Accounting Policies

1.12 Impairment of non-cash-generating assets

Identification
When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.
The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.
Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use
Where it is not practical to determine the fair value less costs to sell, the entity uses the value in use. Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential. The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach
The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides.
Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised.

The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

Accounting Policies

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

Redesignation
The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

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

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 managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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.

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

1.13 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.

Nketoana Local Municipality

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Accounting Policies

1.13 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
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Accounting Policies

1.13 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

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Accounting Policies

1.13 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.

Nketoana Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

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

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

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

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

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-measure 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.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.13 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.

1.14 Provisions and contingencies

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the council.

A *contingent liability* is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of council; or
- a present obligation that arises from past events but is not recognised because: - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- the amount of the obligation cannot be measured with sufficient reliability.

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.

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Accounting Policies

1.14 Provisions and contingencies (continued)

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.

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 50.

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

Nketoana Local Municipality

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Accounting Policies

1.14 Provisions and contingencies (continued)

- 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.

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 1.11 and 1.12.

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.

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Accounting Policies

1.15 Commitments

The term ‘commitments’ is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the entity of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

An entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made.

The notes to the financial statements must disclose the nature and amount of each material individual expenditure commitment and each material class of capital expenditure commitment as well as non-cancelable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

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-cancelable or only cancelable 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.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.

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

Nketoana Local Municipality

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

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 services performed to date as a percentage of total services to be performed.

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly. Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendedred by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Prepaid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August).

The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

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.

1.17 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.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

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

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

Measurement

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

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

Taxes

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

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

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

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

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.

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Accounting Policies

1.18 Investment income

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

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.19 Comparative figures

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

1.20 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.

1.21 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.

1.22 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.

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Accounting Policies

1.23 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets. The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

1.24 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.

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

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

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

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

1.25 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 local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity, including those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

We regard all individuals from the level of Accounting Officer and Council members as well as managers and directors reporting directly to the municipal manager as key management per the definition of the financial reporting standard. Close members of the family of key management are considered to be those family members who may be expected to influence, or be influenced by, key management in their dealings with the entity.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered to be at arms length and in the ordinary course of business are not disclosed in accordance with GRAP 20 Related Party Disclosure.

1.26 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

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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following:

- GRAP 16 Investment property was carried at cost in 2015 and earlier but the fair value method was adopted in 2016.

3. New standards and interpretations

3.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;

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3. New standards and interpretations (continued)

- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has early adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

3.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2017	The impact of the amendment is not material.
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

4. Inventories

Consumable stores	191 281	152 668
Water	416 997	434 018
	608 278	**586 686**

Inventory recognised as an expense during the year	658 943	1 115 309

Consumables amounting to R 373 754 (2015: R 365 682) and water amounting to R 285 189 (2015: R 749 627) were expensed.

Inventory pledged as security

No iventory type is pledged as security.

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5. Receivables from exchange transactions

Expenditure to be investigated	407 520	407 520
Other debtors	9 519 191	9 536 802
Other receivable - ABSA	1 078 004	1 078 004
Provision for impairment	(11 004 715)	(11 022 326)
	-	-

Trade and other receivables impaired

As of 30 June 2016, other receivables of R 11 004 715 (2015: R 11 022 326) were impaired and provided for.

6. Receivables from non-exchange transactions

Fines	8 690	148 625
Other receivables from non-exchange revenue	-	10 146
Consumer debtors - Rates	2 110 462	1 795 074
	2 119 152	**1 953 845**

Receivables from non-exchange transactions pledged as security

No other receivables from non-exchange transactions were pledged as security for overdraft facilities.

Receivables from non-exchange transactions impaired

Reconciliation of consumer debtors - rates		
Consumer debtors - Rates	22 479 328	18 922 985
Consumer debtors - Rates (impairment)	(20 368 866)	(17 127 911)
	2 110 462	**1 795 074**

Rates		
Current (0 -30 days)	901 619	819 734
31 - 60 days	569 931	468 084
61 - 90 days	469 887	431 836
91 - 120 days	169 025	75 420
	2 110 462	**1 795 074**

7. VAT receivable

VAT	1 763 881	1 763 881

8. Consumer debtors (exchange transactions)

Gross balances		
Electricity	10 729 772	10 372 710
Water	79 308 078	60 411 229
Sewerage	44 093 387	36 504 198
Refuse	49 345 310	41 088 295
Sundry debtors	133 105 777	109 718 275
Housing rental	340 967	376 781
	316 923 291	**258 471 488**

