

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(10 629 000)	(11 455 000)
Carrying value per benefit		
Long service awards	(4 675 000)	(3 801 000)
Medical aid benefits	(5 954 000)	(7 338 000)
	(10 629 000)	(11 139 000)
Non-current liabilities	(10 099 000)	(11 033 000)
Current liabilities	(530 000)	(422 000)
	(10 629 000)	(11 455 000)
Non-current liabilities		
Long service awards	(4 145 000)	(3 251 000)
Medical aid benefits	(5 954 000)	(7 338 000)
	(10 099 000)	(10 589 000)
Current liabilities		
Long service awards	(530 000)	(422 000)

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

22. Employee benefit obligations (continued)

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

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

Members of their executive committee include:

- Niel Fourie FASSA, CERA
- Pieter Wasserfall B.Com Actuarial Science
- Dennis De Wet B.Com (Hons) Financial Analysis

Long service award liability (LSA)

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

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

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

Long service benefits are awarded in the form of leave days and a percentage of salary. The awarded leave days have been converted into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

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

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable.

Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

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

Post-employment medical aid liabilities (PEMAL)

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

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

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

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

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

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

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

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
22. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	11 455 000	11 169 000
Benefits paid - PEMAL	(505 000)	(545 000)
Benefits paid - LSA	(401 000)	(654 000)
Net expense recognised in the statement of financial performance	80 000	1 485 000
	10 629 000	11 455 000
Net expense recognised in the statement of financial performance		
Current service cost - LSA	619 000	550 000
Interest cost - PEMAL	737 000	650 000
Interest cost - LSA	428 000	346 000
Actuarial (gains) / losses - PEMAL	(1 616 000)	(135 000)
Actuarial (gains) / losses - LSA	(88 000)	74 000
	80 000	1 485 000
Key assumptions used		
Assumptions used at the reporting date:		
Actual return on plan assets	- %	- %
Discount rates used	- %	- %
Expected rate of return on assets	6.00 %	6.00 %
Expected rate of return on reimbursement rights	- %	- %

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

22. Employee benefit obligations (continued)

Other assumptions

Discount rate

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

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

The nominal and real zero curves as at 30 June 2017 as supplied by the JSE, was used to determine the discounted rates and CPI assumptions at each relevant time period. This methodology has changed from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal salary inflation rate

The underlying future rate of consumer price index inflation (CPI inflation) was derived from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. The assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2017 of 6%.

Average retirement age

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

Normal retirement age

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

Mortality rates

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

23. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Finance Management Grant	-	92 019
------------------------------------	---	--------

Movement during the year

Balance at the beginning of the year	92 019	1 091 381
Additions during the year	52 335 112	64 824 046
Income recognition during the year	(52 427 131)	(65 823 408)
	-	92 019

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

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

24. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	8 109 003	453 473	-	-	-	8 562 476

Reconciliation of provisions - 2016

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

Environmental rehabilitation provision

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

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 of 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 2000.
- 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 13 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2017) of the rehabilitation of the solid waste site is R 2 508 696.21.

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 40 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2017) of the rehabilitation of the solid waste site is R 1 191 495.20.

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 18 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Present value (2017) of the rehabilitation of the solid waste site is R 4 024 326.95.

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 26 years but only if operated in a manner as prescribed by the Department of Environmental Affairs.

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
24. Provisions (continued)		
Present value (2017) of the rehabilitation of the solid waste site is R 837 958.08.		
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)	779 197 229	841 323 524
26. Service charges		
Sale of electricity	48 911 710	46 844 732
Sale of water	46 166 571	43 922 789
Sewerage and sanitation charges	18 766 439	19 457 354
Refuse removal	17 922 952	18 496 568
	131 767 672	128 721 443
27. Rental of facilities and equipment		
Premises		
Premises	309 893	255 398
Facilities and equipment		
Rental of facilities	59 452	76 466
	369 345	331 864
28. Interest received (trading)		
Heading		
Interest received (trading)	37 978 056	24 341 499
29. Other income		
Building line relaxation	256	-
Insurance claims	27 841	5 684
Connection fees	671 776	1 106 013
Building plans and clearance certificates	24 512	31 042
Other income	310 349	332 951
	1 034 734	1 475 690
30. Investment revenue		
Interest revenue		
Bank	1 049 246	1 100 347
Interest received - other	-	1 225
	1 049 246	1 101 572

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
31. Property rates		
Rates received		
Property rates	17 799 341	16 221 966
Valuations		
Residential	1 099 810 907	1 099 810 907
Commercial	209 981 254	209 981 254
State	198 491 607	198 491 607
Municipal	328 492 500	328 492 500
Small holdings and farms	3 287 924 355	3 287 924 355
	5 124 700 623	5 124 700 623

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 (2016: 1%) is levied on overdue accounts.

