

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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24. Provisions (continued)

The provision is for the estimated future cost of the rehabilitation of the solid waste dumping sites at Mamafubedu (Petrus Steyn), Arlington, Lindley and Petsana (Reitz).

The rehabilitation requirements are in terms of the Acts and Standards listed below:

- National Treasury: GRAP 17 & 19.
- The National Environmental Management Act 107 of 1998
- The National Environmental Management Waste Act 59 of 2008.
- The Minimum Requirements for Waste Disposal by Landfill: DWAF, 1998.
- The South African Constitution Act 108 of 1996.
- The National Environmental Management Air Quality Act 39 f 2004.
- Hazardous Substances Act 5 of 1973.
- Mineral and Petroleum Resources and Development Act 28 of 2002.
- Health Act 63 of 1977.
- Occupational Health and Safety Act 8 of 1993.
- Municipal Systems Act 32 of 200.
- Environmental Conservation Act 73 of 1989.
- Municipal Structures Act 117 of 1998.

Mamafubedu (Petrus Steyn)

The disposal site presently used has an approximate area of 38 236 square meters.

The present site has adequate footprint and airspace available for the disposal of solid waste from Petrus Steyn and Mamafubedu for another 14 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2016) of the rehabilitation of the solid waste site is R 2 326 277.

The future costs are discounted at a risk-adjusted weighted average cost of capital of 9.83% to establish the present value of the provision.

Lindley

The disposal site presently used has an approximate area of 59 625 square meters.

The present site has adequate footprint and airspace available for the disposal of solid waste from Lindley for another 41 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2016) of the rehabilitation of the solid waste site is R 1 196 773.

The future costs are discounted at a risk-adjusted weighted average cost of capital of 10.17% to establish the present value of the provision.

Petsana (Reitz)

The disposal site presently used has an approximate area of 87 580 square meters.

The present site has adequate footprint and airspace available for the disposal of solid waste from Reitz and Petsana for another 19 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2016) of the rehabilitation of the solid waste site is R 3 810 217.

The future costs are discounted at a risk-adjusted weighted average cost of capital of 9.95% to establish the present value of the provision.

Arlington

The disposal site presently used has an approximate area of 14 250 square meters.

The present site has adequate footprint and airspace available for the disposal of solid waste from Arlington for another 27 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2016) of the rehabilitation of the solid waste site is R 775 736.

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24. Provisions (continued)		
The future costs are discounted at a risk-adjusted weighted average cost of capital of 10.17% to establish the present value of the provision.		
25. Accumulated surplus		
Accumulated surplus (deficit)	842 666 919	883 931 670
26. Service charges		
Sale of electricity	46 084 095	41 780 565
Sale of water	44 260 561	38 736 065
Sewerage and sanitation charges	19 500 416	15 902 118
Refuse removal	18 505 722	14 836 937
	128 350 794	111 255 685
27. Rental of facilities and equipment		
Premises		
Premises	255 398	283 578
Facilities and equipment		
Rental of facilities	76 466	73 002
	331 864	356 580
28. Interest received (trading)		
Interest received (trading)	24 391 914	20 201 160
29. Other income		
Insurance claims	5 684	165 328
Connection fees	1 106 013	759 235
Garden refuse	-	263
Building plans and clearance certificates	31 042	40 030
Other income	332 951	108 955
	1 475 690	1 073 811
30. Investment revenue		
Interest revenue		
Bank	1 100 347	583 166
Interest received - other	1 225	-
	1 101 572	583 166

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Figures in Rand	2016	2015
31. Property rates		
Rates received		
Property rates	16 612 976	15 835 059
Valuations		
Residential	1 099 810 907	1 099 215 907
Commercial	209 981 254	210 301 254
State	198 491 607	198 491 607
Municipal	328 492 500	328 614 500
Small holdings and farms	3 287 924 355	3 297 559 531
	5 124 700 623	5 134 182 799

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Interest at prime plus 1% per annum (2015: 1%) is levied on overdue accounts.

The new general valuation will be implemented on 01 July 2018.

