Nketoana Local Municipality
(Registration number FS193)
Annual financial statements
for the year ended 30 June 2017

## General Information

| | |
|---|---|
| **Legal form of entity** | South African Category B (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) |
| **Nature of business and principal activities** | Nketoana Local Municipality performs the functions as set out in the Constitution, (Act no 105 of 1996) |
| **Mayoral committee** | |
| Councillors | Mokoena, TE |
| | Moloedi, PM |
| | Mofokeng, KA |
| | Mofokeng, PP |
| | Nhlapo, LG |
| | Nhlapo, BM |
| | Motloung, MS |
| | Semela, MS |
| | Mokoena, MT |
| | Mphaka, MR |
| | Mokoena, KA |
| | Mofokeng, NL |
| | Tshabalala, NS |
| | Blignaut, M |
| | De Frend, P Botha, MC Mosia, MJ Muller, HMC |
| **Grading of local authority** | Medium Capacity |
| | Grade 3 in terms of the Remuneration of Public Office Bearers' Act |
| **Accounting Officer** | LI Mokgatlhe (Municipal Manager) |
| **Chief Finance Officer (CFO)** | TG Makgale (acting) |
| **Registered office** | Corner Church and Voortrekker St |
| | Reitz |
| | 9810 |
| **Business address** | Corner Church and Voortrekker St |
| | Reitz |
| | 9810 |
| **Postal address** | P.O. Box 26 |
| | Reitz |
| | 9810 |
| **Capital risk** | Nketoana Municipality |
| **Bankers** | ABSA (Primary bank) |
| **Auditors** | Auditor-General South Africa |
| **Enabling legislation** | Municipal Finance Management Act (Act 56 of 2003) |
| | Municipal Property Rates Act (Act 6 of 2004) revised 2014 |
| | Municipal Structures Act (Act 117 of 1998) |
| | Municipal Systems Act (Act 32 of 2000) |
| | Division of Revenue Act (Act 2 of 2013) |

# Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

# Index

**Abbreviations**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| DORA | Division of Revenue Act |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| NERSA | National Energy Regulator of South Africa |
| PAYE | Pay As You Earn |
| SCM | Supply Chain Management |

# Accounting Officer's Responsibilities and Approval

The municipality is engaged in providing municipal services and maintaining the best interest of the local community, mainly in the Nketoana area and operates principally in South Africa.

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 36 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 73, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 30 November, 2017:

**MP Manzi**
**Acting Municipal Manager**

# Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017.

**Audit committee members and attendance**

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year four meetings were held.

| | 2016/07/22 | 2016/09/27 | 2016/11/23 | 2017/01/27 |
|---|---|---|---|---|
| BTA Matabane (Chairperson) | Yes | Yes | Yes | Yes |
| K Motsoane | Yes | Yes | Yes | No |
| C Mokoena | Yes | Yes | Yes | Yes |

All members of the Audit Committee are independent, with no interest in the management or conduct of the business of the Municipality.

**Audit committee responsibility**

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

**The effectiveness of internal control**

The system of internal control was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal control and/or deviations were reported by the internal auditors and the Auditor-General South Africa. In certain instances, the matters reported previously have not been fully and satisfactorily addressed.

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the MFMA, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The audit committee is not satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

**Evaluation of annual financial statements**

The audit committee has:

- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;

**Internal audit**

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits, except for issues raised by the committee in their report to Council.

______________________________
**Chairperson of the Audit Committee**

**Date:** ______________________

## Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2017.

### 1. Review of activities

**Main business and operations**

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not, in our opinion, require any further comment.

Net deficit of the municipality was R 68 059 278 (2016: surplus R 40 592 296).

### 2. Going concern

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.

The following analysis supports the going concern assumption:
- Total assets (R 1 039 032 509) exceed total liabilities (R 252 353 501)
The municipality has an accumulated surplus and other reserves of R 786 679 008.
Management has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

The municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act (Act 1 of 2015).

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that would have an impact on the financial statements.

### 4. Accounting Officer's interest in contracts

In terms of the Supply Chain Management Policy of the municipality, councillors and officials are prohibited from entering into commercial transactions with the municipality.

Councilors and officials are required to disclose any business interest which they may have elsewhere.

The register of declaration of interest is available in the office of the Chief Whip for inspection.

Consistent with the Supply Chain Management Policy of the municipality, none of the councillors or officers entered into any commercial transaction with the municipality during the period under review.The Accounting Officer does not have any interest in contracts.

### 5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

### 6. Non-current assets

There were no major changes in the physical nature of non-current assets of the municipality during the year.

### 7. Accounting Officer

The acting accounting officer of the municipality during the year and to the date of this report is as follows:

| Name | Nationality |
| --- | --- |
| MP Manzi | South African |

# Accounting Officer's Report

### 8. Auditors

Auditor-General South Africa will continue in office for the next financial period.

# Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Inventories | 4 | 705 473 | 608 278 |
| Receivables from exchange transactions | 5 | 8 306 | - |
| Receivables from non-exchange transactions | 6 | 1 824 616 | 1 728 142 |
| VAT receivable | 7 | 1 763 881 | 1 763 881 |
| Consumer debtors | 8 | 18 996 824 | 18 028 765 |
| Cash and cash equivalents | 9 | 1 882 935 | 3 104 182 |
| | | **25 182 035** | **25 233 248** |
| Non-Current Assets | | | |
| Biological assets that form part of an agricultural activity | 10 | 37 700 | 24 513 |
| Investment property | 11 | 13 966 722 | 13 877 904 |
| Property, plant and equipment | 12 | 992 356 253 | 1 003 378 328 |
| Intangible assets | 13 | 49 371 | 65 598 |
| Heritage assets | 14 | 529 800 | 529 800 |
| Other financial assets | 15 | 4 892 128 | 4 587 776 |
| Long-term deposit | 16 | 2 018 500 | 2 018 500 |
| | | **1 013 850 474** | **1 024 482 419** |
| **Total Assets** | | **1 039 032 509** | **1 049 715 667** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Other financial liabilities | 17 | 2 188 650 | 1 349 442 |
| Finance lease obligation | 18 | 214 464 | 181 599 |
| Payables from exchange transactions | 19 | 209 630 149 | 148 772 643 |
| VAT payable | 20 | 8 461 157 | 13 545 356 |
| Consumer deposits | 21 | 1 401 912 | 1 348 785 |
| Employee benefit obligation | 22 | 530 000 | 422 000 |
| Unspent conditional grants and receipts | 23 | - | 92 019 |
| Cash and cash equivalents | 9 | 4 363 174 | 1 849 777 |
| | | **226 789 506** | **167 561 621** |
| Non-Current Liabilities | | | |
| Other financial liabilities | 17 | 6 649 242 | 7 806 024 |
| Finance lease obligation | 18 | 253 277 | 467 740 |
| Employee benefit obligation | 22 | 10 099 000 | 11 033 000 |
| Provisions | 24 | 8 562 476 | 8 109 003 |
| | | **25 563 995** | **27 415 767** |
| **Total Liabilities** | | **252 353 501** | **194 977 388** |
| **Net Assets** | | **786 679 008** | **854 738 279** |
| Accumulated surplus | 25 | 786 679 008 | 854 738 279 |