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

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
32. Government grants and subsidies		
Operating grants		
Equitable Share	78 751 000	80 039 000
Municipal System Improvement Grant	1 096 491	930 000
Municipal Finance Management Grant	1 717 019	3 302 081
Local Government Sector Education Training Authority Grant	-	141 640
Expanded Public Works Programme Grant	1 023 000	1 156 000
	82 587 510	85 568 721
Capital grants		
Municipal Infrastructure Grant	26 718 000	24 633 000
Regional Bulk Infrastructure Grant	21 780 602	33 171 406
Eskom Electrification Grant	-	2 060 281
	48 498 602	59 864 687
	131 086 112	145 433 408
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	52 335 112	143 591 308
Unconditional grants received	78 751 000	80 538 281
	131 086 112	224 129 589
Equitable Share		
Current-year receipts	78 751 000	80 039 000
Transferred to revenue	(78 751 000)	(80 039 000)
	-	-
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	1 096 491	930 000
Conditions met - transferred to revenue	(1 096 491)	(930 000)
	-	-
Municipal Finance Management Grant		
Balance unspent at beginning of year	92 019	544 100
Current-year receipts	1 625 000	1 600 000
Conditions met - transferred to revenue	(1 717 019)	(2 052 081)
	-	92 019
Conditions still to be met - remain liabilities (see note 23).		
Local Government Sector Education Training Authority Grant		
Current-year receipts	-	141 640
Conditions met - transferred to revenue	-	(141 640)
	-	-

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
32. Government grants and subsidies (continued)		
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	-	499 281
Current-year receipts	-	1 561 000
Conditions met - transferred to revenue	-	(2 060 281)
	-	-
Conditions still to be met - remain liabilities (see note 23).		
Regional Bulk Infrastructure Grant		
Current-year receipts	21 780 602	33 171 406
Conditions met - transferred to revenue	(21 780 602)	(33 171 406)
	-	-
Municipal Infrastructure Grant		
Current-year receipts	26 718 000	24 633 000
Conditions met - transferred to revenue	(26 718 000)	(24 633 000)
	-	-
Expanded Public Works Programme Grant		
Balance unspent at beginning of year	-	48 000
Current-year receipts	1 030 154	1 108 000
Conditions met - transferred to revenue	(1 030 154)	(1 156 000)
	-	-
33. Public contributions and donations		
Public contributions and donations	14 987	8 942 783
In 2017 game was donated to the municipality. The district municipality donated infrastructure assets to Nketoana Local Municipality in 2015 and 2016.		
34. Fines		
Traffic fines	165 740	216 310

The whole amount relates to traffic fines and recognition was based on GRAP23 requirements.

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
35. Employee related costs		
Basic	63 416 950	51 703 164
Bonus	3 783 882	3 317 436
Medical aid - company contributions	2 374 841	1 973 601
UIF	699 635	543 300
WCA	139 299	139 326
SDL	884 727	711 289
Leave pay and bonus provision	1 203 039	373 817
SALGA contributions	49 529	39 652
Defined contribution plans	1 165 000	996 000
Travel, car, accommodation, subsistence and other allowances	3 305 321	2 815 066
Overtime payments	7 391 581	5 260 317
Acting allowances	1 910 075	1 395 940
Housing benefits and allowances	1 191 746	419 862
Pension	9 730 022	8 668 340
Standby allowances	2 256 836	1 677 552
Telephone and other allowances	917 912	775 728
	100 420 395	80 810 390

The *leave pay and bonus provision* comprises of the year-on-year movements in the leave and bonus provisions. Please refer to note 19 for more detail on these provisions.