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8. Consumer debtors (exchange transactions) (continued)

Less: Allowance for impairment		
Electricity	(5 758 601)	(4 553 081)
Water	(73 970 239)	(56 171 680)
Sewerage	(42 287 525)	(35 362 578)
Refuse	(47 914 863)	(39 919 782)
Sundry debtors	(128 942 886)	(106 265 358)
Housing rental	(340 647)	(376 519)
	(299 214 761)	**(242 648 998)**

Net balance		
Electricity	4 971 171	5 819 629
Water	5 337 839	4 239 549
Sewerage	1 805 862	1 141 620
Refuse	1 430 447	1 168 513
Sundry debtors	4 162 891	3 452 917
Housing rental	320	262
	17 708 530	**15 822 490**

Electricity		
Current (0 -30 days)	3 923 308	5 299 362
31 - 60 days	376 933	258 518
61 - 90 days	281 625	131 101
91 - 120 days	234 431	106 752
121 - 365 days	154 874	23 896
	4 971 171	**5 819 629**

Water		
Current (0 -30 days)	3 004 638	2 490 670
31 - 60 days	255 394	273 228
61 - 90 days	208 693	182 221
91 - 120 days	168 516	155 290
121 - 365 days	187 166	132 907
> 365 days	1 513 432	1 005 233
	5 337 839	**4 239 549**

Sewerage		
Current (0 -30 days)	589 345	325 060
31 - 60 days	156 591	160 859
61 - 90 days	130 065	86 937
91 - 120 days	77 940	67 219
121 - 365 days	67 238	58 166
> 365 days	784 683	443 379
	1 805 862	**1 141 620**

Refuse		
Current (0 -30 days)	340 328	320 544
31 - 60 days	131 109	137 804
61 - 90 days	108 934	88 050
91 - 120 days	80 730	70 116
121 - 365 days	71 183	60 443
> 365 days	698 163	491 556
	1 430 447	**1 168 513**

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Figures in Rand	2016	2015

8. Consumer debtors (exchange transactions) (continued)

Sundry debtors		
Current (0 -30 days)	1 556 905	985 997
31 - 60 days	446 582	400 269
61 - 90 days	430 416	320 603
91 - 120 days	383 191	370 600
121 - 365 days	398 181	415 916
> 365 days	947 616	959 532
	4 162 891	**3 452 917**

Housing rental		
> 365 days	320	262

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. Consumer debtors (exchange transactions) (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	1 510 014	957 136
31 - 60 days	736 163	216 090
61 - 90 days	668 138	153 787
91 - 120 days	602 125	153 004
121 - 365 days	620 059	748 193
	4 136 499	**2 228 210**

Industrial/commercial		
Current (0 -30 days)	4 463 090	4 450 433
31 - 60 days	295 792	114 658
61 - 90 days	203 198	26 616
91 - 120 days	190 357	28 117
121 - 365 days	188 479	1 431
> 365 days	1 272 950	764 602
	6 613 866	**5 385 857**

National and provincial government		
Current (0 -30 days)	3 441 419	2 890 207
31 - 60 days	334 654	468 795
61 - 90 days	288 397	209 978
91 - 120 days	152 325	164 138
121 - 365 days	123 088	317 116
> 365 days	2 618 282	4 158 189
	6 958 165	**8 208 423**

Total		
Current (0 -30 days)	9 414 522	9 456 795
31 - 60 days	1 366 610	1 230 679
61 - 90 days	1 159 733	808 912
91 - 120 days	944 807	769 976
121 - 365 days	931 626	771 484
> 365 days	3 891 232	2 784 644
	17 708 530	**15 822 490**

Less: Allowance for impairment		
Electricity	(5 758 601)	(4 553 081)
Water	(73 970 239)	(56 171 680)
Sewerage	(42 287 525)	(35 362 578)
Refuse	(47 914 863)	(39 919 782)
Sundry debtors	(128 942 886)	(106 265 358)
Housing rental	(340 647)	(376 519)
	(299 214 761)	**(242 648 998)**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(242 648 998)	(208 898 713)
Contributions to allowance	(73 582 017)	(51 875 200)
Debt impairment written off against allowance	17 016 254	18 124 915
	(299 214 761)	**(242 648 998)**