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Figures in Rand	2016	2015
32. Government grants and subsidies		
Operating grants		
Equitable Share	80 039 000	79 011 000
Municipal System Improvement Grant	930 000	934 000
Municipal Finance Management Grant	3 302 081	1 765 224
Local Government Sector Education Training Authority Grant	141 640	112 163
Expanded Public Works Programme Grant	1 156 000	1 056 334
	85 568 721	82 878 721
Capital grants		
Municipal Infrastructure Grant	24 633 000	26 572 000
Regional Bulk Infrastructure Grant	33 171 406	30 784 215
Eskom Electrification Grant	2 060 281	4 800 719
	59 864 687	62 156 934
	145 433 408	145 035 655
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	63 053 027	65 315 331
Unconditional grants received	80 538 281	79 011 000
	143 591 308	144 326 331
Equitable Share		
Current-year receipts	80 039 000	77 589 000
Transferred to revenue	(80 039 000)	(79 011 000)
EPWP surrendered	-	369 999
INEG surrendered	-	1 052 001
	-	-
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The Equitable Share is an unconditional grant and is utilised to assist the local municipalities to undertake service delivery.		
Municipal Systems Improvement Grant		
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-
Municipal Finance Management Grant		
Balance unspent at beginning of year	544 100	709 324
Current-year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(2 052 081)	(1 765 224)
	92 019	544 100
Conditions still to be met - remain liabilities (see note 23).		
Local Government Sector Education Training Authority Grant		
Current-year receipts	141 640	112 163
Conditions met - transferred to revenue	(141 640)	(112 163)
	-	-

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Figures in Rand	2016	2015
32. Government grants and subsidies (continued)		
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	499 281	1 052 001
Current-year receipts	1 561 000	5 300 000
Conditions met - transferred to revenue	(2 060 281)	(4 800 719)
Other	-	(1 052 001)
	-	499 281
Conditions still to be met - remain liabilities (see note 23).		
Regional Bulk Infrastructure Grant		
Balance unspent at beginning of year	-	1 548 203
Current-year receipts	33 171 406	29 236 012
Conditions met - transferred to revenue	(33 171 406)	(30 784 215)
	-	-
Municipal Infrastructure Grant		
Current-year receipts	24 633 000	26 572 000
Conditions met - transferred to revenue	(24 633 000)	(26 572 000)
	-	-
Expanded Public Works Programme Grant		
Balance unspent at beginning of year	48 000	370 333
Current-year receipts	1 108 000	1 104 000
Conditions met - transferred to revenue	(1 156 000)	(1 056 334)
Other	-	(369 999)
	-	48 000
Conditions still to be met - remain liabilities (see note 23).		
33. Public contributions and donations		
Public contributions and donations	8 942 783	4 299 995
The district municipality donated infrastructure assets to Nketoana Local Municipality in 2015 and 2016.		
34. Fines		
Traffic fines	216 310	205 404
The whole amount relates to traffic fines and recognition was based on GRAP23 requirements.		

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Figures in Rand	2016	2015
35. Employee related costs		
Basic	51 703 164	48 176 825
Bonus	3 317 436	3 498 891
Medical aid - company contributions	1 973 601	2 097 075
UIF	543 300	477 511
WCA	139 326	146 853
SDL	711 289	755 745
Leave pay and bonus provision	373 817	195 232
SALGA contributions	39 652	33 820
Defined contribution plans	996 000	975 000
Travel, car, accommodation, subsistence and other allowances	2 815 066	2 422 583
Overtime payments	5 260 317	4 476 540
Acting allowances	1 395 940	473 715
Housing benefits and allowances	419 862	406 791
Pension	8 668 340	8 488 640
Standby allowances	1 677 552	1 437 283
Telephone and other allowances	775 728	736 205
	80 810 390	74 798 709

The leave pay and bonus provision amounting to R 373 817 (2015: R 195 232) comprises of the movements in the leave and bonus provisions year on year. Please refer to note 19 for more detail on these provisions.

Remuneration of Executive Directors

Remuneration of Accounting Officer

Annual remuneration	851 970	776 065
Car allowance	192 000	-
Bonus	89 000	-
Other allowances	130 651	280 200
Contributions to UIF, medical and pension funds	255 487	33 300
	1 519 108	1 089 565

Remuneration of Acting Chief Financial Officer

Annual remuneration	299 374	279 789
Acting allowance	283 265	89 340
Car allowance	130 662	-
Bonus	24 948	-
Other allowances	19 378	-
Contributions to UIF, medical and pension funds	160 942	101 204
	918 569	470 333

Remuneration of Executive Director - Corporate Services

Annual remuneration	858 545	730 826
Acting allowance	15 600	-
Car allowance	36 000	-
Bonus	52 500	-
Other allowances	122 312	66 229
Contributions to UIF, medical and pension funds	-	4 256
	1 084 957	801 311

