

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

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 oversized or overcapacity asset. Oversized 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

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

value (if any), on a systematic basis over its remaining useful life.

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

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.

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Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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 49.

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.

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Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

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

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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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.

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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 rendered 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

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

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.

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Accounting Policies

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.

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 an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

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.

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Accounting Policies

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.

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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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.

3. New standards and interpretations

3.1 Standards and Interpretations early adopted

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

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 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2009	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2009	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2009	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2009	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2018	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018	Unlikely there will be a material impact

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Figures in Rand	2017	2016
4. Inventories		
Consumable stores	148 624	191 281
Water	416 997	416 997
	565 621	608 278
Inventory pledged as security		
No inventory type is pledged as security.		
5. Receivables from exchange transactions		
Fruitless and wasteful expenditure to be investigated	407 520	407 520
Other receivable - ABSA	9 527 497	9 519 191
Other receivable - money to be recovered	1 078 004	1 078 004
Other debtors	1 639 137	-
Provision for bad debts	(11 004 715)	(11 004 715)
	1 647 443	-
Trade and other receivables impaired		
As of 30 June 2017, other receivables of R 11 004 715 (2016: R 11 004 715) were impaired and provided for.		
6. Receivables from non-exchange transactions		
Fines	3 290	8 690
Other receivables from non-exchange revenue	32 897	-
Consumer debtors - Rates	1 821 326	1 719 452
	1 857 513	1 728 142
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	24 608 978	22 088 318
Consumer debtors - Rates (impairment)	(22 787 652)	(20 368 866)
	1 821 326	1 719 452
Rates		
Current (0 -30 days)	-	901 619
31 - 60 days	-	569 931
61 - 90 days	-	469 887
91 - 120 days	-	169 025
	-	2 110 462
7. VAT receivable		
VAT	1 763 881	1 763 881

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Figures in Rand	2017	2016
8. Consumer debtors (exchange transactions)		
Gross balances		
Electricity	11 858 055	11 490 409
Water	91 371 252	78 970 306
Sewerage	46 031 409	44 050 325
Refuse	51 472 625	49 336 156
Sundry debtors	156 325 506	133 055 363
Housing rental	308 238	340 967
	357 367 085	317 243 526
Less: Allowance for impairment		
Electricity	(6 573 057)	(5 758 601)
Water	(85 642 696)	(73 970 239)
Sewerage	(44 136 580)	(42 287 525)
Refuse	(49 795 793)	(47 914 863)
Sundry debtors	(151 914 159)	(128 942 886)
Housing rental	(307 976)	(340 647)
	(338 370 261)	(299 214 761)
Net balance		
Electricity	5 284 998	5 731 808
Water	5 728 556	5 000 067
Sewerage	1 894 829	1 762 800
Refuse	1 676 832	1 421 293
Sundry debtors	4 411 347	4 112 477
Housing rental	262	320
	18 996 824	18 028 765
Electricity		
Current (0 -30 days)	5 284 998	4 683 945
31 - 60 days	-	376 933
61 - 90 days	-	281 625
91 - 120 days	-	234 431
121 - 365 days	-	154 874
	5 284 998	5 731 808
Water		
Current (0 -30 days)	5 728 556	2 666 866
31 - 60 days	-	255 394
61 - 90 days	-	208 693
91 - 120 days	-	168 516
121 - 365 days	-	187 166
> 365 days	-	1 513 432
	5 728 556	5 000 067
Sewerage		
Current (0 -30 days)	1 894 829	546 283
31 - 60 days	-	156 591
61 - 90 days	-	130 065
91 - 120 days	-	77 940
121 - 365 days	-	67 238
> 365 days	-	784 683
	1 894 829	1 762 800

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Figures in Rand	2017	2016
8. Consumer debtors (exchange transactions) (continued)		
Refuse		
Current (0 -30 days)	1 676 832	331 174
31 - 60 days	-	131 109
61 - 90 days	-	108 934
91 - 120 days	-	80 730
121 - 365 days	-	71 183
> 365 days	-	698 163
	1 676 832	1 421 293
Sundry debtors		
Current (0 -30 days)	4 411 347	1 506 491
31 - 60 days	-	446 582
61 - 90 days	-	430 416
91 - 120 days	-	383 191
121 - 365 days	-	398 181
> 365 days	-	947 616
	4 411 347	4 112 477
Housing rental		
> 365 days	262	320