* See Note 2 & 52

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 26 | 131 767 672 | 128 721 443 |
| Rental of facilities and equipment | 27 | 369 345 | 331 864 |
| Interest received (trading) | 28 | 37 978 056 | 24 341 499 |
| Other income | 29 | 1 034 734 | 1 475 690 |
| Interest received - investment | 30 | 1 049 246 | 1 101 572 |
| **Total revenue from exchange transactions** | | **172 199 053** | **155 972 068** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 31 | 17 799 341 | 16 221 966 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 32 | 131 086 112 | 145 433 408 |
| Public contributions and donations | 33 | - | 8 942 783 |
| Fines | 34 | 165 740 | 216 310 |
| **Total revenue from non-exchange transactions** | | **149 051 193** | **170 814 467** |
| **Total revenue** | | **321 250 246** | **326 786 535** |
| **Expenditure** | | | |
| Employee related costs | 35 | (95 647 405) | (80 810 390) |
| Remuneration of councillors | 36 | (7 196 419) | (6 891 541) |
| Depreciation and amortisation | 37 | (58 798 059) | (57 759 301) |
| Finance costs | 38 | (16 591 267) | (10 202 243) |
| Lease rentals on operating lease | 39 | (3 109 276) | (5 547 174) |
| Debt Impairment | 40 | (93 782 537) | (83 419 298) |
| Repairs and maintenance | 41 | (15 519 910) | (18 427 332) |
| Bulk purchases | 42 | (48 058 464) | (43 817 910) |
| Contracted services | 43 | (12 310 758) | (11 399 862) |
| General expenses | 44 | (38 548 258) | (49 138 817) |
| **Total expenditure** | | **(389 562 353)** | **(367 413 868)** |
| **Operating deficit** | | **(68 312 107)** | **(40 627 333)** |
| Loss on disposal of assets and liabilities | 45 | (1 464 358) | - |
| Fair value adjustments | 46 | 13 187 | (25 963) |
| Actuarial gains/losses | 22 | 1 704 000 | 61 000 |
| | | **252 829** | **35 037** |
| **Deficit for the year** | | **(68 059 278)** | **(40 592 296)** |

* See Note 2 & 52

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 890 769 332 | 890 769 332 |
| Adjustments | | |
| Correction of errors | 4 561 243 | 4 561 243 |
| **Balance at 01 July 2015 as restated*** | **895 330 575** | **895 330 575** |
| Changes in net assets | | |
| Deficit for the year | (40 592 296) | (40 592 296) |
| Total changes | (40 592 296) | (40 592 296) |
| Opening balance as previously reported | 849 504 574 | 849 504 574 |
| Adjustments | | |
| Correction of errors | 5 233 712 | 5 233 712 |
| **Restated* Balance at 01 July 2016 as restated*** | **854 738 286** | **854 738 286** |
| Changes in net assets | | |
| Deficit for the year | (68 059 278) | (68 059 278) |
| Total changes | (68 059 278) | (68 059 278) |
| **Balance at 30 June 2017** | **786 679 008** | **786 679 008** |

* See Note 2 & 52

## Cash Flow Statement

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Taxation | | 17 697 467 | 16 297 588 |
| Sale of goods and services | | 74 838 657 | 69 169 301 |
| Grants | | 131 045 448 | 153 818 841 |
| Interest income | | 1 049 246 | 1 101 572 |
| | | 224 630 818 | 240 387 302 |
| **Payments** | | | |
| Employee costs | | (107 244 048) | (87 354 930) |
| Suppliers | | (54 413 692) | (82 578 498) |
| Finance costs | | (16 591 267) | (10 202 243) |
| | | (178 249 007) | (180 135 671) |
| **Net cash flows from operating activities** | 48 | **46 381 811** | **60 251 631** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 12 | (49 357 973) | (61 923 950) |
| Proceeds from sale of property, plant and equipment | 12 | 133 857 | 587 073 |
| Purchase of investment property | 11 | (88 818) | - |
| Purchase of other intangible assets | 13 | - | (27 582) |
| Movement in financial assets | | (304 352) | (281 971) |
| Proceeds from sale of other asset | | - | 2 374 938 |
| **Net cash flows from investing activities** | | **(49 617 286)** | **(59 271 492)** |
| **Cash flows from financing activities** | | | |
| Repayment of other financial liabilities | | (317 574) | (812 885) |
| Movement in finance lease liability | | (181 598) | 649 339 |
| **Net cash flows from financing activities** | | **(499 172)** | **(163 546)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(3 734 647)** | **816 593** |
| Cash and cash equivalents at the beginning of the year | | 1 254 405 | 437 812 |
| **Cash and cash equivalents at the end of the year** | 9 | **(2 480 242)** | **1 254 405** |