Remuneration of Executive Director - Technical Services

Annual remuneration	682 669	593 550
Car allowance	133 333	-
Bonus	49 462	-
Other allowances	122 663	268 905
Contributions to UIF, medical and pension funds	3 569	-

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Figures in Rand	2016	2015
35. Employee related costs (continued)		
	991 696	862 455
Remuneration of Executive Director - Community Services		
Annual remuneration	830 770	687 626
Car allowance	79 000	-
Bonus	48 000	-
Other allowances	33 400	104 430
Contributions to UIF, medical and pension funds	35 296	1 785
	1 026 466	793 841
36. Remuneration of councillors		
Salaries	5 046 528	4 934 816
Mayor	579 501	497 886
Bonuses	33 689	31 485
Car and other allowances	1 231 823	1 212 806
	6 891 541	6 676 993
In-kind benefits		
The Mayor and Speaker are full-time employees of the Municipality. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and Speaker have the use of Council owned vehicles for official duties.		
The Mayor and Speaker have the use of Council owned laptops and tablets.		
Councillor remuneration is in line with the upper limits that is Gazetted by the Department of Cooperative Governance and the framework envisaged in section 219 of the Constitution.		
Mayor	778 880	697 698
Executive Committee	1 413 860	1 362 972
Councillors	3 037 721	3 079 506
Speaker	630 608	578 333
	5 861 069	5 718 509
37. Depreciation and amortisation		
Property, plant and equipment	58 467 853	56 986 234
Intangible assets	34 688	28 847
	58 502 541	57 015 081
38. Finance costs		
Non-current borrowings	986 227	850 152
Trade and other payables	8 476 824	6 572 762
Late payment of tax	-	243 924
Other interest paid	739 192	671 809
	10 202 243	8 338 647
39. Lease rentals on operating lease		
Lease rentals on operating lease	5 547 174	4 686 484

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Figures in Rand	2016	2015
39. Lease rentals on operating lease (continued)		
The leases included fleet (R 2 872 306) and office equipment (R 2 674 868) rentals.		
Please refer to note 49 for more information on the commitment relating to operating leases.		
40. Debt impairment		
Contributions to debt impairment provision	59 853 833	57 771 631
Bad debts written off	23 565 465	50 796 221
	83 419 298	108 567 852
41. Repairs and maintenance		
Repairs and maintenance - deductible	18 427 332	15 404 523
42. Bulk purchases		
Electricity	43 532 721	38 183 983
Water	285 189	750 765
	43 817 910	38 934 748
43. Contracted services		
Specialist Services	10 409 609	10 108 459
Other Contractors	990 253	650 230
	11 399 862	10 758 689

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Figures in Rand	2016	2015
44. General expenses		
Advertising	113 804	110 110
Auditors remuneration	5 057 215	4 588 167
Bank charges	555 118	555 326
Cleaning	510 175	974 043
Commission paid	735 142	747 690
Consumables	829 636	775 003
Debt collection	-	3 338
Donations	928 500	388 154
Entertainment	405 665	419 521
Fines and penalties	100 436	231 768
Gifts (bursaries)	94 742	58 020
Insurance	1 154 395	1 048 676
Conferences and seminars	239 450	255 358
Promotions and sponsorships	53 050	15 580
Fuel and oil	4 137 616	3 799 829
Postage and courier	386 092	3 452
Printing and stationery	1 979 199	2 333 257
Promotions	911 019	754 004
Security (Guarding of municipal property)	342 764	1 878 067
Subscriptions and membership fees	1 563 202	813 723
Telephone and fax	818 089	1 247 753
Training	851 439	810 476
Travel - local	2 984 307	2 054 918
Refuse	629 417	592 231
Assets expensed	3 881 637	54 986
Electricity	15 975 381	10 410 711
Water	1 270	15 899
Uniforms	576 286	270 971
Tourism development	39 500	50 114
Licences	652 103	15 009
Chemicals	1 719 515	2 128 428
Other expenses	912 653	324 619
	49 138 817	37 729 201
45. Gain on disposal of assets and liabilities		
Property, plant and equipment	-	36 425
46. Fair value adjustments		
Biological assets - (Fair value model)	(25 963)	27 776
Other financial assets		
• Other financial assets (Held for trading)	-	30 085
	(25 963)	57 861
47. Auditors' remuneration		
Fees	5 057 215	4 588 167