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
8. Consumer debtors (exchange transactions) (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	-	1 830 249
31 - 60 days	-	736 163
61 - 90 days	-	668 138
91 - 120 days	-	602 125
121 - 365 days	-	620 059
	-	4 456 734
Industrial/ commercial		
Current (0 -30 days)	-	4 463 090
31 - 60 days	-	295 792
61 - 90 days	-	203 198
91 - 120 days	-	190 357
121 - 365 days	-	188 479
> 365 days	-	1 272 950
	-	6 613 866
National and provincial government		
Current (0 -30 days)	-	3 441 419
31 - 60 days	-	334 654
61 - 90 days	-	288 397
91 - 120 days	-	152 325
121 - 365 days	-	123 088
> 365 days	-	2 618 282
	-	6 958 165
Total		
Current (0 -30 days)	18 996 824	9 734 757
31 - 60 days	-	1 366 610
61 - 90 days	-	1 159 733
91 - 120 days	-	944 807
121 - 365 days	-	931 626
> 365 days	-	3 891 232
	18 996 824	18 028 765
Less: Allowance for impairment		
Electricity	(338 370 261)	(5 758 601)
Water	-	(73 970 239)
Sewerage	-	(42 287 525)
Refuse	-	(47 914 863)
Sundry debtors	-	(128 942 886)
Housing rental	-	(340 647)
	(338 370 261)	(299 214 761)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(299 214 761)	(242 648 998)
Contributions to allowance	(73 263 393)	(73 582 017)
Debt impairment written off against allowance	34 107 893	17 016 254
	(338 370 261)	(299 214 761)

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Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
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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:

Cash on hand	48 291	9 688
Short-term deposits	1 834 033	3 093 883
Other cash and cash equivalents	611	611
Cash and cash equivalents	(4 363 174)	(1 849 777)
	(2 480 239)	1 254 405
Current assets	1 882 935	3 104 182
Current liabilities	(4 363 174)	(1 849 777)
	(2 480 239)	1 254 405

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA - Operating account - 2170560119	790 131	264 220	2 328 216	(5 158 916)	101 374	(2 674 673)
ABSA - Banktel account - 2170142538	260 532	57 397	173 334	795 742	(678 533)	196 807
ABSA Call account - 90741555973	565 673	1 872 020	1 725 063	565 673	1 872 020	1 725 063
Old Mutual - 5208945	521 270	521 270	521 270	521 270	521 270	521 270
Total	2 137 606	2 714 907	4 747 883	(3 276 231)	1 816 131	(231 533)

10. Biological assets that form part of an agricultural activity

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	45 000	-	45 000	24 513	-	24 513

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Figures in Rand	2017	2016
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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 - 2017

	Opening balance	Additions	Gains or losses arising from changes in fair value	Total
Game	24 513	5 500	14 987	45 000

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

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

Non - Financial information

Quantities of each biological asset

Blesbok	18	9
Springbuck	5	-
Wildebeest	2	1
Zebra	2	2
	27	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

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	13 966 722	-	13 966 722	13 877 904	-	13 877 904

Reconciliation of investment property - 2017

	Opening balance	Additions	Disposals	Transfers	Total
Investment property	13 877 904	-	-	88 818	13 966 722

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Figures in Rand 2017 2016

11. Investment property (continued)

Reconciliation of investment property - 2016

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

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

	2017			2016		
	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	236 735 600	(117 299 436)	119 436 164	223 933 949	(111 575 446)	112 358 503
Infrastructure	1 495 156 297	(814 719 974)	680 436 323	1 472 840 952	(766 095 135)	706 745 817
Other property, plant and equipment	17 432 898	(9 306 966)	8 125 932	16 675 764	(8 237 714)	8 438 050
Landfill sites	21 868 937	(2 409 653)	19 459 284	21 868 937	(1 763 924)	20 105 013
Leased assets	649 339	(233 643)	415 696	649 339	(17 197)	632 142
Work-in-progress	144 379 997	-	144 379 997	138 852 296	-	138 852 296
Total	1 934 061 253	(943 969 672)	990 091 581	1 892 659 422	(887 689 416)	1 004 970 006

Reconciliation of property, plant and equipment - 2017

	Opening balance	Difference	Additions	Disposals	Transfers	Depreciation	Impairment loss
Land	17 838 185	-	-	-	-	-	-
Buildings	112 358 503	-	-	(37 661)	12 899 774	(5 784 452)	-
Infrastructure	706 745 817	-	-	(1 540 551)	25 698 530	(50 466 501)	(97)
Other property, plant and equipment	8 438 050	-	1 563 104	(267 981)	-	(1 607 241)	-
Landfill sites	20 105 013	-	-	-	-	(645 729)	-
Leased assets	632 142	-	-	-	-	(216 446)	-
Work-in-progress	138 852 296	998 712	42 777 522	-	(38 248 533)	-	-
Total	1 004 970 006	998 712	44 340 626	(1 846 193)	349 771	(58 720 369)	(97)