* See Note 2 & 52

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 138 498 000 | 25 085 000 | **163 583 000** | 131 767 672 | **(31 815 328)** | Note 1 |
| Rental of facilities and equipment | 326 000 | 36 000 | **362 000** | 369 345 | **7 345** | Note 2 |
| Interest received (trading) | 35 727 000 | 1 000 000 | **36 727 000** | 37 978 056 | **1 251 056** | Note 3 |
| Other income - (rollup) | 31 223 000 | (14 669 000) | **16 554 000** | 1 034 734 | **(15 519 266)** | Note 4 |
| Interest received - investment | 400 000 | 803 000 | **1 203 000** | 1 049 246 | **(153 754)** | Note 5 |
| **Total revenue from exchange transactions** | **206 174 000** | **12 255 000** | **218 429 000** | **172 199 053** | **(46 229 947)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 18 429 000 | 625 000 | **19 054 000** | 17 799 341 | **(1 254 659)** | Note 6 |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 83 002 000 | (1 300 000) | **81 702 000** | 131 086 112 | **49 384 112** | Note 7 |
| Fines | 200 000 | 37 000 | **237 000** | 165 740 | **(71 260)** | Note 9 |
| **Total revenue from non-exchange transactions** | **101 631 000** | **(638 000)** | **100 993 000** | **149 051 193** | **48 058 193** | |
| **Total revenue** | **307 805 000** | **11 617 000** | **319 422 000** | **321 250 246** | **1 828 246** | |
| **Expenditure** | | | | | | |
| Personnel | (75 196 000) | (10 961 000) | **(86 157 000)** | (95 647 405) | **(9 490 405)** | Note 10 |
| Remuneration of councillors | (7 063 000) | (1 687 000) | **(8 750 000)** | (7 196 419) | **1 553 581** | Note 11 |
| Depreciation and amortisation | (68 544 000) | 10 041 000 | **(58 503 000)** | (58 798 059) | **(295 059)** | Note 12 |
| Finance costs | (1 200 000) | (16 375 000) | **(17 575 000)** | (16 591 267) | **983 733** | Note 13 |
| Lease rentals on operating lease | - | - | **-** | (3 109 276) | **(3 109 276)** | Note 14 |
| Debt Impairment | (41 806 000) | 1 466 000 | **(40 340 000)** | (93 782 537) | **(53 442 537)** | Note 15 |
| Repairs and maintenance | (11 213 000) | 1 648 000 | **(9 565 000)** | (15 519 910) | **(5 954 910)** | Note 16 |
| Bulk purchases | (45 971 000) | (9 412 000) | **(55 383 000)** | (48 058 464) | **7 324 536** | Note 17 |
| Contracted Services | (8 965 000) | 2 198 000 | **(6 767 000)** | (12 310 758) | **(5 543 758)** | Note 18 |
| General Expenses | (47 467 000) | (5 618 000) | **(53 085 000)** | (38 548 258) | **14 536 742** | Note 19 |
| **Total expenditure** | **(307 425 000)** | **(28 700 000)** | **(336 125 000)** | **(389 562 353)** | **(53 437 353)** | |
| **Operating deficit** | **380 000** | **(17 083 000)** | **(16 703 000)** | **(68 312 107)** | **(51 609 107)** | |
| Loss on disposal of assets and liabilities | - | - | **-** | (1 464 358) | **(1 464 358)** | Note 20 |
| Fair value adjustments | - | - | **-** | 13 187 | **13 187** | Note 21 |
| Actuarial gains/losses | - | - | **-** | 1 704 000 | **1 704 000** | Note 22 |
| | **-** | **-** | **-** | **252 829** | **252 829** | |
| **Deficit before taxation** | **380 000** | **(17 083 000)** | **(16 703 000)** | **(68 059 278)** | **(51 356 278)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **380 000** | **(17 083 000)** | **(16 703 000)** | **(68 059 278)** | **(51 356 278)** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

**Basis differences**
Both the approved budget and the financial statements are prepared on the accrual basis and differences between the final budget and actual amounts are therefore not due to basis differences.

**Timing differences**
The budget period does not differ from the financial statements period and differences between the final budget and the actual amounts are therefore not due to timing differences.

**Entity differences**
The approved budget does not omit programmes or entities that are part of the Municipality for financial statement purposes and differences between the final budget and actual amounts are therefore not due to entity differences.

**Note 1**
The budgeted amount was not in line with growth expectations. The service charges increased as expected but is still not in line with the budgeted amount.

**Note 2**
The variance is not significant.

**Note 3**
The municipality's interest on overdue accounts is linked to prime and the changes to the repo rate was not budgeted for. This was further increased by the rising consumer debtor figure.

**Note 4**
The budgeted amount included revenue collection strategies which were never implemented.

**Note 5**
The municipality investested less than anticipated.

**Note 6**
There was lower collection on the property rates than expected.

**Note 7**
The budgeted amount does not include capital grants such as MIG, RBIG and INEG, whilst the actual amount includes capital and operational grants.

**Note 8**
The municipality did not budget for the donation, as it was not anticipated during the budget process.

**Note 9**
Issuing and collection of fines were lower than budgeted for.

**Note 10**
There was an increase on the appointments which resulted in the increase in basic salary, bonus and other employee related cost. There was also a significant increase on overtime and housing allowance which were not anticipated.

**Note 11**
The actual remuneration of councillors is lower than the budgeted amount and can be linked to the new council members' remuneration.

**Note 12**
The municipality’s depreciation for 2017 was recalculated using the new asset registers and the variance is not significant.

**Note 13**
The variance is not significant.

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

**Note 14**
Lease rentals are budgeted for under contracted services.

**Note 15**
The 2017 actual write-offs amounted to R52m whilst the increase in the provision for bad debts amounted to R41m. The municipality anticipated R40m.

**Note 16**
The actual amount for storm water has been included under repairs and maintenance whilst it is budgeted under general expenditure.

**Note 17**
The budgeted bulk purchases are 13% lower than the actual amount. The significant increase in the cost of electricity was not anticipated and therefore not adequately budgeted for.

**Note 18**
Included on the actuals of contracted are professional fees and legal fees which are budgeted under general expenditure.

**Note 19**
The actual icences, telephone, insurance and security services are included under general expenditure whilst it is budgeted under contracted services.

**Note 20**
The municipality did not budget for losses on disposals.

**Note 21**
The municipality did not budget for fair value adjustments.

**Note 22**
The municipality did not budget for actuarial gains/losses.

The accounting policies on pages 16 to 33 and the notes on pages 34 to 73 form an integral part of the annual financial statements.

# Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

### 1.4 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

**Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note ).

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

# Accounting Policies

### 1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | | Indefinite |
| Buildings | Straight line | 5 - 60 years |
| Furniture and fixtures | Straight line | 5 - 7 years |
| Motor vehicles | Straight line | 5 - 15 years |
| Office equipment | Straight line | 4 - 15 years |
| Emergency equipment | Straight line | 5 years |
| Leased assets | Straight line | 3 years |
| Electricity network | Straight line | 5 - 60 years |
| Roads and stormwater | Straight line | 10 - 60 years |
| Wastewater network | Straight line | 5 - 70 years |
| Water network | Straight line | 5 - 60 years |

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

### 1.5 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

### 1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| **Item** | **Useful life** |
|---|---|
| Computer software, other | 5 - 9 years |

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.7 Heritage assets

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

**Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

### 1.7 Heritage assets (continued)

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

**Impairment**

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

**Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Financial instruments

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

## Accounting Policies

### 1.9 Leases (continued)

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Impairment of cash-generating assets

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.

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.

## Accounting Policies

**1.11 Impairment of cash-generating assets (continued)**

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 amount of an asset or a cash-generating unit is the higher its 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 cash-generating assets from non-cash-generating assets are as follow:

### 1.12 Impairment of non-cash-generating assets

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

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

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

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

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

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

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual

### 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.

## 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 50.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

## 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.

# Accounting Policies

### 1.15 Commitments

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

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

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

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

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
-Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
-Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.16 Revenue from exchange transactions

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

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

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

**Measurement**

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

## 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.

### 1.16 Revenue from exchange transactions (continued)

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

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

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

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

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

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

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

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

# 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.

# 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 a 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.

# 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.

### 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 2099 | Unlikely there will be a material impact |
| • GRAP 35: Consolidated Financial Statements | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 36: Investments in Associates and Joint Ventures | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 38: Disclosure of Interests in Other Entities | 01 April 2099 | Unlikely there will be a material impact |
| • GRAP 110: Living and Non-living Resources | 01 April 2099 | 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 |

# Notes to the Annual Financial Statements

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

### 4. Inventories

| | | |
|---|---|---|
| Consumable stores | 148 624 | 191 281 |
| Water | 556 849 | 416 997 |
| | **705 473** | **608 278** |

| | | |
|---|---|---|
| Inventories recognised as an expense during the year | 574 960 | 658 943 |

Consumables amounting to R 410 988 (2016: R 373 754) and water amounting to R 163 971 (2016: R 285 189) were expensed.

