Nketoana Local Municipality
(Registration number FS193)
Annual financial statements
for the year ended 30 June 2018

General Information

Legal form of entity	Municipality (MFMA)
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	
Executive Mayor	Mokoena, TE
Councillors	Mokoena, MT
	Mokoena, KA
	Mofokeng, KA
	Mofokeng, PP
	Nhlapo, LG
	Nhlapo, BM
	Motloung, MS
	Semela, MS
	Mphaka, MR
	Moloedi, PM
	Mofokeng, NL
	Tshabalala, NS
	Blignaut, M
	De Frend, P (resigned 31/07/2017)
	Botha, MC
	Mosia, MJ
	Muller, HMC
	Mkhwana, M (elected 01/08/2017)
Grading of local authority	Medium Capacity Grade 3 in terms of the Remuneration of Public Office Bearers' Act
Chief Finance Officer (CFO)	X Malindi
Accounting Officer	MP Manzi
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
Controlling entity	Nketoana Municipality
Bankers	ABSA (Primary bank)
Auditors	Auditor-General South Africa

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal 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)
LSA	Long Service Awards
PEMAL	Post-Employment Medical Aid Liability

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 35 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 89, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 August 2018:

MP Manzi
Accounting Officer

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018.

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.

	2017/08/10	2017/08/28	2017/11/30	2018/03/19
B.T.A Matabane (Chairperson)	Yes	Yes	Yes	Yes
P. Semenya	Yes	Yes	Yes	Yes
M.E Sello	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.

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

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 91,612,703 (2017: deficit R 84,710,847).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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

Name	Nationality
MP Manzi	South African

8. Auditors

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

Statement of Financial Position as at 30 June 2018

Figures in Rand	Notes	2018	2017 Restated*
Assets			
Current Assets			
Inventories	4	765,824	705,473
Other financial assets	5	91,693	92,394
Receivables from exchange transactions	6	19,728	8,306
Receivables from non-exchange transactions	7	3,280,997	1,824,616
VAT receivable	8	21,324,237	21,128,339
Consumer debtors	9	21,472,278	19,010,238
Cash and cash equivalents	10	978,221	1,493,481
		47,932,978	**44,262,847**
Non-Current Assets			
Biological assets	11	72,952	45,000
Investment property	12	13,966,722	13,966,722
Property, plant and equipment	13	984,816,126	1,018,668,613
Intangible assets	14	33,143	49,371
Heritage assets	15	529,800	529,800
Other financial assets	5	1,064,480	5,546,278
Long-term deposit	16	3,146,161	2,959,871
		1,003,629,384	**1,041,765,655**
Total Assets		**1,051,562,362**	**1,086,028,502**
Liabilities			
Current Liabilities			
Other financial liabilities	17	2,400,000	2,188,650
Finance lease obligation	18	253,277	214,464
Payables from exchange transactions	19	269,853,283	218,550,464
Consumer deposits	20	1,513,113	1,401,912
Employee benefit obligation	21	793,000	530,000
Unspent conditional grants and receipts	22	3,998,726	-
Cash and cash equivalents	10	1,790,475	-
		280,601,874	**222,885,490**
Non-Current Liabilities			
Other financial liabilities	17	4,138,222	6,649,242
Finance lease obligation	18	-	253,277
Employee benefit obligation	21	7,161,000	6,347,000
Provisions	23	52,452,121	51,071,642
		63,751,343	**64,321,161**
Total Liabilities		**344,353,217**	**287,206,651**
Net Assets		**707,209,145**	**798,821,851**
Accumulated surplus	24	707,209,146	798,821,849

