

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

<ul style="list-style-type: none"> • IGRAP 11: Consolidation – Special purpose entities 	<p>1 April, 2014</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>
<ul style="list-style-type: none"> • IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures 	<p>1 April, 2014</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>
<ul style="list-style-type: none"> • GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements 	<p>1 April, 2014</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>
<ul style="list-style-type: none"> • GRAP 7 (as revised 2010): Investments in Associates 	<p>1 April, 2014</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>
<ul style="list-style-type: none"> • GRAP 8 (as revised 2010): Interests in Joint Ventures 	<p>1 April, 2014</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>
<ul style="list-style-type: none"> • GRAP32: Service Concession Arrangements: Grantor 	<p>1 April, 2015</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

<ul style="list-style-type: none"> • GRAP108: Statutory Receivables 	<p>1 April, 2015</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>
<ul style="list-style-type: none"> • IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset 	<p>1 April, 2015</p>	<p>The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the financial statements</p>

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

3. Inventories

Consumable store - at cost	196,288	117,274
Water	580,256	474,709
	776,544	591,983

Amounts recognised as an expense

Cost of inventory used to conduct maintenance during the year and included in the repairs and maintenance expense line item	530	15,785
Cost of fuel and oil inventory utilised during the year and recognised in the fuel and oil expense line item	42,162	219,682
Cost of inventory consumed in the ordinary course of business and recognised in the cleaning expense line item during the year	20,588	20,419
Cost of inventory consumed in the ordinary course of business and recognised in the printing and stationary expense line item during the year	461,116	263,160
Total amount of Inventories recognised as an expense during the year	524,396	519,046

Inventory pledged as security

No inventory were pledged as security during the financial year.

4. Receivables from non-exchange transactions

Fruitless and wasteful expenditure to be investigated	407,520	-
Property rates	12,783,336	12,276,252
Other debtors	1,679,211	5,113,217
ABSA Bank	1,078,004	1,078,004
Outstanding traffic fines	34,750	34,750
Prepaid expenses	-	136,500
	15,982,821	18,638,723

5. VAT receivable

VAT	1,763,881	3,469,164
-----	-----------	-----------

VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors and claimed from SARS once suppliers have been paid. This amount is the net effect of municipalities control accounts for debtors and creditors for which payment were received and payments made to suppliers.

6. Receivables for exchange transaction

Gross balances

Electricity	7,840,552	7,318,221
Water	50,941,821	43,888,872
Sewerage	33,536,906	33,830,189
Refuse	37,964,484	39,650,722
Other	108,865,648	89,972,539
Housing rental	416,639	507,409
	239,566,050	215,167,952

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Receivables for exchange transaction (continued)		
Less: Allowance for impairment		
Electricity	(2,010,687)	(1,735,163)
Water	(45,051,025)	(32,690,973)
Sewerage	(30,750,903)	(26,350,652)
Refuse	(35,939,518)	(32,236,748)
Other	(94,731,062)	(62,749,608)
Housing rental	(415,517)	(457,304)
	(208,898,712)	(156,220,448)
Net balance		
Electricity	5,829,865	5,583,058
Water	5,890,796	11,197,899
Sewerage	2,786,003	7,479,537
Refuse	2,024,966	7,413,974
Other	14,134,586	27,222,931
Housing rental	1,122	50,105
	30,667,338	58,947,504
Electricity		
Current (0 -30 days)	2,815,233	2,085,475
31 - 60 days	188,150	501,550
61 - 90 days	206,439	140,964
91 - 120 days	100,595	129,507
121 - 365 days	2,519,448	2,725,562
	5,829,865	5,583,058
Water		
Current (0 -30 days)	2,207,973	1,929,433
31 - 60 days	313,605	391,492
61 - 90 days	251,031	327,388
91 - 120 days	144,674	357,171
121 - 365 days	2,973,513	8,192,415
	5,890,796	11,197,899
Sewerage		
Current (0 -30 days)	498,545	424,772
31 - 60 days	175,380	201,218
61 - 90 days	158,589	177,274
91 - 120 days	67,180	171,824
121 - 365 days	1,886,309	6,504,449
	2,786,003	7,479,537

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Receivables for exchange transaction (continued)		
Refuse		
Current (0 -30 days)	430,960	397,097
31 - 60 days	193,758	219,253
61 - 90 days	176,177	193,750
91 - 120 days	61,528	189,515
121 - 365 days	1,162,543	6,414,359
	2,024,966	7,413,974
Sundry debtors - VAT, interest and other		
Current (0 -30 days)	1,212,039	3,473,882
31 - 60 days	359,958	596,898
61 - 90 days	362,945	379,127
91 - 120 days	291,557	572,937
121 - 365 days	11,908,087	22,200,087
	14,134,586	27,222,931
Housing rental		
121 - 365 days	1,122	50,105