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Figures in Rand	2016	2015
48. Cash generated from operations		
Deficit	(41 264 760)	(63 262 126)
Adjustments for:		
Depreciation and amortisation	58 502 541	57 015 081
Loss on sale of assets and liabilities	-	(36 425)
Fair value adjustments	25 963	(57 861)
Debt impairment	83 419 298	108 567 852
Movements in retirement benefit assets and liabilities	286 000	(268 000)
Movements in provisions	739 192	671 809
Changes in working capital:		
Inventories	(21 592)	189 858
Receivables from exchange transactions	-	3 164 735
Consumer debtors	(85 305 338)	(94 179 167)
Other receivables from non-exchange transactions	(165 307)	10 927 812
Receivable - public contributions and donations	-	(4 566 465)
Payables from exchange transactions	49 822 770	33 562 924
VAT	(4 831 311)	-
Unspent conditional grants and receipts	(999 362)	(2 588 480)
Consumer deposits	43 532	53 909
	60 251 626	49 195 456

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Figures in Rand	2016	2015
49. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment - infrastructure	71 428 554	52 371 281
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment - infrastructure	25 899 000	57 873 000
Total capital commitments		
Already contracted for but not provided for	71 428 554	52 371 281
Not yet contracted for and authorised by accounting officer	25 899 000	57 873 000
	97 327 554	110 244 281
Authorised operational expenditure		
Already contracted for but not provided for		
• Expenditure	63 578 434	70 409 857
Not yet contracted for and authorised by accounting officer		
• Expenditure	60 126 818	15 592 491
Total operational commitments		
Already contracted for but not provided for	63 578 434	70 409 857
Not yet contracted for and authorised by accounting officer	60 126 818	15 592 491
	123 705 252	86 002 348
Total commitments		
Total commitments		
Authorised capital expenditure	97 327 554	110 244 281
Authorised operational expenditure	123 705 252	86 002 348
	221 032 806	196 246 629
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	-	1 547 105
Operating leases - as lessor (income)		
Minimum lease payments due		
- within one year	71 826	142 479
- in second to fifth year inclusive	139 994	218 958
- later than five years	128 328	170 135
	340 148	531 572

Certain of the municipality's equipment is held to generate rental income. There are no contingent rents receivable.

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50. Contingencies

The municipality is being sued for the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain.

Litigation is in the process against the municipality relating to damage to property of J Shabalala. The amount under dispute is R 94 158. The legal fees amount to R 23 540.

Litigation is in the process against the municipality relating to a dispute with Monthei Construction. The amount under dispute is R 2 104 255. The legal fees amount to R 526 064.

Litigation is in the process against the municipality relating to a dispute with a Telkom. The amount under dispute is R 133 394. The legal fees amount to R 33 350.

Litigation is in the process against the municipality relating to a dispute with Telkom. The amount under dispute is R 66 982. The legal fees amount to R 16 745.

Litigation is in the process against the municipality relating to a dispute with Telkom. The amount under dispute is R 17 473. The legal fees amount to R 4 368.

Litigation is in the process against the municipality relating to a dispute with Q & H Water Services Pty Ltd. The amount under dispute is R 1 092 417. The legal fees amount to R 273 104.

Litigation is in the process against the municipality relating to a dispute with TLWG Lekota. The amount under dispute is R 310 000. The legal fees amount to R 77 500.

Litigation is in the process against the municipality relating to a dispute with DD Radebe. The amount under dispute is R 1 568 229. The legal fees amount to R 392 057.

Litigation is in the process against the municipality relating to a dispute with ELB Equipment. The amount under dispute is R 93 238. The legal fees amount to R 23 309.

Litigation is in the process against the municipality relating to a dispute with Rudnat Projects CC. The amount under dispute is R 5 287 036. The legal fees amount to R 1 321 759.

Litigation is in the process against the municipality relating to a dispute with Blue Kite Properties. The amount under dispute is R 45 600. The legal fees amount to R 11 400.

Litigation is in the process against the municipality relating to physical injuries to DE Motaung. The amount under dispute is R 3 422 000. The legal fees amount to R 863 750.

Litigation is in the process against the municipality relating to legal representation rendered by Morobane Incorporated. The amount under dispute is R 65 019. The legal fees amount to R 16 255.