Remuneration of Executive Directors

Remuneration of Acting Accounting Officer

Annual remuneration	48 182	-
---------------------	--------	---

Remuneration of Accounting Officer

Annual remuneration	1 028 560	851 970
Car allowance	188 000	192 000
Bonus	163 500	89 000
Other allowances	121 239	130 651
Contributions to UIF, medical and pension funds	228 947	255 487
	1 730 246	1 519 108

Remuneration of Acting Chief Financial Officer

Annual remuneration	328 269	299 374
Acting allowance	348 368	283 265
Car allowance	130 662	130 662
Bonus	26 445	24 948
Other allowances	21 913	19 378
Contributions to UIF, medical and pension funds	172 049	160 942
	1 027 706	918 569

Remuneration of Executive Director - Corporate Services

Annual remuneration	926 875	858 545
Acting allowance	-	15 600
Car allowance	39 500	36 000
Bonus	54 000	52 500
Other allowances	44 702	122 312
Contributions to UIF, medical and pension funds	3 569	-
	1 068 646	1 084 957

Remuneration of Executive Director - Technical Services

Annual remuneration	764 759	682 669
---------------------	---------	---------

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
35. Employee related costs (continued)		
Car allowance	104 667	133 333
Bonus	58 383	49 462
Other allowances	144 944	122 663
Contributions to UIF, medical and pension funds	3 569	3 569
	1 076 322	991 696
Remuneration of Executive Director - Community Services		
Annual remuneration	874 875	830 770
Car allowance	91 000	79 000
Bonus	54 000	48 000
Other allowances	44 477	33 400
Contributions to UIF, medical and pension funds	38 188	35 296
	1 102 540	1 026 466
36. Remuneration of councillors		
Salaries	6 030 940	5 046 528
Mayor	546 865	579 501
Bonuses	33 870	33 689
Car and other allowances	1 089 978	1 231 823
	7 701 653	6 891 541
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	774 008	778 880
Executive Committee	1 534 404	1 413 860
Councillors	3 242 804	3 037 721
Speaker	698 529	630 608
	6 249 745	5 861 069
37. Depreciation and amortisation		
Property, plant and equipment	58 721 340	58 467 853
Intangible assets	16 227	34 688
	58 737 567	58 502 541
38. Finance costs		
Non-current borrowings	492 069	986 227
Trade and other payables	15 550 483	8 476 824
Other interest paid	548 715	739 192
	16 591 267	10 202 243

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
39. Lease rentals on operating lease		
Lease rentals on operating lease	2 986 803	5 547 174
40. Debt impairment		
Contributions to debt impairment provision	41 574 286	59 853 833
Bad debts written off	52 208 251	23 565 465
	93 782 537	83 419 298
41. Repairs and maintenance		
Repairs and maintenance - deductible	12 487 007	18 427 332
42. Bulk purchases		
Electricity	47 894 493	43 532 721
Water	303 824	285 189
	48 198 317	43 817 910
43. Contracted services		
Specialist Services	6 149 020	10 409 609
Other Contractors	746 464	990 253
	6 895 484	11 399 862

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
44. General expenses		
Advertising	220 897	113 804
Auditors remuneration	5 706 343	5 057 215
Bank charges	626 666	555 118
Cleaning	481 203	510 175
Commission paid	848 135	735 142
Consumables	919 004	829 636
Debt collection	28 225	-
Donations	958 461	928 500
Entertainment	348 481	405 665
Fines and penalties	8 090	100 436
Gifts (bursaries)	168 375	94 742
Insurance	1 151 412	1 154 395
Conferences and seminars	566 484	239 450
Promotions and sponsorships	9 182	53 050
Fuel and oil	1 911 976	4 137 616
Postage and courier	488 190	386 092
Printing and stationery	1 793 270	1 979 199
Promotions	1 646 453	911 019
Security (guarding of municipal property)	32 857	342 764
Subscriptions and membership fees	45 579	1 563 202
Telephone and fax	862 845	818 089
Training	250 567	851 439
Travel - local	2 586 596	2 984 307
Refuse	393 078	629 417
Assets expensed	2 526 969	3 881 637
Electricity	5 108 771	15 975 381
Water	-	1 270
Uniforms	1 375 696	576 286
Tourism development	26 860	39 500
Licences	2 055 303	652 103
Chemicals	1 465 482	1 719 515
Other expenses	999 717	912 653
	35 611 167	49 138 817
45. Gain on disposal of assets and liabilities		
Property, plant and equipment	(1 712 338)	-
46. Fair value adjustments		
Biological assets - (Fair value model)	5 500	(25 963)
47. Auditors' remuneration		
Fees	5 706 343	5 057 215

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
48. Cash generated from operations		
Deficit	(62 149 802)	(41 335 536)
Adjustments for:		
Depreciation and amortisation	58 737 567	58 502 541
Gain on sale of assets and liabilities	1 712 338	-
Fair value adjustments	(5 500)	25 963
Debt impairment	93 782 537	83 419 298
Movements in retirement benefit assets and liabilities	(826 000)	286 000
Movements in provisions	453 473	739 192
Working capital - consumers (software error)	(93 355 688)	(87 145 483)
Changes in working capital:		
Inventories	(1 647 443)	-
Receivables from exchange transactions	(1 647 443)	-
Consumer debtors	(129 371)	225 703
Other receivables from non-exchange transactions	(129 371)	225 703
Payables from exchange transactions	52 607 657	49 822 770
VAT	(5 084 199)	(4 831 311)
Unspent conditional grants and receipts	(92 019)	(999 362)
Consumer deposits	53 127	43 532
	42 279 863	58 979 010

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

49. 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 -. 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.