* See Note 2 & 51

Statement of Financial Performance

Figures in Rand	Notes	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	25	139,413,332	131,777,755
Rental of facilities and equipment	26	514,678	369,345
Interest received (trading)	27	40,358,478	37,978,056
Other income	28	1,224,473	1,034,734
Interest received - investment	29	831,922	1,990,617
Total revenue from exchange transactions		**182,342,883**	**173,150,507**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	18,796,636	17,799,341
Transfer revenue			
Government grants & subsidies	31	119,925,478	131,239,621
Public contributions and donations	32	500,000	5,500
Fines	33	36,329	165,740
Total revenue from non-exchange transactions		**139,258,443**	**149,210,202**
Total revenue		**321,601,326**	**322,360,709**
Expenditure			
Employee related costs	34	(109,719,102)	(96,878,182)
Remuneration of councillors	35	(5,893,585)	(7,201,839)
Depreciation and amortisation	36	(65,522,845)	(72,154,398)
Impairment loss	37	(548,280)	(16,300)
Finance costs	38	(21,840,999)	(17,396,120)
Lease rentals on operating lease	39	(721,754)	(3,231,749)
Debt Impairment	40	(100,079,358)	(91,961,605)
Repairs and maintenance	41	(11,421,334)	(13,785,272)
Bulk purchases	42	(46,726,279)	(46,428,824)
Contracted services	43	(11,618,259)	(11,841,493)
General expenses	44	(36,237,689)	(46,430,403)
Total expenditure		**(410,329,484)**	**(407,326,185)**
Operating deficit		**(88,728,158)**	**(84,965,476)**
Loss on disposal of assets and liabilities	45	(1,647,498)	(1,464,358)
Fair value adjustments	46	27,953	14,987
Actuarial gains/(losses)	21	(1,265,000)	1,704,000
		(2,884,545)	**254,629**
Deficit for the year		**(91,612,703)**	**(84,710,847)**

* See Note 2 & 51

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	854,314,589	854,314,589
Adjustments		
Correction of errors (Note 51)	29,218,107	29,218,107
Balance at 01 July 2016 as restated*	**883,532,696**	**883,532,696**
Changes in net assets		
Deficit for the year	(84,710,847)	(84,710,847)
Total changes	(84,710,847)	(84,710,847)
Restated* Balance at 01 July 2017	**798,821,849**	**798,821,849**
Changes in net assets		
Deficit for the year	(91,612,703)	(91,612,703)
Total changes	(91,612,703)	(91,612,703)
Balance at 30 June 2018	**707,209,146**	**707,209,146**
Notes	24&51	

* See Note 2 & 51

Cash Flow Statement

Figures in Rand	Notes	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Taxation - Property rates		17,340,255	17,697,467
Sale of goods and services		80,660,229	70,846,460
Grants		123,924,205	131,216,868
Interest income		831,922	1,990,617
		222,756,611	221,751,412
Payments			
Employee costs		(112,964,110)	(101,965,824)
Suppliers		(59,569,881)	(61,517,901)
Finance costs		(20,460,520)	(16,591,267)
		(192,994,511)	(180,074,992)
Net cash flows from operating activities	47	**29,762,100**	**41,676,420**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(35,028,417)	(43,711,901)
Proceeds from sale of property, plant and equipment		1,178,506	133,856
Purchase of investment property	12	-	(88,818)
(Purchase) /disposal of financial assets		4,482,499	(350,850)
Contributions to long-term deposit		(186,290)	(941,371)
Net cash flows from investing activities		**(29,553,702)**	**(44,959,084)**
Cash flows from financing activities			
Repayment of other financial liabilities		(2,299,670)	(317,574)
Repayment of finance lease liability		(214,464)	(181,598)
Net cash flows from financing activities		**(2,514,134)**	**(499,172)**
Net increase/(decrease) in cash and cash equivalents		**(2,305,736)**	**(3,781,836)**
Cash and cash equivalents at the beginning of the year		1,493,481	5,275,317
Cash and cash equivalents at the end of the year	10	**(812,255)**	**1,493,481**