Litigation is in the process against the municipality relating to damage to property of L Stoffberg. The amount under dispute is R 3 920. The legal fees amount to R 980.

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51. Related parties

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

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel;
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence; and
- entities that control or exert significant influence over the municipality

Executive management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the municipal entity, directly or indirectly, including any director (whether executive or otherwise) of the municipality. The municipality's key management personnel includes the Accounting officer, Executive Directors and close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the group.

Key management information

No transactions took place between the municipality and key management personnel or their close family members during the reporting period.

Details relating to remuneration are disclosed in notes 35&36 for key management and Councillors.

Relationships

Accounting Officer
Chief Financial Officer (Acting)
Councillors

Refer to accounting officer's report note
Tsietsi Godfrey Makgale
Tshabalala Ncani Selina (Dexpro Construction and Trading)
Mosia Mokete Jeremiah (Mahatammoho Reteng)
Blignaut Marthinus (Agristan SA, Monaufic Belegging; NG Welsyn Reitz Wooneenhede; NG Welsyn Reitz Tehuis, Tipakri Eiemdomsbeleggings)
Mokoena Kgaketla Abram (Re Bonahatse Construction)
Radebe Tebogo Patrick (Emthonjeni Primary Coperative)
Malindi Mosotho Simon (Linden Sons General)
Mofokeng Phoka Petrus (PMMM Builders, Purple Moss 1057)
Moshwadiba Pasika Zacharia (Schwak's Construction and Distribution)
Mokgathe Lekgetho (Reliable Trinity Automative Spares, Entle Trading 507)
Maseko Sebina Mable (Maseko and Moji Trading and Projects)
Letsela Simon Moeketsi (Thabo Mofutsanyane Football Academy, Goodman Soccer Academy, Small Green Garden Centre, Lapoloha Restaurant)
George Joma (Luthando and Chechenta Service Provider)
Moletsane Morakane Miriam (Keewave Trading 97, Feminity in Development, Superior Quality Engineering and Technologies 97, Thembalentswe Construction and Projects, Moletsane and Diale Service Providers)
Nhlapo Solomon Mokete (Kido Consultancy)

Managers

Directors

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51. Related parties (continued)

Mazi Mwandile Penwel (Nthape IT, Mamampu Trading Enterprise, Mzwajo Project Management Services)

52. Change in estimate

Property, plant and equipment

The useful lives of all types of property, plant and equipment were reviewed and adjusted in 2016. Estimating the effect in future periods is impracticable.

Intangible assets

The useful life of intangible assets was estimated in 2015 to be 3 years. In the current period management have revised their estimate to 4 years. Estimating the effect in future periods is impracticable.

53. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated comparative amounts in terms of GRAP 3 -Accounting policies, Changes in Estimates and Errors:

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2016, made corrections to last year's *service charges* and *consumer* accounts. These corrections were treated as prior period errors and amounted to R 412 225 (R 619 820 exchange, R - 207 595 non-exchange). The correction of consumer accounts resulted in an increase in the provision for bad debts. This increase amounted to R 50 237.

Management also revised the methodology for the impairment of consumer debtors. The change in methodology was retrospectively applied to the impairment provision calculations and resulted in prior period restatements amounting to R 30 392 861 (R 17 559 946 exchange, R 12 832 915 non-exchange). The updating of the methodology and accompanying impairment provisions in an increase in the *debt impairment* in the statement of financial performance. This increase amounted to R 30 392 861.

While preparing the annual financial statements for the year ending 30 June 2016, management also impaired receivables to provide for the possible non-collection of these *receivables from exchange transactions*. This provision was treated as a prior period error and amounted to R 11 022 326 affecting the financial performance and financial position.

In compiling the GRAP asset registers of Nketoana Local Municipality at the 2013/2014 year end, the asset consultant failed to include in the register all assets owned by the Municipality. The registers also incorrectly included assets not owned by the Municipality. Recently, the Municipality appointed a new asset consultant to correct omissions, duplications and overstatements in the asset registers with respect to current and prior periods. The financial statements of this year have been amended accordingly. The new asset registers required the following amendments to the prior period financial statements:

- Property, plant and equipment R 430 759 744
- Heritage assets R 529 800
- Intangible assets R 47 032
- Investment property R 5 760 957
- Depreciation and amortisation R 10 557 219
- Public contributions R 4 489 842

In 2013/2014 and 2014/2015 *petty cash* expenditure was incorrectly not recognised and resulted in overstated petty cash balances at yearend in 2013/2014 and 2014/2015. The corrections resulted in a decrease in the comparative petty cash balance amounting to R 89 348.

