	590 782 004

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.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand 2015 2014

10. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	119 614	(85 033)	34 581	99 948	(72 115)	27 833

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Impairment loss	Total
Computer software	27 832	19 666	(12 917)	34 581

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	40 131	-	(12 299)	27 832

11. Other financial assets

Designated at fair value

Other financial asset Standard Bank - Money Market	4 031 425	3 826 144
---	-----------	-----------

Residual interest at cost

Unlisted shares VKB Agriculture (Pty) Ltd Investment Old Mutual Preference shares VKB Agriculture (Pty) Ltd	5 000 491 185 269 380	5 000 491 185 260 116
--	-----------------------------	-----------------------------

	765 565	756 301
Total other financial assets	4 796 990	4 582 445

Non-current assets

Designated at fair value Residual interest at cost	4 031 425 765 565	3 826 144 756 301
	4 796 990	4 582 445

12. Other financial liabilities

At amortised cost

Bank loan The Development Bank of Southern Africa Limited Bank loan The Development Bank of Southern Africa Limited Other loan Grain Field Chickens Proprietary Limited	6 304 633 1 130 249 1 695 083	7 409 479 1 226 951 2 680 830
--	-------------------------------------	-------------------------------------

	9 129 965	11 317 260
--	------------------	-------------------

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
12. Other financial liabilities (continued)		
Total other financial liabilities	9 129 965	11 317 260
Non-current liabilities		
At amortised cost	9 129 964	10 410 778
Current liabilities		
At amortised cost	-	906 482
13. Payables from exchange transactions		
Trade payables	85 304 158	66 672 789
Payments received in advanced - contract in process	392 958	392 958
Salary suspense	9 145 383	-
Accrued leave pay	5 490 223	5 490 223
Accrued bonus	1 412 314	1 520 471
Deposits received	41 644	41 644
	101 786 680	74 118 085
14. VAT payable		
Tax refunds payables	14 669 263	13 080 172
15. Consumer deposits		
Electricity	1 278 341	1 227 450
Housing rental	26 912	23 894
	1 305 253	1 251 344
16. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(11 169 000)	(11 437 000)
Non-current liabilities	(10 619 000)	(11 102 000)
Current liabilities	(550 000)	(335 000)
	(11 169 000)	(11 437 000)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	11 437 000	11 437 000
Benefits paid	(1 128 000)	-
Net expense recognised in the statement of financial performance	860 000	-
	11 169 000	11 437 000

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
16. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	593 000	-
Interest cost	975 000	-
Actuarial (gains) losses	(708 000)	-
	860 000	-

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant	(367 082)	-
Municipal Finance Management Grant	(1 055 900)	709 324
Intergrated National Electrification Programme Grant	1 052 001	1 052 001
Bulk Water Infrastructure Grant	-	1 548 203
Expanded Public Works Programme Grant	371 364	370 333
	383	3 679 861

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

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

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

18. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	3 778 956	-	3 778 956

Reconciliation of provisions - 2014

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	4 004 580	(225 624)	3 778 956

19. Service charges

Sale of electricity	39 809 846	35 997 676
Sale of water	37 898 467	36 192 132
Sewerage and sanitation charges	14 683 901	12 364 199
Refuse removal	15 213 028	13 247 893
	107 605 242	97 801 900

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
20. Rental of facilities and equipment		
Premises		
Premises	283 578	335 415
Facilities and equipment		
Rental of facilities	73 002	98 424
	356 580	433 839
21. Other income		
Insurance claims	165 328	207 677
Connection fees	759 235	826 001
Garden refuse	263	201
Building plans and clearance certificates	41 738	71 422
Other income	128 274	292 270
	1 094 838	1 397 571
22. Investment revenue		
Interest revenue		
Bank	583 166	411 307
23. Property rates		
Rates received		
Residential	16 528 904	16 310 082
24. Government grants and subsidies		
Operating grants		
Equitable Share	77 589 000	77 680 266
Municipal System Improvement Grant	934 000	890 000
Municipal Finance Management Grant	1 600 000	840 676
Local Government Sector Education Training Authority Grant	112 163	239 117
Expanded Public Works Programme Grant	1 104 000	772 979
	81 339 163	80 423 038
Capital grants		
Municipal Infrastructure Grant	26 572 000	32 297 000
Regional Bulk Infrastructure Grant	-	12 109 628
Eskom Electrification Grant	1 000 000	3 947 999
	27 572 000	48 354 627
	108 911 163	128 777 665

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The Equitable Share is an unconditional grant and is utilised to assist the local municipalities to undertake service delivery.