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Notes to the Annual Financial Statements

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8. Consumer debtors (exchange transactions) (continued)

Consumer debtors pledged as security

None of the consumer debtors were pledged as security for any financial liability.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer receivables are only due after 30 days. Interest shall be paid on accounts which have not been paid within thirty days from the date on which the account became due, at prime rate for the period.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Cash on hand	9 688	5 520
Short-term deposits	3 093 883	2 902 315
Other cash and cash equivalents	611	611
Cash and cash equivalents	(577 159)	(1 198 016)
	2 527 023	**1 710 430**

	2016	2015
Current assets	3 104 182	2 908 446
Current liabilities	(577 159)	(1 198 016)
	2 527 023	**1 710 430**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
ABSA - Operating account - 2170560119	264 220	2 328 216	1 421 932	101 374	(2 764 673)	(3 071 214)
ABSA - Banktel account - 2170142538	57 397	173 334	1 311 877	(678 533)	196 807	1 400 606
ABSA - Call account - 90741555973	1 872 020	1 725 063	149 658	1 872 020	1 725 063	149 658
Old Mutual - 5208945	521 270	521 270	491 185	521 270	521 270	491 185
Total	**2 714 907**	**4 747 883**	**3 374 652**	**1 816 131**	**(321 533)**	**(1 029 765)**

10. Biological assets that form part of an agricultural activity

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Game	24 513	-	24 513	50 476	-	50 476

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

Reconciliation of biological assets that form part of an agricultural activity - 2016

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	50 476	(25 963)	24 513

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

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	22 700	27 776	50 476

Non - Financial information

Quantities of each biological asset		
Blesbok	9	9
Wildebeest	1	1
Zebra	2	2
	12	**12**

Pledged as security

None of the biological assets were pledged as security for any financial liabilities.

Methods and assumptions used in determining fair value

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

11. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	13 877 904	-	13 877 904	13 877 904	-	13 877 904

Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Total
Investment property	13 877 904	-	-	13 877 904

Reconciliation of investment property - 2015

	Opening balance	Additions	Disposals	Total
Investment property	13 877 904	-	-	13 877 904

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11. Investment property (continued)

Pledged as security

Investment property is not pledged as security.

There are no restrictions on the remittance of revenue and proceeds on disposals relating to investment property.

There are no contractual obligations to repair, maintain, enhance, purchase, construct or develop investment property.

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.

12. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	17 838 185	-	17 838 185	17 838 185	-	17 838 185
Buildings	223 933 949	(111 575 446)	112 358 503	210 660 859	(106 058 821)	104 602 038
Infrastructure	1 472 840 952	(766 095 135)	706 745 817	1 453 939 129	(715 568 439)	738 370 690
Other property, plant and equipment	16 675 764	(8 237 714)	8 438 050	16 898 707	(6 976 439)	9 922 268
Landfill sites	21 868 937	(1 763 924)	20 105 013	21 868 937	(1 118 196)	20 750 741
Leased assets	649 339	(17 197)	632 142	-	-	-
Work-in-progress	138 852 296	-	138 852 296	112 991 998	-	112 991 998
Total	**1 892 659 422**	**(887 689 416)**	**1 004 970 006**	**1 834 197 815**	**(829 721 895)**	**1 004 475 920**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	17 838 185	-	-	-	-	17 838 185
Buildings	104 602 038	-	-	13 273 090	(5 516 625)	112 358 503
Infrastructure	738 370 690	-	-	18 901 824	(50 526 697)	706 745 817
Other property, plant and equipment	9 922 268	864 458	(587 073)	-	(1 761 603)	8 438 050
Landfill sites	20 750 741	-	-	-	(645 728)	20 105 013
Leased assets	-	649 339	-	-	(17 197)	632 142
Work-in-progress	112 991 998	58 035 212	-	(32 174 914)	-	138 852 296
	1 004 475 920	**59 549 009**	**(587 073)**	**-**	**(58 467 850)**	**1 004 970 006**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	17 838 185	-	-	-	-	17 838 185
Buildings	110 009 131	-	-	-	(5 407 093)	104 602 038
Infrastructure	763 355 856	-	-	24 444 420	(49 429 586)	738 370 690
Other property, plant and equipment	10 068 953	1 402 635	-	-	(1 549 320)	9 922 268
Landfill sites	6 599 468	-	-	14 751 509	(600 236)	20 750 741
Work-in-progress	108 012 267	44 175 660	-	(39 195 929)	-	112 991 998
	1 015 883 860	**45 578 295**	**-**	**-**	**(56 986 235)**	**1 004 475 920**

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12. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Office equipment	632 142	-

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.

13. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	240 691	(175 093)	65 598	213 110	(140 405)	72 705

Reconciliation of intangible assets - 2016

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	72 705	27 582	(34 689)	65 598

Reconciliation of intangible assets - 2015

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	81 886	19 666	(28 847)	72 705

14. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Stamp collections, military insignia, medals, coin	529 800	-	529 800	529 800	-	529 800

Reconciliation of heritage assets 2016

	Opening balance	**Additions**	**Disposals**	**Total**
Stamp collections, military insignia, medals, coin	529 800	-	-	529 800

Reconciliation of heritage assets 2015

	Opening balance	**Additions**	**Disposals**	**Total**
Stamp collections, military insignia, medals, coin	529 800	-	-	529 800

15. Other financial assets

Residual interest at cost

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15. Other financial assets (continued)

Unlisted shares VKB Agriculture (Pty) Ltd	5 000	5 000
Preference shares VKB Agriculture (Pty) Ltd	307 585	269 380
	312 585	**274 380**
At amortised cost		
Other financial asset Standard Bank - Money Market	4 275 191	4 031 425
Total other financial assets	**4 587 776**	**4 305 805**

Non-current assets		
Residual interest at cost	312 585	274 380
At amortised cost	4 275 191	4 031 425
	4 587 776	**4 305 805**

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		
Standard Bank - Money Market	4 275 191	4 031 425

Financial assets at amortised cost

Nominal value of financial assets at cost

Unlisted shares Investment in a private company initially recognised at cost. Council have not been able to determine the reasonability of the fair value.	312 585	274 380

Financial assets pledged as collateral

Collateral

Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities	4 275 191	4 031 425

16. Long-term deposit

Non-current deposit	2 018 500	2 018 500

The long-term deposit is held by ESKOM for the upgrade done by the municipality to the electricity network.

No interest is earned on the deposit.

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17. Other financial liabilities		
At amortised cost		
Bank loan The Development Bank of Southern Africa Limited	7 231 214	6 889 142
Bank loan The Development Bank of Southern Africa Limited	1 222 090	1 153 659
Other loan Grainfield Chickens Proprietary Limited	702 162	1 925 550
	9 155 466	**9 968 351**
Total other financial liabilities	**9 155 466**	**9 968 351**

Development Bank of South Africa
Loan 1
The original loan amount was R 9,600,000 repayable over a 20 year period with a redemption date of 31 December 2024.

Loan 2
The original loan amount was R 1,600,000 repayable over a 20 year period with a redemption date of 31 December 2024.

Grainfield Chickens
Interest charged is linked to the prime interest rate. Monthly municipal fees are deducted as repayments on the loan.

In 2015/2016 all repayments on the DBSA loans were not made as per loan agreement. The default was not remedied and the terms were not renegotiated before the financial statements were authorized for issue.

	2016	2015
Non-current liabilities		
At amortised cost	7 806 024	8 569 848
Current liabilities		
At amortised cost	1 349 442	1 398 503

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18. Finance lease obligation

Minimum lease payments due		
- within one year	276 840	-
- in second to fifth year inclusive	553 680	-
	830 520	-
less: future finance charges	(181 181)	-
Present value of minimum lease payments	**649 339**	**-**
Present value of minimum lease payments due		
- within one year	181 599	-
- in second to fifth year inclusive	467 740	-
	649 339	**-**
Non-current liabilities	467 740	-
Current liabilities	181 599	-
	649 339	**-**

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 17% (2015: -%).

Interest rates are fixed at the contract date. All leases escalate at 10% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 12.

19. Payables from exchange transactions

Trade payables	155 737 055	106 018 250
Deferred revenue	383 215	690 499
Salary suspense	37 425	-
Accrued leave pay	5 962 628	5 793 612
Accrued bonus	1 617 116	1 412 314
Deposits received	41 644	41 644
	163 779 083	**113 956 319**

20. VAT payable

VAT balance	13 545 356	18 376 667

VAT is payable on the cash basis and is paid to SARS once payments are received from debtors and claimed from SARS once suppliers have been paid.