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Receivables for exchange transaction (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	21,244,456	5,119,542
31 - 60 days	4,657,650	4,128,538
61 - 90 days	4,449,257	2,834,702
91 - 120 days	4,085,230	4,436,974
121 - 365 days	177,652,155	174,714,252
	212,088,748	191,234,008
Less: Allowance for impairment	(204,869,369)	(154,334,401)
	7,219,379	36,899,607
Industrial/ commercial		
Current (0 -30 days)	10,670,971	3,130,164
31 - 60 days	338,410	225,489
61 - 90 days	362,606	379,005
91 - 120 days	383,911	372,742
121 - 365 days	8,957,480	14,486,372
	20,713,378	18,593,772
Less: Allowance for impairment	(2,562,873)	(1,760,795)
	18,150,505	16,832,977
National and provincial government		
Current (0 -30 days)	1,059,045	759,848
31 - 60 days	672,614	135,795
61 - 90 days	625,222	14,251
91 - 120 days	266,196	120,547
121 - 365 days	4,140,849	4,309,731
	6,763,926	5,340,172
Less: Allowance for impairment	(1,466,470)	(125,250)
	5,297,456	5,214,922
Total		
Current (0 -30 days)	32,974,470	9,009,554
31 - 60 days	5,668,674	4,489,822
61 - 90 days	5,437,084	3,227,958
91 - 120 days	4,735,337	4,930,263
121 - 365 days	190,750,485	193,510,355
	239,566,050	215,167,952
Less: Allowance for impairment	(208,898,712)	(156,220,448)
	30,667,338	58,947,504
Less: Provision for debt impairment		
31 - 60 days	(208,898,712)	(156,220,448)

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Receivables for exchange transaction (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(159,886,398)	(145,092,481)
Contributions to allowance	(54,091,024)	(14,793,917)
Debt impairment written off against allowance	996,935	-
	(212,980,487)	(159,886,398)

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	29,766	1,389
Short-term deposits	758,925	3,696,369
Other cash and cash equivalents	611	611
Bank overdraft	(1,670,608)	(11,475,843)
	(881,306)	(7,777,474)
Current assets	789,302	3,698,369
Current liabilities	(1,670,608)	(11,475,843)
	(881,306)	(7,777,474)
Short term investments included in cash and cash equivalents	756,903	3,696,563

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2014	30 June, 2013	30 June, 2012	30 June, 2014	30 June, 2013	30 June, 2012
ABSA BANK - Operating - 217-056-0119	1,421,932	217,280	1,307,739	(3,071,214)	(15,530,020)	1,307,739
FNB BANK - Current - 620-640-82799	-	-	3,650,472	-	-	3,650,472
ABSA BANK - Banktel - 217-014-2538	1,311,877	1,455,032	55,977	1,400,606	1,441,323	55,977
ABSA BANK - Call Account - 907-415-55973	149,658	2,893,883	1,000	149,658	2,893,883	1,000
FNB BANK - Fixed Deposit - 74-348-905-983	-	-	5,094,929	-	5,094,929	5,094,929
STD BANK - Fixed Deposit - 24-8467-816	-	-	10,000,000	-	-	10,000,000
Total	2,883,467	4,566,195	20,110,117	(1,520,950)	(6,099,885)	20,110,117

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

8. Biological assets that form part of an agricultural activity

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Livestock	22,700	-	22,700	11,500	-	11,500

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
Livestock	11,500	8,000	3,200	22,700

Reconciliation of biological assets that form part of an agricultural activity - 2013

	Opening balance	Gains or losses arising from changes in fair value	Total
Livestock	11,200	300	11,500

Non - Financial information

Quantities of each biological asset

Zebra's	2	-
Wilde Beest	1	1
Bles Bucks	9	9
	12	10

Methods and assumptions used in determining fair value

Fair value less estimated point-of-sale costs, which is determined by the selling price for livestock less value added tax.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

9. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	9,143,386	(879,772)	8,263,614	9,143,386	(733,182)	8,410,204

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	8,410,204	(146,590)	8,263,614

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	8,556,795	(146,591)	8,410,204

Cost of Land included under investment properties	4,938,386	4,938,386
---	-----------	-----------

Pledged as security

No carrying value of assets pledged as security:

There are no restriction on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligation to purchase, construct or develop investment properties or for repair, maintenance or enhancements.