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
25. Public contributions and donations		
Public contributions and donations	-	8 000
Conditions still to be met - remain liabilities (see note 17)		
Provide explanations of conditions still to be met and other relevant information		
26. Employee related costs		
Basic	47 085 319	44 048 615
Bonus	3 498 890	3 263 459
Medical aid - company contributions	2 097 075	2 208 898
UIF	477 512	441 921
WCA	146 852	175 696
SDL	755 743	575 910
Leave pay provision charge	(108 157)	1 287 901
SALGA contributions	33 819	30 211
Defined contribution plans	267 000	1 274 995
Travel, car, accommodation, subsistence and other allowances	2 422 581	2 237 871
Overtime payments	4 476 539	3 203 466
Acting allowances	473 715	369 130
Housing benefits and allowances	406 791	250 740
Pension	8 488 641	7 544 944
Standby allowances	1 437 284	1 019 682
Telephone and other allowances	732 442	714 417
	72 692 046	68 647 856
27. Remuneration of councillors		
Executive Major	4 768 426	3 882 265
Deputy Executive Mayor	484 908	343 263
Councillors	31 485	20 380
Car and other allowances	1 212 806	1 133 306
	6 497 625	5 379 214
28. Depreciation and amortisation		
Property, plant and equipment	51 095 412	64 051 907
Investment property	153 167	146 590
Intangible assets	12 917	12 298
	51 261 496	64 210 795
29. Finance costs		
Non-current borrowings	1 775 802	1 032 569
Trade and other payables	6 342 295	1 885 225
	8 118 097	2 917 794
30. Debt impairment		
Debt impairment	50 745 983	41 712 998
Contributions to debt impairment provision	16 356 444	54 091 026
	67 102 427	95 804 024

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
31. Bulk purchases		
Electricity	28 607 131	34 076 462
Water	(998 367)	354 237
	27 608 764	34 430 699
32. Contracted services		
Specialist Services	7 772 076	12 043 907
Other Contractors	650 230	726 226
	8 422 306	12 770 133
33. General expenses		
Advertising	110 110	150 126
Auditors remuneration	2 455 669	4 317 480
Bank charges	554 734	565 541
Cleaning	974 043	988 679
Commission paid	747 690	449 249
Consumables	775 003	1 685 512
Debt collection	(15 079)	523 699
Donations	388 154	1 015 182
Entertainment	426 095	511 306
Fines and penalties	231 768	195 186
Gifts	58 020	543 411
Insurance	1 048 676	970 283
Conferences and seminars	255 358	786 877
Promotions and sponsorships	15 580	-
Fuel and oil	3 799 829	6 454 607
Postage and courier	3 452	12 706
Printing and stationery	2 335 704	2 710 963
Promotions	687 272	2 244 199
Security (Guarding of municipal property)	1 871 069	238 527
Subscriptions and membership fees	777 008	104 551
Telephone and fax	1 150 941	974 028
Training	812 493	2 239 959
Travel - local	2 095 741	2 420 813
Refuse	592 231	1 376 739
Assets expensed	16 418 955	209 933
Electricity	8 776 710	5 407 642
Water	15 899	-
Uniforms	270 971	923 409
Tourism development	50 114	-
Licences	15 009	678 636
Chemicals	2 128 428	2 171 410
Other expenses	324 619	1 279 763
	50 152 266	42 150 416
34. Fair value adjustments		
Other financial assets		
• Other financial assets (Held for trading)	-	129 872
35. Auditors' remuneration		
Fees	2 455 669	4 317 480

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
36. Cash generated from operations		
Deficit	(60 891 670)	(75 527 507)
Adjustments for:		
Depreciation and amortisation	51 261 496	64 210 796
Loss on sale of assets and liabilities	(36 425)	(654 736)
Gain on discontinued operations	-	654 736
Fair value adjustments	-	(129 872)
Debt impairment	67 102 428	95 804 025
Movements in retirement benefit assets and liabilities	(268 000)	1 377 000
Movements in provisions	-	(225 624)
Changes in working capital:		
Inventories	43 620	(184 561)
Receivables from exchange transactions	(7 981 144)	3 162 986
Consumer debtors	(58 609 268)	(67 067 696)
Other receivables from non-exchange transactions	(2 228 546)	(507 084)
Payables from exchange transactions	27 668 591	59 926 909
VAT	1 589 092	(1 396 610)
Unspent conditional grants and receipts	(3 679 477)	(1 809 717)
Consumer deposits	53 909	22 781
Other liability	-	(7 345 175)
	14 024 606	70 310 651
37. Prior period errors		
In the current financial year corrections were made to 2013/2014 service charges and consumer accounts. These corrections amount to R 456 162.80.		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Consumer debtors	-	(456 163)
Statement of Financial Performance		
Service charges	-	456 163
38. Fruitless and wasteful expenditure		
Opening balance	3 669 302	734 343
Current year	6 342 295	2 934 959
	10 011 597	3 669 302
39. Irregular expenditure		
Opening balance	69 434 069	35 419 797
Add: Irregular Expenditure - current year	8 054 859	34 014 272
	77 488 928	69 434 069
40. Additional disclosure in terms of Municipal Finance Management Act		
PAYE and UIF		
Current year subscription / fee	5 668 367	6 707 485
Amount paid - current year	(4 945 208)	(6 087 177)
	723 159	620 308

Nketoana Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand	2015	2014
40. Additional disclosure in terms of Municipal Finance Management Act (continued)		
VAT		
VAT payable	14 669 263	13 080 172