The VAT balance is the net amount of the municipality's VAT control accounts where amounts were received from debtors and paid to suppliers.

21. Consumer deposits

Electricity	1 318 100	1 278 341
Housing rental	30 685	26 912
	1 348 785	**1 305 253**

Nketoana Local Municipality

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22. Employee benefit obligations

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

	2016	2015
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(11 455 000)	(11 169 000)

	2016	2015
Carrying value		
Long service awards	(4 117 000)	(3 801 000)
Medical aid benefits	(7 338 000)	(7 368 000)
	(11 455 000)	**(11 169 000)**

	2016	2015
Non-current liabilities	(11 033 000)	(10 619 000)
Current liabilities	(422 000)	(550 000)
	(11 455 000)	**(11 169 000)**

	2016	2015
Non-current liabilities		
Long service awards	(3 695 000)	(3 251 000)
Medical aid benefits	(7 338 000)	(7 368 000)
	(11 033 000)	**(10 619 000)**

	2016	2015
Current liabilities		
Long service awards	(422 000)	(550 000)

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Figures in Rand	2016	2015

22. Employee benefit obligations (continued)

The medical contribution and long service provisions are actuarial calculations which were performed by ZAQ.

ZAQ is an actuarial consulting company specialising in the valuation of employee benefit liabilities for accounting disclosure purposes.

Members of their executive committee include:
- Niel Fourie FASSA, CERA
- Pieter Wasserfall B.Com Actuarial Science
- Dennis De Wet B.Com (Hons) Financial Analysis

Long service award liability
The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

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. The awarded leave days have been converted into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The calculation also allows for mortality, retirements and withdrawals from service.

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.

The two most important financial variables used in the valuation are the discount rate and salary inflation.

Post-employment medical aid liabilities
The liability relates to future medical expenses which will be incurred by the municipality on behalf of retired employees. The future cash flows will continue until the mortality of all members. The mortality is therefore the uncertainty relating to the provision.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the date of calculation.

The calculation also allows for mortality. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement.

Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. It is also assumed that all active members will remain on the same medical aid option.

As at the valuation date, the medical aid liability of the municipality was unfunded, i.e. no dedicated assets had been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates.

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Figures in Rand	2016	2015

22. Employee benefit obligations (continued)

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

Opening balance	11 169 000	11 437 000
Benefits paid	(1 199 000)	(1 128 000)
Net expense recognised in the statement of financial performance	1 485 000	860 000
	11 455 000	**11 169 000**

Net expense recognised in the statement of financial performance

Current service cost	550 000	593 000
Interest cost	996 000	975 000
Actuarial (gains) losses	(61 000)	(708 000)
	1 485 000	**860 000**

Key assumptions used

Assumptions used at the reporting date:

Consumer price inflation (CPI) - Difference between nominal and real yield curve	- %	- %
Discount rate - Yield curve	- %	- %
Normal salary increase rate (CPI + 1%)	6.00 %	6.79 %
Net effective discount rate - Yield curve based	- %	- %

Other assumptions

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."

The nominal and real zero curves as at 30 June 2016 as supplied by the JSE, was used to determine the discounted rates and CPI assumptions at each relevant time period. This methodology has cahnged from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal salary inflation rate

The underlying future rate of consumer price index inflation (CPI inflation) was derived from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. The 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 2016 of 6%.

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.

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23. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Finance Management Grant	92 019	544 100
Intergrated National Electrification Programme Grant	-	499 281
Expanded Public Works Programme Grant	-	48 000
	92 019	**1 091 381**

Movement during the year

Balance at the beginning of the year	1 091 381	3 679 861
Additions during the year	64 824 046	66 406 378
Income recognition during the year	(65 823 408)	(68 994 858)
	92 019	**1 091 381**

See note 32 for reconciliation of grants from National/Provincial Government.

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24. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Unwinding of discount costs	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	7 369 811	739 192	-	-	-	8 109 003

Reconciliation of provisions - 2015

	Opening Balance	Unwinding of discount costs	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	6 698 002	671 809	-	-	-	7 369 811

Environmental rehabilitation provision