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Figures in Rand

53. Prior period errors (continued)

The municipality's VAT consultants proposed corrections to balances and transaction in prior periods. The corrections included incorrect declaration of Output Tax on grant income and incorrect Input Tax declarations on salaries and other expenditure. The corrections resulted in an increase in *grant income* (R 3 780 518) and other smaller movements in income and expenditure (an increase in *finance costs* amounting to R 243 924). The VAT receivable (R 1 763 881) and VAT payable (R 2 810 355) were also amended.

In the prior year the amount transferred to revenue from MFMG receipts was understated as it did not include the 2014 unspent portion. This was corrected in the current year and resulted in an increase in *grant income* and an increase in *contracted services* of R 709 324.

In the prior year the *Actuarial gains/losses* were included in the *Employee costs*. The correction of the classification resulted in a decrease in the *Employee costs* and an increase in *Actuarial gains/losses* amounting to R 708 000.

In 2015/2016 the provision for the rehabilitation of landfill sites was retrospectively adjusted based on the reports issued by the consultant. These retrospective adjustments resulted in an increase in the *provision* amounting to R 3 891 317 and an increase in *finance costs* amounting to R 330 775.

In the prior year the municipality accounted for one of the departments' *employee related costs* (telephone allowances) under general expenses. This was corrected in the current year and the restatement amounted to R 3 762.

The municipality corrected the accounting for inter-departmental *service charges* and this resulted in a prior year restatement amounting to R 1 634 000. The correction had the same financial effect (R 1 634 000) on *general expenses*.

Statement of financial position

Consumer debtors	-	619 820
Consumer debtors	-	(17 559 946)
Receivables from exchange transactions	-	(11 022 326)
Receivables from exchange transactions	-	89 348
Receivables from non-exchange transactions	-	(207 595)
Receivables from non-exchange transactions	-	(12 832 915)
Cash and cash equivalents - petty cash	-	(89 348)
Investment property	-	5 760 957
Property, plant and equipment	-	430 759 744
Intangible assets	-	47 032
Heritage assets	-	529 800
VAT receivable	-	1 763 881
VAT payable	-	2 810 355
Provisions	-	(3 891 317)
Accumulated surplus	-	391 156 768

Statement of Financial Performance

Service charges	-	(2 367 384)
Interest received - trading	-	(27 523)
Grant income	-	(4 489 842)
Other income	-	39 444
Property rates	-	203 934
Employee related costs	-	676 093
Depreciation	-	(10 557 219)
Finance costs	-	574 699
Debt impairment	-	11 072 563
Debt impairment	-	30 392 861
General expenses	-	1 630 836
Contracted services	-	709 324
Actuarial gains/losses	-	(708 000)

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54. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the annual financial statements.

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's audit committee oversees the monitoring of compliance with the entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by the municipality's internal audit function.

The municipality monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:

- liquidity risk;
- credit risk; and
- market risk (including interest rate risk).

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on interest rate risk, credit risk and in the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipality does not enter into or trade in financial instruments for speculative purposes.

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54. Risk management (continued)

Liquidity risk

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

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipality manages liquidity risk through ongoing review of commitments.

The municipality has started to improve the cash funds available. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The municipality has not defaulted on payables and lease commitment payments and no re-negotiation of terms were made on any of these instruments.

All of the municipality's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipality.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1 349 442	1 486 713	4 460 141	5 327 390
Trade and other payables	166 025 279	-	-	-
Finance leases	181 599	467 740	-	-
At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1 486 713	1 486 713	4 460 141	6 814 103
Trade and other payables	113 956 318	-	-	-

Credit risk

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

Trade receivables comprise a widespread customer base. Management reviews credit risk annually when the impairment and discounting of receivables are performed. Risk control mainly assesses the payment patterns of the consumers.

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

Financial instrument	2016	2015
Consumer debtors	17 708 530	15 822 490
Cash and cash equivalents	2 527 023	2 908 446
Receivables from non-exchange transactions	2 119 152	1 953 845
VAT receivable	1 763 881	1 763 881
Other financial assets	4 587 776	4 305 805

Market risk

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54. Risk management (continued)

Market rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. There has been no change, since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

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54. Risk management (continued)

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipality's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:

- Call and notice deposits/investments
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipality's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the municipality.