**Inventory pledged as security**

No iventory type is pledged as security.

### 5. Receivables from exchange transactions

| | | |
|---|---|---|
| Fruitless and wasteful expenditure to be investigated | 407 520 | 407 520 |
| Other receivable | 9 527 497 | 9 519 191 |
| Other receivable - money to be recovered | 1 078 004 | 1 078 004 |
| Provision for bad debts | (11 004 715) | (11 004 715) |
| | **8 306** | **-** |

**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 |
| Consumer debtors - Rates | 1 821 326 | 1 719 452 |
| | **1 824 616** | **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) | 539 788 | 901 619 |
| 31 - 60 days | 145 959 | 569 931 |
| 61 - 90 days | 101 852 | 469 887 |
| 91 - 120 days | 1 033 727 | 169 025 |
| | **1 821 326** | **2 110 462** |

### 7. VAT receivable

| | | |
|---|---|---|
| VAT | 1 763 881 | 1 763 881 |

# Notes to the Annual Financial Statements

| 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) | 4 839 021 | 4 683 945 |
| 31 - 60 days | 92 196 | 376 933 |
| 61 - 90 days | 31 661 | 281 625 |
| 91 - 120 days | 19 683 | 234 431 |
| 121 - 365 days | 302 437 | 154 874 |
| | **5 284 998** | **5 731 808** |

| | | |
| --- | --- | --- |
| **Water** | | |
| Current (0 -30 days) | 2 586 004 | 2 666 866 |
| 31 - 60 days | 262 752 | 255 394 |
| 61 - 90 days | 123 183 | 208 693 |
| 91 - 120 days | 106 991 | 168 516 |
| 121 - 365 days | 81 750 | 187 166 |
| > 365 days | 2 567 876 | 1 513 432 |
| | **5 728 556** | **5 000 067** |

| | | |
| --- | --- | --- |
| **Sewerage** | | |
| Current (0 -30 days) | 614 347 | 546 283 |
| 31 - 60 days | 75 072 | 156 591 |
| 61 - 90 days | 53 520 | 130 065 |
| 91 - 120 days | 43 424 | 77 940 |
| 121 - 365 days | 38 715 | 67 238 |
| > 365 days | 1 069 751 | 784 683 |
| | **1 894 829** | **1 762 800** |

# Notes to the Annual Financial Statements

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

## 8. Consumer debtors (exchange transactions) (continued)

| **Refuse** | | |
| --- | --- | --- |
| Current (0 -30 days) | 429 935 | 331 174 |
| 31 - 60 days | 88 268 | 131 109 |
| 61 - 90 days | 61 711 | 108 934 |
| 91 - 120 days | 49 932 | 80 730 |
| 121 - 365 days | 42 835 | 71 183 |
| > 365 days | 1 004 151 | 698 163 |
| | **1 676 832** | **1 421 293** |

| **Sundry debtors** | | |
| --- | --- | --- |
| Current (0 -30 days) | 957 046 | 1 506 491 |
| 31 - 60 days | 198 294 | 446 582 |
| 61 - 90 days | 97 037 | 430 416 |
| 91 - 120 days | 67 493 | 383 191 |
| 121 - 365 days | 61 868 | 398 181 |
| > 365 days | 3 029 609 | 947 616 |
| | **4 411 347** | **4 112 477** |

| **Housing rental** | | |
| --- | --- | --- |
| > 365 days | 262 | 320 |

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

**8. Consumer debtors (exchange transactions) (continued)**

**Summary of debtors by customer classification**

| | | |
|---|---|---|
| **Consumers** | | |
| Current (0 -30 days) | 3 209 838 | 1 830 249 |
| 31 - 60 days | 141 510 | 736 163 |
| 61 - 90 days | 82 538 | 668 138 |
| 91 - 120 days | 45 842 | 602 125 |
| 121 - 365 days | 191 303 | 620 059 |
| | **3 671 031** | **4 456 734** |

| | | |
|---|---|---|
| **Industrial/ commercial** | | |
| Current (0 -30 days) | 5 361 144 | 4 463 090 |
| 31 - 60 days | 229 908 | 295 792 |
| 61 - 90 days | 56 394 | 203 198 |
| 91 - 120 days | 13 902 | 190 357 |
| 121 - 365 days | 11 513 | 188 479 |
| > 365 days | 26 971 | 1 272 950 |
| | **5 699 832** | **6 613 866** |

| | | |
|---|---|---|
| **National and provincial government** | | |
| Current (0 -30 days) | 651 980 | 3 441 419 |
| 31 - 60 days | 456 541 | 334 654 |
| 61 - 90 days | 288 713 | 288 397 |
| 91 - 120 days | 239 757 | 152 325 |
| 121 - 365 days | 204 749 | 123 088 |
| > 365 days | 7 784 220 | 2 618 282 |
| | **9 625 960** | **6 958 165** |

| | | |
|---|---|---|
| **Total** | | |
| Current (0 -30 days) | 9 223 002 | 9 734 757 |
| 31 - 60 days | 827 960 | 1 366 610 |
| 61 - 90 days | 427 605 | 1 159 733 |
| 91 - 120 days | 299 501 | 944 807 |
| 121 - 365 days | 244 850 | 931 626 |
| > 365 days | 7 973 906 | 3 891 232 |
| | **18 996 824** | **18 028 765** |

| | | |
|---|---|---|
| **Allowance for impairment (per service)** | | |
| 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)** |

| | | |
|---|---|---|
| **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)** |

# Notes to the Annual Financial Statements

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

## 8. Consumer debtors (exchange transactions) (continued)

**Consumer debtors pledged as security**

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

## 9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2017 | 2016 |
| --- | --- | --- |
| 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** |

| | 2017 | 2016 |
| --- | --- | --- |
| 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) | (1 171 244) | (2 667 441) |
| 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)** | **543 513** | **(224 301)** |

## 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 | 37 700 | - | 37 700 | 24 513 | - | 24 513 |

**Reconciliation of biological assets that form part of an agricultural activity - 2017**

| | **Opening balance** | **Gains or losses arising from changes in fair value** | **Total** |
| --- | --- | --- | --- |
| Game | 24 513 | 13 187 | 37 700 |

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

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

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

**Non - Financial information**

| Quantities of each biological asset | 2017 | 2016 |
|---|---|---|
| Blesbok | 18 | 9 |
| Wildebeest | 1 | 1 |
| Zebra | 2 | 2 |
| | **21** | **12** |

The increases in the Blesbok quantities are due to natural increases, i.e. offspring.