* See Note 2 & 51

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	142,569,000	1,896,000	**144,465,000**	139,413,332	**(5,051,668)**	Note 1
Rental of facilities and equipment	393,000	185,000	**578,000**	514,678	**(63,322)**	Note 2
Interest received (trading)	39,421,352	18,911	**39,440,263**	40,358,478	**918,215**	Note 3
Other income	16,774,000	3,329,000	**20,103,000**	1,224,473	**(18,878,527)**	Note 4
Interest received - investment	1,304,000	-	**1,304,000**	831,922	**(472,078)**	Note 5
Total revenue from exchange transactions	**200,461,352**	**5,428,911**	**205,890,263**	**182,342,883**	**(23,547,380)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	20,341,000	(465,000)	**19,876,000**	18,796,636	**(1,079,364)**	Note 6
Transfer revenue						
Government grants & subsidies	82,580,000	-	**82,580,000**	119,925,478	**37,345,478**	Note 7
Public contributions and donations	-	-	**-**	500,000	**500,000**	Note 8
Fines	330,000	-	**330,000**	36,329	**(293,671)**	Note 9
Total revenue from non-exchange transactions	**103,251,000**	**(465,000)**	**102,786,000**	**139,258,443**	**36,472,443**	
Total revenue	**303,712,352**	**4,963,911**	**308,676,263**	**321,601,326**	**12,925,063**	
Expenditure						
Employee cost	(93,591,000)	(4,372,000)	**(97,963,000)**	(109,719,102)	**(11,756,102)**	Note 10
Remuneration of councillors	(9,083,085)	(418,624)	**(9,501,709)**	(5,893,585)	**3,608,124**	Note 11
Depreciation and amortisation	(59,672,592)	800,000	**(58,872,592)**	(65,522,845)	**(6,650,253)**	Note 12
Impairment loss	-	-	**-**	(548,280)	**(548,280)**	Note 13
Finance costs	(17,836,000)	-	**(17,836,000)**	(21,840,999)	**(4,004,999)**	Note 14
Lease rentals on operating lease	-	-	**-**	(721,754)	**(721,754)**	Note 15
Debt Impairment	(49,930,820)	(5,035,117)	**(54,965,937)**	(100,079,358)	**(45,113,421)**	Note 16
Repairs and maintenance	-	-	**-**	(18,103,138)	**(18,103,138)**	Note 17
Bulk purchases	(50,456,000)	-	**(50,456,000)**	(46,726,279)	**3,729,721**	Note 18
Contracted Services	(9,163,000)	2,390,000	**(6,773,000)**	(11,618,259)	**(4,845,259)**	Note 19
General Expenses	(47,187,000)	(2,653,000)	**(49,840,000)**	(29,555,885)	**20,284,115**	Note 20
Total expenditure	**(336,919,497)**	**(9,288,741)**	**(346,208,238)**	**(410,329,484)**	**(64,121,246)**	
Operating deficit	**(33,207,145)**	**(4,324,830)**	**(37,531,975)**	**(88,728,158)**	**(51,196,183)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1,647,498)	**(1,647,498)**	Note 21
Fair value adjustments	-	-	**-**	27,953	**27,953**	Note 22
Actuarial gains/losses	-	-	**-**	(1,265,000)	**(1,265,000)**	Note 23
	-	**-**	**-**	**(2,884,545)**	**(2,884,545)**	
Deficit before taxation	**(33,207,145)**	**(4,324,830)**	**(37,531,975)**	**(91,612,703)**	**(54,080,728)**	

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
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(33,207,145)**	**(4,324,830)**	**(37,531,975)**	**(91,612,703)**	**(54,080,728)**	

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.

Explanation of Variances between Approved Budget and Actual
Variances greater than 10% are deemed material on the various items disclosed and are explained below:

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. Decrease in rental of halls, swimming pools and other facilities.

Note 3
The variance is not significant. Increase occurred due to the rising consumer debtor figure.

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

Note 5
The municipality had to utilised the Standard bank investment to pay the outstanding debt to DBSA. Investment decreased with R 3 million which decreased the interest on investments.

Note 6
The variance is not significant. There was lower collections 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 or confirmed during the budget process.

Note 9
Issuing and collection of fines were lower than budgeted for. GRAP 23 recognition of fines revenue was not taken into account when budgeting.

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 pension contributions which were not anticipated.

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 11
The actual remuneration of councillors is lower than the budgeted amount and can be linked to the amendments made to the upper limits on council remuneration as per the Government gazette.