Amounts included in surplus or deficit

Rental revenue from Investment Properties	335,415	362,274
---	---------	---------

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

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

10. Property, plant and equipment

	2014			2013		
	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	(6,811,655)	33,324,787	40,136,442	(5,445,872)	34,690,570
Infrastructure	948,942,002	(588,276,359)	360,665,643	936,540,388	(539,297,994)	397,242,394
Community	16,972,967	(4,430,319)	12,542,648	16,972,967	(3,368,438)	13,604,529
Other property, plant and equipment	19,597,933	(12,349,984)	7,247,949	17,438,992	(9,819,327)	7,619,665
WIP-land rehabilitation sites	9,556,865	-	9,556,865	6,523,273	-	6,523,273
Work in progress	74,037,932	-	74,037,932	31,734,868	-	31,734,868
Total	1,210,636,551	(611,868,317)	598,768,234	1,150,739,340	(557,931,631)	592,807,709

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	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	(49,068,357)	(389,763)	360,665,643
Community	13,604,529	-	-	(1,061,881)	-	12,542,648
Other property, plant and equipment	7,619,665	2,158,943	-	(2,530,659)	-	7,247,949
WIP-land rehabilitation sites	6,523,273	573,318	2,460,274	-	-	9,556,865
WIP progress	31,734,868	56,376,742	(14,073,678)	-	-	74,037,932
	592,807,709	60,376,968	-	(54,026,680)	(389,763)	598,768,234

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	101,392,410	-	-	-	-	-	101,392,41
Buildings	67,811,044	171,570	-	(27,829,181)	-	(5,462,863)	34,690,57
Infrastructure	408,628,988	15,224,590	(233,436)	27,829,181	-	(54,206,929)	397,242,39
Community	11,526,210	2,730,427	-	-	-	(652,108)	13,604,52
Other property, plant and equipment	10,068,055	1,260,708	(17,130)	-	(1,253,457)	(2,438,511)	7,619,66
WIP-land rehabilitation sites	6,389,365	1,387,365	-	(1,253,457)	-	-	6,523,27
Work in progress	11,720,350	18,761,061	-	1,253,457	-	-	31,734,86
	617,536,422	39,535,721	(250,566)	-	(1,253,457)	(62,760,411)	592,807,70

Pledged as security

No carrying value of assets pledged as security

Details of properties

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.

Reconciliation of Work-in-Progress 2014

	Included within Infrastructure	Included within Community	Total
Opening balance	31,734,869	6,523,273	38,258,142
Additions/capital expenditure	56,376,742	573,318	56,950,060
Other movements [specify]	(2,460,274)	2,460,274	-
Transferred to completed items	(11,613,404)	-	(11,613,404)
	74,037,933	9,556,865	83,594,798

Reconciliation of Work-in-Progress 2013

	Included within Infrastructure	Included within Community	Total
Opening balance	11,720,351	6,389,365	18,109,716
Additions/capital expenditure	18,761,061	1,387,365	20,148,426
Other movements [specify]	1,253,457	(1,253,457)	-
	31,734,869	6,523,273	38,258,142

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

11. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	99,948	(72,115)	27,833	99,948	(59,817)	40,131

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software, other	40,131	(12,298)	27,833

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software, other	757,974	152,147	(721,036)	(148,954)	40,131

Pledged as security

No carrying value of intangible assets pledged as security:

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
12. Investments		
Designated at fair value		
Money Market	3,826,144	3,639,960
Standard Bank		
At amortised cost		
Unlisted shares	5,000	5,000
Vrystaat Korporasie Beperk		
Other long term investments	491,185	404,105
Old Mutual		
Preference shares	260,116	233,908
Vrystaat Korporasie Beperk		
	756,301	643,013
Total other financial assets	4,582,445	4,282,973
Non-current assets		
Designated at fair value	3,826,144	3,639,960
At amortised cost	756,301	643,013
	4,582,445	4,282,973

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1

Money Market	3,826,144	3,639,960
--------------	-----------	-----------

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
12. Investments (continued)		
Financial assets at amortised cost		
Fair values of financial assets measured or disclosed at fair value		
Money Market	3,826,144	3,639,960
Methods used to determine fair value are as follow: Quoted market price.		
Nominal value of financial assets at cost		
Unlisted	265,116	238,908
Investment in a private company initially recognised at cost. Council are unable to determine the reasonability of the fair value.		
Life Insurance	491,185	404,105
Old Mutual with fixed maturity date and not held for trading by council		
	756,301	643,013
Financial assets pledged as collateral		
Collateral		
Carrying value of financial assets pledged as collateral for liabilities.	3,826,144	3,639,960

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

13. Employee benefit obligations

Defined contribution plan

It was the policy of the municipality to provide medical aid benefits to retired employees. The municipality has a present obligation to 16 employees who had retired years ago but who medical aid contributions is still being paid. There is no current policy in place for employees that will retire in the future.

The municipality is under no obligation to cover any unfunded benefits.