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12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	17 838 185	-	-	-	-	-	17 838 18
Buildings	104 602 038	-	-	13 273 090	(5 516 625)	-	112 358 50
Infrastructure	738 370 690	-	-	18 901 824	(50 526 697)	-	706 745 81
Other property, plant and equipment	9 922 268	864 458	(587 073)	-	(1 761 603)	-	8 438 05
Landfill sites	20 750 741	-	-	-	(645 728)	-	20 105 01
Leased assets	-	649 339	-	-	(17 197)	-	632 14
Work-in-progress	112 991 998	58 035 212	-	(32 174 914)	-	-	138 852 29
	1 004 475 920	59 549 009	(587 073)	-	(58 467 850)	-	1 004 970 00

Assets subject to finance lease (Net carrying amount)

Office equipment	415 696	632 142
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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

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	240 691	(191 320)	49 371	240 691	(175 093)	65 598

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	65 598	-	(16 227)	49 371

Reconciliation of intangible assets - 2016

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

14. Heritage assets

	2017			2016		
	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

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14. Heritage assets (continued)

Reconciliation of heritage assets 2017

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

Reconciliation of heritage assets 2016

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

15. Other financial assets

Residual interest at cost

Unlisted shares	5 000	5 000
VKB Agriculture (Pty) Ltd		
Preference shares	327 888	307 585
VKB Agriculture (Pty) Ltd		
	332 888	312 585

At amortised cost

Other financial asset	4 559 240	4 275 191
Standard Bank - Money Market		
Total other financial assets	4 892 128	4 587 776

Non-current assets

Residual interest at cost	332 888	312 585
At amortised cost	4 559 240	4 275 191
	4 892 128	4 587 776

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

Class 1 (e.g. FEC's)	4 559 240	4 275 191
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15. Other financial assets (continued)		
Financial assets at amortised cost		
Nominal value of financial assets at cost		
Financial asset 1	332 888	312 585
Investment in a private company initially recognised at cost. Council have not been able to determine the reasonability of the fair value.		
Financial assets pledged as collateral		
Collateral		
Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities	4 559 240	4 275 191
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.		
17. Other financial liabilities		
At amortised cost		
Bank loan	7 543 785	7 231 214
The Development Bank of Southern Africa Limited		
Bank loan	1 294 107	1 222 090
The Development Bank of Southern Africa Limited		
Other loan	-	702 162
Grainfield Chickens Proprietary Limited		
	8 837 892	9 155 466
Total other financial liabilities	8 837 892	9 155 466
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.		
In 2016/2017 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.		
Grainfield Chickens		
The loan was settled in 2016/2017. Interest charged was linked to the prime interest rate. Monthly municipal fees were deducted as repayments on the loan.		
Non-current liabilities		
At amortised cost	6 649 242	7 806 024

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Figures in Rand	2017	2016
17. Other financial liabilities (continued)		
Current liabilities		
At amortised cost	2 188 650	1 349 442
18. Finance lease obligation		
Minimum lease payments due		
- within one year	276 840	276 840
- in second to fifth year inclusive	276 840	553 680
	553 680	830 520
less: future finance charges	(85 939)	(181 181)
Present value of minimum lease payments	467 741	649 339
Present value of minimum lease payments due		
- within one year	214 464	181 599
- in second to fifth year inclusive	253 277	467 740
	467 741	649 339
Non-current liabilities	253 277	467 740
Current liabilities	214 464	181 599
	467 741	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% (2016: 17%).

Interest rates are fixed at the contract date. All leases have fixed repayments 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	198 919 072	155 737 056
Deferred revenue	448 891	383 215
Salary suspense	8 264 615	37 425
Accrued leave pay	7 165 667	5 962 628
Accrued bonus	1 539 649	1 617 116
Deposits received	48 844	41 644
	216 386 738	163 779 084

20. VAT payable

VAT balance	8 461 157	13 545 356
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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.

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Figures in Rand	2017	2016
21. Consumer deposits		
Electricity	1 365 185	1 318 100
Housing rental	36 727	30 685
	1 401 912	1 348 785