**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 | Total |
|---|---|---|---|---|
| Investment property | 13 877 904 | 88 818 | - | 13 966 722 |

**Reconciliation of investment property - 2016**

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

# Notes to the Annual Financial Statements

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

### 11. Investment property (continued)

**Pledged as security**

Investment property is not pledged as security.

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

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

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 12. Property, plant and equipment

| | 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 | 235 608 950 | (116 543 279) | 119 065 671 | 222 821 517 | (110 758 827) | 112 062 690 |
| Infrastructure | 1 482 800 992 | (808 461 731) | 674 339 261 | 1 462 891 902 | (759 816 891) | 703 075 011 |
| Other property, plant and equipment | 18 238 868 | (9 844 986) | 8 393 882 | 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 | 152 844 274 | - | 152 844 274 | 141 227 237 | - | 141 227 237 |
| **Total** | **1 929 849 545** | **(937 493 292)** | **992 356 253** | **1 883 972 881** | **(880 594 553)** | **1 003 378 328** |

**Reconciliation of property, plant and equipment - 2017**

| | **Opening balance** | **Additions** | **Disposals** | **Transfers** | **Depreciation** | **Total** |
|---|---|---|---|---|---|---|
| Land | 17 838 185 | - | - | - | - | 17 838 185 |
| Buildings | 112 062 690 | - | (37 663) | 12 885 557 | (5 844 913) | 119 065 671 |
| Infrastructure | 703 075 011 | - | (1 560 552) | 23 292 275 | (50 467 473) | 674 339 261 |
| Other property, plant and equipment | 8 438 050 | 1 563 104 | - | - | (1 607 272) | 8 393 882 |
| Landfill sites | 20 105 013 | - | - | - | (645 729) | 19 459 284 |
| Leased assets | 632 142 | - | - | - | (216 446) | 415 696 |
| Work-in-progress | 141 227 237 | 47 794 869 | - | (36 177 832) | - | 152 844 274 |
| | **1 003 378 328** | **49 357 973** | **(1 598 215)** | **-** | **(58 781 833)** | **992 356 253** |

# Notes to the Annual Financial Statements

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

## 12. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment - 2016

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land | 17 838 185 | - | - | - | - | 17 838 185 |
| Buildings | 104 255 337 | - | - | 13 273 090 | (5 465 737) | 112 062 690 |
| Infrastructure | 734 007 533 | - | - | 18 901 824 | (49 834 346) | 703 075 011 |
| Other property, plant and equipment | 9 922 268 | 864 458 | (587 073) | - | (1 761 603) | 8 438 050 |
| Landfill sites | 20 750 741 | - | - | - | (645 728) | 20 105 013 |
| Leased assets | - | 649 339 | - | - | (17 197) | 632 142 |
| Work-in-progress | 112 991 998 | 60 410 153 | - | (32 174 914) | - | 141 227 237 |
| | **999 766 062** | **61 923 950** | **(587 073)** | **-** | **(57 724 611)** | **1 003 378 328** |

### Assets subject to finance lease (Net carrying amount)

| | 2017 | 2016 |
|---|---|---|
| Office equipment | 415 696 | 632 142 |

### Other information

### Reconciliation of Work-in-Progress 2017

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 |

## Notes to the Annual Financial Statements

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

**14. Heritage assets (continued)**

| | | | | | | |
|---|---|---|---|---|---|---|
| Heritage assets | 529 800 | - | 529 800 | 529 800 | - | 529 800 |

**Reconciliation of heritage assets 2017**

| | Opening balance | Additions | Disposals | Total |
|---|---|---|---|---|
| Heritage assets | 529 800 | - | - | 529 800 |

**Reconciliation of heritage assets 2016**

| | Opening balance | Additions | Disposals | Total |
|---|---|---|---|---|
| Heritage assets | 529 800 | - | - | 529 800 |

**15. Other financial assets**

| | 2017 | 2016 |
|---|---|---|
| **Residual interest at cost** | | |
| Unlisted shares<br>VKB Agriculture (Pty) Ltd | 5 000 | 5 000 |
| Preference shares<br>VKB Agriculture (Pty) Ltd | 327 888 | 307 585 |
| | **332 888** | **312 585** |
| **At amortised cost** | | |
| Other financial asset<br>Standard Bank - Money Market | 4 559 240 | 4 275 191 |
| **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.

| | 2017 | 2016 |
|---|---|---|
| **Level 1** | | |
| Standard Bank - Money Market | 4 559 240 | 4 275 191 |

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

### 15. Other financial assets (continued)

**Financial assets at amortised cost**

**Nominal value of financial assets at cost**

| | | |
|---|---|---|
| VKB Agriculture (Pty) Ltd - shares<br>Investment in a private company initially recognised at cost. Council have not been able to determine the reasonability of the fair value. | 332 888 | 312 585 |

**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<br>The Development Bank of Southern Africa Limited | 7 543 785 | 7 231 214 |
| Bank loan<br>The Development Bank of Southern Africa Limited | 1 294 107 | 1 222 090 |
| Other loan<br>Grainfield Chickens Proprietary Limited | - | 702 162 |
| | **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 |

## Notes to the Annual Financial Statements

| 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 | 199 680 247 | 140 730 615 |
| Deferred revenue | 448 891 | 383 215 |
| Salary suspense | 746 851 | 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 |
| | **209 630 149** | **148 772 643** |

### 20. VAT payable

| | | |
| --- | --- | --- |
| VAT balance | 8 461 157 | 13 545 356 |

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.

## Notes to the Annual Financial Statements

| 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** |

## 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) |

### 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.

# 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 | - % | - % |

### 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 cahnged from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

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

# 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**

**24. Provisions (continued)**

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

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

**Mamafubedu (Petrus Steyn)**
The disposal site presently used has an approximate area of 38 236 square meters.

The present site has adequate footprint and airspace available for the disposal of solid waste from Petrus Steyn and Mamafubedu for another 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 captial 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 captial 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 captial 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.

## 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 captial of 10.17% to establish the present value of the provision.

### 25. Accumulated surplus

| | | |
|---|---|---|
| Accumulated surplus (deficit) | 786 679 010 | 854 738 286 |

### 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)

| | | |
|---|---|---|
| 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** |

# 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.

# 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 Financial Recovery (Systems 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.