Long service award liability

Long service award liability forms part of other long service benefit as defined in GRAP 25. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

Membership Data

According to the information provided, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of Active employees	Salary Weighted average age (Years)	Weighted average past service (Years)
Male	284	44.76	8.47
Females	107	40.13	8.76
Total	391	43.37	8.55

Long Service Awards Liabilities

The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. We have converted the awarded leave days into a percentage of the employee's annual salary. The conversion is based on a 250 working day year and therefore the benefits awarded can be expressed as follows:

Completed Years of Service	Long Service Leave Award (Working Days)	Long Service Bonus Award (% of Annual Salary)	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
5	5	2 %	4 %	(5/250+2%)
10	10	3 %	7 %	(10/250+3%)
15	15	4 %	10 %	(15/250+4%)
20	15	5 %	11 %	(15/250+5%)
25, 30, 35, 40 and 45	15	6 %	12 %	(15/250+6%)

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

13. Employee benefit obligations (continued)

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable	Assumed Value 30-06-2014 (Current Valuation)	Assumed Value at 30-06-2013 (Preceding Valuation)
Discount Rate	7.96 %	7.40 %
CPI (Consumer Price Inflation)	6.33 %	5.66 %
Normal Salary Increase Rate	7.33 %	6.66 %
Net Effective Discount Rate	0.59 %	0.69 %

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

Our discount rate was therefore set as the yield of the R208 South African government bond as at the valuation date. The actual yield on the R208 bond was sourced from the RMB Global Markets website on the 30th of June 2014.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between current conventional bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets website. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2014 of 6.79%. The next salary increase was assumed to take place on 01 July 2015.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

13. Employee benefit obligations (continued)

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	21	117,287	2	4,054
30 - 39	119	119,206	5	9,279
40 - 49	122	97,159	9	11,667
50 - 59	94	93,583	14	10,041

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

13. Employee benefit obligations (continued)

60 +	35	91,106	17	2,614
	391	518,341	47	37,655

Component: Long Service Awards

Accrued liability as at 30 June 2013	3,088,000	2,420,000
Current Service Cost	531,000	412,000
Interest Cost	241,000	201,000
Benefits paid	(120,574)	(199,000)
Actuarial loss/(Gain)	(91,426)	254,000
	3,648,000	3,088,000

Sensitivity Analysis

The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	3,860,000	3,860,000	3,461,000
Current Service Cost	642,000	593,000	550,000
Interest Cost	322,000	303,000	286,000

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	3,427,000	3,648,000	3,894,000
Current Service Cost	552,000	593,000	638,000
Interest Cost	284,000	303,000	324,000

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

13. Employee benefit obligations (continued)

GRAP 25 deals with the recognition of the cost of employee benefits, on an accruals basis, in municipal accounts.

If we assume that the long service award benefit policy of the Municipality remains unchanged over the next 36 months, a projection of the Municipality's unfunded accrued liability and future service cost can be seen as follows:

Changes in the value of the obligation	Current Valuation Date 30-06-2014	1 Year Following the Valuation Date	2 Years Following the Valuation Date	3 Years Following the Valuation Date
PV of the obligation as at the previous valuation date	3,088,000	3,648,000	3,868,000	4,054,990
Current Service Cost	531,000	593,000	609,725	629,350
Interest Cost	241,000	303,000	303,265	316,821
Benefits Paid	(120,574)	(676,000)	(726,000)	(779,000)
Actuarial Loss / (Gain)	(91,426)	-	-	-
	3,648,000	3,868,000	4,054,990	4,222,161

Amounts recognised in the balance sheet and the income statement:	Current Valuation Date 30-06-2014	1 Year Following the Valuation Date	2 Years Following the Valuation Date	3 Years Following the Valuation Date
Liability recognised in the balance sheet	3,648,000	3,868,000	4,054,990	4,222,161
Current Service Cost in the income statement	531,000	593,000	609,725	629,350
Interest Cost in the income statement	241,000	303,000	303,265	316,821
Actuarial Loss / (Gain) recognised in Other Comprehensive Income	(91,426)	-	-	-

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

Carrying value

Present value of the defined contribution obligation-wholly unfunded - Long service awards	(3,648,000)	(3,088,000)
Present value of the defined benefit obligation-partly or wholly funded - Medical aid benefit	(7,789,000)	(6,972,000)
	(11,437,000)	(10,060,000)
Non-current liabilities	(11,102,000)	(9,537,000)
Current liabilities	(335,000)	(523,000)
	(11,437,000)	(10,060,000)

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

Opening balance	10,060,000	9,006,000
Net expense recognised in the statement of financial performance	1,377,000	1,054,000
	11,437,000	10,060,000