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

50. 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

Acting 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 Eiendomsbeleggings)
Mokoena Kgaketla Abram (Re Bonahatse Construction)
Radebe Tebogo Patrick (Emthonjeni Primary Coperative)
Malindi Mosotho Simon (Linden Sons General)
Mofokeng Phoka Petrus (PMMM Builders, PurplevMoss 1057)
Moshwadiba Pasika Zacharia (Schwak's Construction and Distribution)
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

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
50. Related parties (continued)		
	Mazi Mwandile Penwel (Nthape IT, Mamampu Trading Enterprise, Mzwajo Project Management Services)	
51. 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 2017, made corrections to the prior year's <i>service charges</i> and <i>consumer</i> (exchange transactions) accounts. These corrections were treated as prior period errors and the net effect was as follows:		
- <i>Increase/Debit</i> Consumer debtors R 322 514		
- <i>Increase/Credit</i> Service charges (R 322 514)		
Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2017, made corrections to prior year's <i>service charges</i> and <i>consumer</i> (non-exchange transactions) accounts. These corrections were treated as prior period errors and the net effect was as follows:		
- <i>Decrease/Debit</i> Property rates R 391 010		
- <i>Decrease/Credit</i> Receivables from non-exchange transactions (R 391 010)		
The municipality reviewed long outstanding items on the bank reconciliation and made the following prior period restatements based on the results of these reviews:		
- <i>Decrease/Debit</i> Accumulated surplus R 1 272 618		
- <i>Decrease/Credit</i> Cash and cash equivalents (R 1 272 618)		
Statement of financial position		
Receivables from non-exchange transaction	-	(391 010)
Consumer debtors	-	322 514
Cash and cash equivalents	-	(1 272 618)
Accumulated surplus	-	1 272 618
Statement of Financial Performance		
Service charges	-	(322 514)
Property rates	-	391 010

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

52. 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.

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.

Market risk

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:

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

52. 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.

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

52. Risk management (continued)

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
-----------------------	-------	-------

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.

53. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had a deficit for the year amounting to R 62 149 802 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 2017 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 amount payable to Eskom accounts for more than 60% of the trade payable balance. During the previous 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.

54. Unauthorised expenditure

Opening balance	181 728 780	119 025 672
Current year	47 287 197	62 703 108
	229 015 977	181 728 780

2017

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 11 for more information on the unauthorised expenditure.

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

55. Fruitless and wasteful expenditure

Opening balance	19 728 643	10 518 819
Current year - interest on overdue accounts	14 956 237	9 209 824
	34 684 880	19 728 643

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

Details of fruitless and wasteful expenditure

	2017	2016
	Interest on overdue accounts	Interest on overdue accounts
Auditor-General	442 539	197 506
Eskom	13 677 395	8 476 824
Other suppliers	468 991	273 479
South African Revenue Services	367 312	262 016
	14 956 237	9 209 825

56. Irregular expenditure

Opening balance	104 287 306	95 612 995
Add: Irregular Expenditure - current year	4 072 897	8 674 311
	108 360 203	104 287 306

57. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	5 102 792	1 870 612
Current year subscription / fee	5 200 479	4 096 706
Amount paid - current year	(4 585 079)	(864 526)
	5 718 192	5 102 792

VAT

VAT receivable	1 763 881	1 763 881
VAT payable	8 461 157	13 545 356
	10 225 038	15 309 237

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.

Nketoana Local Municipality

(Registration number FS193)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
De Friend, P	-	15 239	15 239
Mofokeng, K	-	3 611	3 611
Mokoena, TE	-	6 031	6 031
Mosia, MJ	-	27 148	27 148
Motloung, MS	-	13 932	13 932
Nhlapo, BM	-	93 344	93 344
	-	159 305	159 305

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mabizela, DL	-	2 293	2 293

58. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	8 837 892	9 155 466
------------------------------	-----------	-----------

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

59. Deviation from supply chain management regulations

Deviations for the current year	79 779	841 605
---------------------------------	--------	---------

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.

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 79 779 - Motor needed urgently at Petrus Steyn pump station.