**Muncipal Financial Recovery (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) |
| | - | - |

# 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) |
| | - | - |

**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 | - | 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.

# Notes to the Annual Financial Statements

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

### 35. Employee related costs

| | | |
|---|---|---|
| Basic | 60 305 954 | 51 703 164 |
| Bonus | 3 639 533 | 3 317 436 |
| Medical aid - company contributions | 2 198 867 | 1 973 601 |
| UIF | 648 965 | 543 300 |
| WCA | 128 531 | 139 326 |
| SDL | 864 888 | 711 289 |
| Leave pay and bonus provision | 1 203 039 | 373 817 |
| SALGA contributions | 49 402 | 39 652 |
| Defined contribution plans | 1 165 000 | 996 000 |
| Travel, car, accommodation, subsistence and other allowances | 3 051 972 | 2 815 066 |
| Overtime payments | 7 087 001 | 5 260 317 |
| Acting allowances | 1 784 009 | 1 395 940 |
| Housing benefits and allowances | 1 087 113 | 419 862 |
| Pension | 9 487 103 | 8 668 340 |
| Standby allowances | 2 092 146 | 1 677 552 |
| Telephone and other allowances | 853 882 | 775 728 |
| | **95 647 405** | **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 (June 2017)** | | |
|---|---|---|
| Annual remuneration | 48 182 | - |

| **Remuneration of Accounting Officer (July 2016 - May 2017)** | | |
|---|---|---|
| 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 remuneratiion | 328 269 | 299 374 |
| Acting allowance | 348 368 | 283 265 |
| Car allowance | 130 662 | 130 662 |
| Bonus | 26 445 | 24 948 |
| Other allwances | 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 remuneratiion | 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 |

# 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** |

No performance bonuses were paid to Executive Directors in the current or prior year. All bonuses refer to salary structuring based on individual requests.

## 36. Remuneration of councillors

| | | |
| --- | --- | --- |
| Salaries | 5 620 545 | 5 046 528 |
| Mayor | 512 959 | 579 501 |
| Bonuses | 33 870 | 33 689 |
| Car and other allowances | 1 029 045 | 1 231 823 |
| | **7 196 419** | **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.

No performance bonuses were paid to Councillors in the current or prior year. All bonuses refer to the structuring of remuneration based on individual requests.

| | | |
| --- | --- | --- |
| 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 | 58 781 832 | 57 724 613 |
| Intangible assets | 16 227 | 34 688 |
| | **58 798 059** | **57 759 301** |

## Notes to the Annual Financial Statements

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

### 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** |

### 39. Lease rentals on operating lease

| | | |
|---|---|---|
| Lease rentals on operating lease | 3 109 276 | 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 | 15 519 910 | 18 427 332 |

### 42. Bulk purchases

| | | |
|---|---|---|
| Electricity | 47 894 493 | 43 532 721 |
| Water | 163 971 | 285 189 |
| | **48 058 464** | **43 817 910** |

### 43. Contracted services

| | | |
|---|---|---|
| Specialist Services | 11 151 398 | 10 409 609 |
| Other Contractors | 1 159 360 | 990 253 |
| | **12 310 758** | **11 399 862** |

# Notes to the Annual Financial Statements

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

## 44. General expenses

| | | |
| --- | --- | --- |
| Advertising | 252 000 | 113 804 |
| Auditors remuneration | 5 760 471 | 5 057 215 |
| Bank charges | 626 666 | 555 118 |
| Cleaning | 645 401 | 510 175 |
| Commission paid | 993 425 | 735 142 |
| Consumables | 1 324 275 | 829 636 |
| Debt collection | 31 225 | - |
| Donations | 980 702 | 928 500 |
| Entertainment | 365 371 | 405 665 |
| Fines and penalties | 8 090 | 100 436 |
| Gifts (bursaries) | 170 985 | 94 742 |
| Insurance | 1 156 606 | 1 154 395 |
| Conferences and seminars | 576 984 | 239 450 |
| Sports campaign | 9 182 | 53 050 |
| Fuel and oil | 2 300 193 | 4 137 616 |
| Postage and courier | 552 922 | 386 092 |
| Printing and stationery | 1 923 776 | 1 979 199 |
| Promotions | 1 737 664 | 911 019 |
| Security (guarding of municipal property) | 45 457 | 342 764 |
| Subscriptions and membership fees | 45 579 | 1 563 202 |
| Telephone and fax | 1 478 692 | 818 089 |
| Training | 272 161 | 851 439 |
| Travel - local | 2 575 490 | 2 984 307 |
| Refuse | 960 234 | 629 417 |
| Assets expensed | 2 306 305 | 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 | 2 130 406 | 652 103 |
| Chemicals | 1 702 537 | 1 719 515 |
| Other expenses | 1 104 132 | 912 653 |
| | **38 548 258** | **49 138 817** |

## 45. Loss on disposal of assets and liabilities

| | | |
| --- | --- | --- |
| Property, plant and equipment | (1 464 358) | - |

## 46. Fair value adjustments

| | | |
| --- | --- | --- |
| Biological assets - (Fair value model) | 13 187 | (25 963) |

## 47. Auditors' remuneration

| | | |
| --- | --- | --- |
| Fees | 5 760 471 | 5 057 215 |

# Notes to the Annual Financial Statements

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

## 48. Cash generated from operations

| | | |
|---|---|---|
| Deficit | (68 059 278) | (40 592 296) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 58 798 059 | 57 759 301 |
| Loss on sale of assets and liabilities | 1 464 358 | - |
| Fair value adjustments | (13 187) | 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 |
| **Changes in working capital:** | | |
| Inventories | (97 195) | (21 592) |
| Receivables from exchange transactions | (8 306) | - |
| Consumer debtors | (94 750 596) | (85 625 573) |
| Other receivables from non-exchange transactions | (96 474) | 225 703 |
| Payables from exchange transactions | 60 857 511 | 49 822 776 |
| VAT | (5 084 199) | (4 831 311) |
| Unspent conditional grants and receipts | (92 019) | (999 362) |
| Consumer deposits | 53 127 | 43 532 |
| | **46 381 811** | **60 251 631** |

## Notes to the Annual Financial Statements

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

### 49. Commitments

**Authorised capital expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 66 718 000 | 71 428 554 |
| **Not yet contracted for and authorised by accounting officer** | | |
| • Property, plant and equipment | 25 755 030 | 25 899 000 |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 66 718 000 | 71 428 554 |
| Not yet contracted for and authorised by accounting officer | 25 755 030 | 25 899 000 |
| | **92 473 030** | **97 327 554** |

**Authorised operational expenditure**

| | | |
| --- | --- | --- |
| **Already contracted for but not provided for** | | |
| • Expenditure | 15 748 221 | 63 578 434 |
| **Not yet contracted for and authorised by accounting officer** | | |
| • Expenditure | 18 495 832 | 60 126 818 |
| **Total operational commitments** | | |
| Already contracted for but not provided for | 15 748 221 | 63 578 434 |
| Not yet contracted for and authorised by accounting officer | 18 495 832 | 60 126 818 |
| | **34 244 053** | **123 705 252** |

**Total commitments**

| | | |
| --- | --- | --- |
| **Total commitments** | | |
| Authorised capital expenditure | 92 473 030 | 97 327 554 |
| Authorised operational expenditure | 34 244 053 | 123 705 252 |
| | **126 717 083** | **221 032 806** |

**Operating leases - as lessor (income)**

| | | |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | 75 221 | 71 826 |
| - in second to fifth year inclusive | 203 554 | 139 994 |
| - later than five years | 92 265 | 128 328 |
| | **371 040** | **340 148** |

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

# Notes to the Annual Financial Statements

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

### 50. Contingencies

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

Litigation is in the process against the municipality relating to damage to property of J Shabalala. The amount under dispute is R 187 100. The legal fees amount to R 93 550.