Note 12
The municipality's anticipated depreciation for 2017/2018 was budgeted based on the figures of 2016/2017. Due to prior period errors the actual 2017/2018 depreciation was more that budgeted for.

Note 13
Impairment losses on assets, stolen,damaged or lost was not budgeted for as it was based on the actual amount of 2016/2017 which was trivial.

Note 14
Finance cost actually incurred was more than anticipated. Eskom outstanding amounts increased, interest levied was the main contributor to the difference.

Note 15
Lease rentals on operating leases are budgeted for under general expenses.

Note 16
The 2017/2018 actual write-offs amounted to R48 million whilst the increase in the provision for bad debts amounted to R51 million. The municipality anticipated R54 million and did not budget for the movement in the bad debt provision.

Note 17
The actual amount for repairs and maintenance was budgeted for under general expenses and contracted services due to implementation of the Mscoa budget.

Note 18
The budgeted bulk purchases are 7% more than the actual amount. The significant increase in the cost of electricity for 2016/2017 was anticipated for the current financial period and therefore the budgeted amount was to high.

Note 19
Included on the actual of contracted are professional fees and legal fees which are budgeted under general expenditure.

Note 20
Due to the Mscoa budget implementation, items relating to contracted services and repairs and maintenance was budgeted under general expenditure.

Note 21
The municipality did not budget for losses on disposals.

Note 22
The municipality did not budget for fair value adjustments.

Note 23
The municipality did not budget for actuarial gains/losses.

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

The entity recognises a biological assets 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 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 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 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.

Accounting Policies

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.

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.

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 41).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 13).

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.

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.

Accounting Policies

1.5 Property, plant and equipment (continued)

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.

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.

1.5 Property, plant and equipment (continued)

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 41).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13).

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	5 - 9 years

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 41).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 15).

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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

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.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

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.

1.9 Leases (continued)

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.

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 used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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).

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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 used 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 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:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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

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 test 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

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 current 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 municipality 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.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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.

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

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 municipality 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.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

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.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Accounting Policies

1.14 Provisions and contingencies

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

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

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

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

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

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

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

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 surplus.

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

Accounting Policies

1.14 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 49.

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

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

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

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.

1.14 Provisions and contingencies (continued)

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.

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-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.

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 rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

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

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

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

1.17 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

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

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

Measurement

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

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

Taxes

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

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

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

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

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Investment income

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

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

1.19 Comparative figures

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

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Accounting Policies

1.22 Irregular expenditure (continued)

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 program/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 01 Jul 2017 to 30 Jun 2018.

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

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

1.25 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

1.25 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

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 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 2018 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
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2099	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	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 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

• 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
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

4. Inventories

Consumable stores	128,732	148,624
Water	637,092	556,849
	765,824	**705,473**
Inventories recognised as an expense during the year	491,929	574,960

Consumables amounting to R 188 936 (2017: R 410 988) and water amounting to R 302 993 (2017: R 163 971) were expensed.

Inventory pledged as security

No inventory type is pledged as security.

5. Other financial assets

Residual interest at cost		
Unlisted shares VKB Agricultural (Pty) Ltd.	5,000	5,000
Preference shares VKB Agricultural (Pty) Ltd.	457,623	448,804
Security sharholders loan VKB Agricultural (Pty) Ltd.	667,437	625,628
	1,130,060	**1,079,432**
At amortised cost		
Other financial asset Standard Bank - Money Market account	26,113	4,559,240
Total other financial assets	**1,156,173**	**5,638,672**
Non-current assets		
Residual interest at cost	1,038,367	987,038
At amortised cost	26,113	4,559,240
	1,064,480	**5,546,278**
Current assets		
Residual interest at cost	91,693	92,394

Figures in Rand	2018	2017

5. Other financial assets (continued)

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Standard Bank - Money Market account	26,113	4,559,240

Financial assets at amortised cost

Nominal value of financial assets at cost

VKB Agricultural (Pty) Ltd shares Investment in a private company initially recognised at cost. Council have not been able to determine the reasonability of the fair value.	1,130,060	1,079,432