Interest charged on customers' account and or received from investment are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these financial instruments.

Fair values

The municipality's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

Investments

Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised.

Receivables from exchange transactions

The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Trade payables

The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing loans

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

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

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	11.50 %	21 591 563	-	-	-	-

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54. Risk management (continued)

Cash in current banking institutions	- %	6 792 526	-	-	-	-
Trade and other payables - extended credit terms	- %	155 737 056	-	-	-	-
Long-term borrowings (DBSA)	- %	647 280	7 806 024	-	-	-
Long-term borrowings (Grainfield Chickens)	10.50 %	702 162	-	-	-	-

Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Finance leases	16.75 %	181 599	467 740	-	-	-

Capital risk

Capital risk refers to the risk that an entity will lose the amount of an investment. An investor takes on capital risk each time an investment is made in anything other than a risk-free security. Capital risk is limited to the amount an entity has invested.

Financial instrument

VKB - Unlisted shares					5 000	5 000
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The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipality's financial instruments are affected by the whole sale price of electricity from Eskom and water from the Department of Water Affairs.

55. Going concern

We draw attention to the fact that at 30 June 2016, the Municipality had a deficit for the year amounting to R 41 264 760 and that the municipality's current liabilities exceed its current assets.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The municipality's current financial health however indicates that a material uncertainty exists as the municipality may not be able to realise its assets and discharge its liabilities.

At 30 June 2016 the Municipality's current ratio was 0.4 to 1.0. The current ratio is a liquidity ratio that measures an entity's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the total assets of an entity (both liquid and illiquid) relative to that entity's total liabilities. (Current Ratio = Current Assets / Current Liabilities)

The Municipality's trade payables at yearend amounted to R 163 779 083. At R 99 407 396, the amount payable to Eskom accounts for more than 60% of the trade payable balance. During the 2015/2016 financial year management of Nketoana Local Municipality negotiated with Eskom via Provincial Treasury to arrange repayment of the outstanding balance over a 48 month term.

This and other arrangements with significant payables, strengthened the current ratio.

Management compiled a revenue enhancement strategy was approved by council. This strategy includes the collection of arrears via the prepaid electricity system; and termination, blocking or reduction of services due to non-payment.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

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56. Unauthorised expenditure

Opening balance	119 025 672	113 663 904
Current year	62 703 108	5 361 768
	181 728 780	119 025 672

2016

The current year expenditure relates to expenditure incurred for which there was no budget or for expenditure which was incurred after the budget had been depleted.

Please refer to the Statement of Comparison of Budget and Actual Amounts on page 13 for more information on the unauthorised expenditure.

57. Fruitless and wasteful expenditure

Opening balance	10 518 819	3 669 302
Current year - interest on overdue accounts	9 209 824	6 849 517
	19 728 643	10 518 819

The current year fruitless and wasteful expenditure relates to interest and penalties on overdue submissions and accounts.

Details of fruitless and wasteful expenditure

	2016	2015
	Interest on overdue accounts	Interest on overdue accounts
Auditor-General	197 506	214 314
Eskom	8 476 824	6 342 295
Other suppliers	273 479	-
South African Revenue Services	262 016	292 908
	9 209 825	6 849 517

58. Irregular expenditure

Opening balance	95 612 995	69 434 069
Add: Irregular Expenditure - current year	8 674 311	26 178 926
	104 287 306	95 612 995

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Procurement and contract management	None	7 157 147
Car hire for mayor	None	160 500
Hiring of TLBs	None	1 356 664
		8 674 311

59. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	642 150	603 520
Amount paid - current year	(642 150)	(603 520)
Amount paid - previous years	(116 862)	-
	(116 862)	-

Contributions to organised local government consist of annual subscriptions paid to SALGA.

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

Material distribution losses

Electricity	4 831 751	6 933 182
Water	5 907 654	8 645 601
	10 739 405	15 578 783

Bulk water losses	Kiloliter	Percentage (%)
2016	662 293	19
2015	1 066 042	26
	1 728 335	45

Distribution losses - Water

The water losses are mainly due to metering inefficiencies, burst pipes and leaks in the reticulation network. In the current year the water losses were 19% (2015: 26%).

kL - units	662 293	1 066 042
Percentage	19%	26%

Distribution losses - Electricity

In the current year the energy losses were 6.44% (2015: 10.57%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

kWh - units	3 393 560	5 463 500
Percentage	6.44%	10.57%

The electricity distribution loss comprises of technical and non-technical losses. The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc.