Litigation is in the process between the municipality and the Department of Water and Sanitation relating to statutory obligations. The amount under dispute is R 5 557 334. The legal fees amount to R 1 389 333.

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

# Notes to the Annual Financial Statements

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

### 51. Related parties

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

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

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

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

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

**Relationships**

| | |
| --- | --- |
| Acting Accounting Officer | Refer to accounting officer's report note |
| Chief Financial Officer (Acting) | Tsietsi Godfrey Makgale |
| Councillors | Tshabalala Ncani Selina (Dexpro Construction and Trading) |
| | Mosia Mokete Jeremiah (Mahatammoho Reteng) |
| | Blignaut Marthinus (Agristan SA, Monaufic Belegging; NG Welsyn Reitz Wooneenhede; NG Welsyn Reitz Tehuis, Tipakri Eiemdomsbeleggings) |
| | Mokoena Kgaketla Abram (Re Bonahatse Construction) |
| | Radebe Tebogo Patrick (Emthonjeni Primary Coperative) |
| | Malindi Mosotho Simon (Linden Sons General) |
| | Mofokeng Phoka Petrus (PMMM Builders, PurplevMoss 1057) |
| | Moshwadiba Pasika Zacharia (Schwak's Construction and Distribution) |
| Managers | 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) |
| Directors | 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) |

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

**51. Related parties (continued)**

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

**52. 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 *service charges* and *consumer* (exchange transactions) accounts. These corrections were treated as prior period errors and the net effect was as follows:
- *Increase/Debit* Consumer debtors R 322 514
- *Increase/Credit* 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 *service charges* and *consumer* (non-exchange transactions) accounts. These corrections were treated as prior period errors and the net effect was as follows:
- *Decrease/Debit* Property rates R 391 010
- *Decrease/Credit* 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:
- *Decrease/Debit* Accumulated surplus R 1 272 618
- *Decrease/Credit* Cash and cash equivalents (R 1 272 618)

In process of updating and maintaining the GRAP asset registers of Nketoana Local Municipality the asset consultant corrected prior period misstatements. The corrections in the registers required the following amendments to the prior period financial statements:
- *Decrease/Debit* Accumulated surplus R 2 334 918
- *Decrease/Credit* Property, plant and equipment (R 1 591 678)
- *Decrease/Credit* Depreciation and amortisation (R 743 239)

The municipality reviewed and corrected payable and accruals balances as at 30 June 2015 and 30 June 2016 and it resulted in the following restatements:
- *Decrease/Debit* Payables from exhange transactions R 7 315 755
- *Increase/Credit* Accumulated surplus (R 7 315 755)
- *Decrease/Debit* Payables from exhange transactions R 853 025
- *Increase/Credit* Accumulated surplus (R 853 025)

The correction of the errors resulted in adjustments as follows:

| | | |
| --- | --- | --- |
| **Statement of financial position** | | |
| Receivables from non-exchange transaction | - | (391 010) |
| Consumer debtors | - | 322 514 |
| Cash and cash equivalents | - | (1 272 618) |
| Property, plant and equipment | - | (1 591 678) |
| Payables from exchange transactions | - | 8 168 778 |
| Accumulated surplus | - | (5 233 707) |
| | | |
| **Statement of Financial Performance** | | |
| Service charges | - | (370 650) |
| Interest received (trading) | - | 50 415 |
| Property rates | - | 391 010 |
| Depreciation and amortization | - | (743 239) |

### 53. 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.

**53. Risk management (continued)**

**Credit risk**

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

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

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

| Financial instrument | 2017 | 2016 |
|---|---|---|
| Consumers | 18 996 824 | 18 028 765 |
| Cash and cash equivalents | (2 480 239) | 1 254 405 |
| Receivables from non-exchange transactions | 1 832 922 | 1 728 142 |
| VAT receivable | 1 763 881 | 1 763 881 |
| Other financial assets | 4 892 128 | 4 587 776 |

**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:

**53. Risk management (continued)**

**Interest rate risk**

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

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits/investments
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

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

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

**Fair values**
The municipality's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.
No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

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

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

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

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

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

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

**Cash flow interest rate risk**

| Financial instrument | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|---|---|---|---|---|---|
| Trade and other receivables | 11.50 % | 20 829 746 | - | - | - | - |
| Trade and other payables | - % | 209 630 149 | - | - | - | - |

# Notes to the Annual Financial Statements



### 53. Risk management (continued)

| | | | | | | |
|---|---|---|---|---|---|---|
| Long-term borrowings (DBSA) | - % | 2 188 650 | 6 649 242 | - | - | - |

**Fair value interest rate risk**

| Financial instrument | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|---|---|---|---|---|---|
| Finance leases | 16.75 % | 214 464 | 253 277 | - | - | - |

**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.

### 54. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had a deficit for the year amounting to R 68 059 278 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 0.1 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.

### 55. Unauthorised expenditure

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

### 55. Unauthorised expenditure (continued)

**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 12 for more information on the unauthorised expenditure.

### 56. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 19 728 643 | 10 518 819 |
| Current year - interest on overdue accounts | 16 787 904 | 9 209 824 |
| | **36 516 547** | **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 Interest on overdue accounts | 2016 Interest on overdue accounts |
|---|---|---|
| Auditor-General | 442 539 | 197 506 |
| Eskom | 15 509 062 | 8 476 824 |
| Other suppliers | 468 991 | 273 479 |
| South African Revenue Services | 367 312 | 262 016 |
| | **16 787 904** | **9 209 825** |

### 57. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 104 287 306 | 95 612 995 |
| Add: Irregular Expenditure - current year | 4 420 345 | 8 674 311 |
| | **108 707 651** | **104 287 306** |

**Details of irregular expenditure – current year**

| | **Disciplinary steps taken/criminal proceedings** | |
|---|---|---|
| Hiring of tipper trucks | None | 692 328 |
| Hiring of TLBs | None | 1 779 161 |
| Hiring of mayor's car | None | 215 550 |
| Protective cloting | None | 934 265 |
| Mayor's car | None | 661 450 |
| Mayor's trip to Portugal | None | 137 591 |
| | | **4 420 345** |

## 58. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | | |
|---|---|---|
| Opening balance | - | 116 862 |
| Current year subscription / fee | 782 040 | 642 150 |
| Amount paid - current year | (547 950) | (642 150) |
| Amount paid - previous years | - | (116 862) |
| | **234 090** | **-** |

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

**Material distribution losses**

| | | |
|---|---|---|
| Electricity | 927 490 | 4 831 751 |
| Water | 7 186 783 | 5 907 654 |
| | **8 114 273** | **10 739 405** |

| **Bulk water losses** | Kiloliter | Percentage (%) |
|---|---|---|
| 2017 | 1 007 964 | 27 |
| 2016 | 662 293 | 19 |
| | **1 670 257** | **46** |

**Distribution losses - Water**
The water losses are mainly due to metering inefficiencies, burst pipes and leaks in the reticulation network. In the current year the water losses were 27% (2016: 19%).

| | | |
|---|---|---|
| kL - units | 1 007 964 | 662 293 |
| Percentage | 27% | 19% |

**Distribution losses - Electricity**
In the current year the energy losses were 1.13% (2016: 6.44%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

| | | |
|---|---|---|
| kWh - units | 605 174 | 3 393 560 |
| Percentage | 1.13% | 6.44% |

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

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

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

## Notes to the Annual Financial Statements

Figures in Rand

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

**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** |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 10 948 727 | 10 045 688 |
| Amount paid - current year | (10 948 727) | (10 045 688) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | 1 014 303 | - |
| Current year subscription / fee | 17 340 634 | 15 965 432 |
| Amount paid - current year | (14 106 410) | (14 951 129) |
| Amount paid - previous years | (432 525) | - |
| | **3 816 002** | **1 014 303** |

**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.

### 58. 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 Frend, 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 |

During the year all the Councillors' with arrear accounts entered into repayment agreements with the municipality.

### 59. 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.

### 60. 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.

## Schedule of external loans as at 30 June 2016

| | Loan Number | Redeemable | Balance at Thursday, 30 June 2016 Rand | Interest charged during the period Rand | Repayments during the period Rand | Balance at Friday, 30 June 2017 Rand | Carrying Value of Property, Plant & Equip Rand | Other Costs in accordance with the MFMA Rand |
|---|---|---|---|---|---|---|---|---|
| **Development Bank of South Africa** | | | | | | | | |
| DBSA Loan @ 10,35% | 61000275 | | 7 231 214 | 312 571 | - | 7 543 785 | - | - |
| DBSA Loan @ 9,09% | 61000276 | | 1 222 091 | 72 016 | - | 1 294 107 | - | - |
| | | | **8 453 305** | **384 587** | **-** | **8 837 892** | **-** | **-** |
| **Other loans** | | | | | | | | |
| Grainfield Chickens (Pty) Ltd | | | 702 163 | 22 195 | 724 358 | - | - | - |
| | | | **702 163** | **22 195** | **724 358** | **-** | **-** | **-** |
| **Lease liability** | | | | | | | | |
| Nashua | | | 649 339 | 95 241 | 276 840 | 467 740 | 415 696 | - |
| | | | **649 339** | **95 241** | **276 840** | **467 740** | **415 696** | **-** |
| Total external loans | | | **9 804 807** | **502 023** | **1 001 198** | **9 305 632** | **415 696** | **-** |

**Nketoana Local Municipality**
**Appendix D**
June 2017

## Segmental Statement of Financial Performance for the year ended

| Prior Year Actual Income Rand | Prior Year Actual Expenditure Rand | Prior Year Surplus /(Deficit) Rand | | Current Year Actual Income Rand | Current Year Actual Expenditure Rand | Current Year Surplus /(Deficit) Rand |
|---|---|---|---|---|---|---|
| | | | **Municipality** | | | |
| 152 038 578 | 115 991 199 | 36 047 379 | Executive & Council/Mayor and Council | 166 606 326 | 118 765 342 | 47 840 984 |
| 444 695 | 24 491 329 | (24 046 634) | Finance & Admin/Finance | 344 839 | 23 462 238 | (23 117 399) |
| - | 1 208 175 | (1 208 175) | Planning and Development/Economic Development/Plan | 256 | 968 748 | (968 492) |
| 598 429 | 13 452 315 | (12 853 886) | Comm. & Social/Libraries and archives | 442 731 | 19 336 682 | (18 893 951) |
| 8 354 | 2 132 849 | (2 124 495) | Housing | 4 635 | 2 020 579 | (2 015 944) |
| 216 310 | 6 377 620 | (6 161 310) | Public Safety/Police | 165 740 | 4 834 236 | (4 668 496) |
| 583 | 383 080 | (382 497) | Sport and Recreation | - | 329 923 | (329 923) |
| 71 145 452 | 43 296 429 | 27 849 023 | Waste Water Management/Sewerage | 58 499 050 | 48 057 270 | 10 441 780 |
| 8 942 783 | 42 452 240 | (33 509 457) | Road Transport/Roads | - | 43 865 015 | (43 865 015) |
| 43 967 144 | 40 588 994 | 3 378 150 | Water/Water Distribution | 46 212 527 | 47 812 910 | (1 600 383) |
| 49 459 248 | 76 190 970 | (26 731 722) | Electricity /Electricity Distribution | 49 226 972 | 79 202 589 | (29 975 617) |
| - | 848 662 | (848 662) | Other/Air Transport | - | 890 590 | (890 590) |
| **326 821 576** | **367 413 862** | **(40 592 286)** | | **321 503 076** | **389 546 122** | **(68 043 046)** |
| | | | **Municipal Owned Entities** | | | |
| | | | **Other charges** | | | |
| 326 821 576 | 367 413 862 | (40 592 286) | Municipality | 321 503 076 | 389 546 122 | (68 043 046) |
| **326 821 576** | **367 413 862** | **(40 592 286)** | **Total** | **321 503 076** | **389 546 122** | **(68 043 046)** |

**Nketoana Local Municipality**
**Appendix F**
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**
June 2017

| Name of Grants | Quarterly Receipts | | | | | Quarterly Expenditure | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Jul | Sep | Dec | Mar | Jun | Jul | Sep | Dec | Mar | Jun |
| Equitable Share | - | 32 939 000 | 26 048 000 | 19 764 000 | - | 78 751 000 | - | - | - | - |
| MIG | - | 11 391 000 | 8 402 000 | 6 925 000 | - | 26 718 000 | - | - | - | - |
| MFMG | - | 1 625 000 | - | - | - | 1 625 000 | - | - | - | - |
| Financial Recovery Grant | - | 1 096 491 | - | - | - | 1 096 491 | - | - | - | - |
| EPWP | - | 256 000 | 460 000 | 307 000 | - | 1 023 000 | - | - | - | - |
| RBIG | - | 2 374 940 | 4 794 106 | 9 663 751 | 4 947 804 | 21 780 602 | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - | - | - |
| | - | 49 682 431 | 39 704 106 | 36 659 751 | 4 947 804 | 130 994 093 | - | - | - | - |