Technical losses:

Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. Technical losses are inherent to the supply of electricity via lines and is further affected by the condition and age of the network, the weather conditions and load on the system. The wires (copper or aluminum) being used to distribute electricity has certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

Audit fees

Opening balance	1 870 612	2 169 825
Current year subscription / fee	4 096 706	2 800 787
Amount paid - current year	(864 526)	(3 100 000)
	5 102 792	1 870 612

PAYE and UIF

Opening balance	-	620 308
Payable for the current year	10 045 688	9 026 045
Amount paid - current year	(10 045 688)	(9 646 353)
	-	-

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

Pension and Medical Aid Deductions

Opening balance	-	1 476 776
Payable for the current year	15 965 432	15 718 392
Amount paid - current year	(14 951 129)	(17 195 168)
	1 014 303	-

VAT

VAT receivable	1 763 881	1 763 881
VAT payable	13 545 356	18 376 667
	15 309 237	20 140 548

VAT output payables and VAT input receivables are shown in note 20.

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

Councillors' arrear consumer accounts

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

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mabizela, DL	-	2 293	2 293
30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mosia, MJ	-	5 750	5 750
Radebe, TP	-	3 785	3 785
Semela, MS	-	4 198	4 198
	-	13 733	13 733

60. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	9 155 466	9 968 351
	9 155 466	9 968 351
Cash set aside for the repayment of long-term liabilities	-	(1 200 000)
	9 155 466	8 768 351

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

Nketoana Local Municipality

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61. Deviation from supply chain management regulations

Deviations for the current year	841 605	2 771 125
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Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

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61. Deviation from supply chain management regulations (continued)

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The following are the deviation amounts and reasons:

R 48 815

Three quotations were obtained for repairs to a TLB. All three quotes exceeded R 30 000 and the repair was needed urgently.

R 43 890

The residents didn't have access to water and the work had to be done urgently to restore the access to water for the residents.

R 38 070

Truvelo is the only service provider based within the area that is able and has the necessary capacity to maintain and service Truvelos.

R 46 033

Only one quotation received from accredited laboratory. Compliance monitoring must be done monthly according to DWA and Sanitation.

R 165 309

Only one quotation received from accredited laboratory. Compliance monitoring must be done monthly according to DWA and Sanitation.

R 198 000

There was a water crisis in Petrus Steyn due to shortage of raw water (little rainfall) and therefore the water tanker was needed urgently.

R 41 615

Urgent unblocking was needed as sewage ended up on the roads.

R 52 500

There was a water crisis in Petrus Steyn due to shortage of raw water (little rainfall) and therefore the water tanker was needed urgently.

R 33 920

There was a water crisis in Petrus Steyn due to shortage of raw water (little rainfall) and therefore the water tanker was needed urgently.

R 31 850

New Vaal Motors is the only service provider in the area that is authorised to service and repair Mercedes Benz vehicles.

R 45 117

The tipper truck was needed urgently to deliver water.

R 40 230

The residents didn't have access to water and the repairs had to be done urgently restore the access to water.

R 56 256

A TLB was needed urgently to dig graves.

**Nketoana Local Municipality
Appendix A**

Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at Tuesday, 30 June 2015	Interest charged during the period	Repayments during the period	Balance at Thursday, 30 June 2016	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
Development Bank of South Africa							
DBSA Loan @ 10,35%	61000275	6 889 345	722 850	380 980	7 231 215	-	-
DBSA Loan @ 9,09%	61000276	1 153 660	129 056	60 625	1 222 091	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		8 043 005	851 906	441 605	8 453 306	-	-
Bonds		-	-	-	-	-	-
Other loans							
Grainfield Chickens (Pty) Ltd		1 925 550	133 816	1 357 203	702 163	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		1 925 550	133 816	1 357 203	702 163	-	-
Lease liability							
Nashua (raised in June 2016)		649 339	-	-	649 339	632 142	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-

**Nketoana Local Municipality
Appendix A**

Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at Tuesday, 30 June 2015	Interest charged during the period	Repayments during the period	Balance at Thursday, 30 June 2016	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
		649 339	-	-	649 339	632 142	-
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
Total external loans		10 617 894	985 722	1 798 808	9 804 808	632 142	-