Financial assets pledged as collateral

Collateral

Carrying value of financial assets pledged as collateral for liabilities or contingent liabilities	26,227	4,559,240

6. Receivables from exchange transactions

Fruitless and wasteful expenditure to be investigated	407,520	407,520
Other receivable	1,558,582	1,547,160
Other receivable - money to be recovered	1,078,004	1,078,004
Unauthorised expenditure	7,980,337	7,980,337
Provision for bad debts	(11,004,715)	(11,004,715)
	19,728	**8,306**

Trade and other receivables pledged as security

None of the Receivables from exchange transactions are pledged as security.

Trade and other receivables impaired

As of 30 June 2018, other receivables of R 11,004,715 (2017: R 11,004,715) were impaired and provided for.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	11,004,715	11,004,715

Figures in Rand	2018	2017

7. Receivables from non-exchange transactions

Fines	3,300	3,290
Consumer debtors - Rates	3,277,697	1,821,326
	3,280,997	**1,824,616**

Receivables from non-exchange transactions pledged as security

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

Reconciliation of consumer debtors - rates		
Consumer debtors - Rates	28,582,383	24,608,978
Consumer debtors - Rates (impairment)	(25,304,686)	(22,787,652)
	3,277,697	**1,821,326**

Rates		
Current (0 -30 days)	1,734,125	539,788
31 - 60 days	394,656	145,959
61 - 90 days	81,374	101,852
91 - 120 days	40,418	28,586
121 - 150 days	20,331	21,056
> 365 days	1,006,793	984,085
	3,277,697	**1,821,326**

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(22,787,652)	(20,368,866)
Contributions to allowance	(2,517,034)	(2,418,786)
	(25,304,686)	**(22,787,652)**

The creation and release of provision for impaired receivables have been included in debt impairment in surplus or deficit (note 40). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

8. VAT receivable

VAT Receivable	21,324,237	21,128,339

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The Municipality has financial risk policies in place to ensure that payments are affected before the due date.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Consumer debtors (exchange transactions)

Gross balances		
Electricity	13,059,852	11,858,055
Water	104,789,378	91,384,666
Sewerage	51,032,473	46,031,409
Refuse	56,810,700	51,472,625
Sundry debtors	185,908,471	156,325,506
Housing rental	283,656	308,238
	411,884,530	**357,380,499**

Less: Allowance for impairment		
Electricity	(7,575,743)	(6,573,057)
Water	(99,444,485)	(85,642,696)
Sewerage	(48,602,389)	(44,136,580)
Refuse	(54,801,225)	(49,795,793)
Sundry debtors	(179,706,282)	(151,914,159)
Housing rental	(282,128)	(307,976)
	(390,412,252)	**(338,370,261)**

Net balance		
Electricity	5,484,109	5,284,998
Water	5,344,893	5,741,970
Sewerage	2,430,084	1,894,829
Refuse	2,009,475	1,676,832
Sundry debtors	6,202,189	4,411,347
Housing rental	1,528	262
	21,472,278	**19,010,238**

Electricity		
Current (0 -30 days)	4,404,319	4,635,448
31 - 60 days	428,978	203,573
61 - 90 days	160,631	92,196
91 - 120 days	78,130	31,661
121 - 150 days	31,679	19,683
> 150 days	380,372	302,437
	5,484,109	**5,284,998**

Water		
Current (0 -30 days)	1,780,103	2,599,418
31 - 60 days	188,953	262,752
61 - 90 days	159,575	123,183
91 - 120 days	127,488	106,991
121 - 150 days	104,683	81,750
> 150 days	2,984,091	2,567,876
	5,344,893	**5,741,970**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Consumer debtors (exchange transactions) (continued)

Sewerage

Current (0 -30 days)	773,657	614,347
31 - 60 days	157,075	75,072
61 - 90 days	126,085	53,520
91 - 120 days	55,059	43,424
121 - 150 days	45,606	38,715
> 150 days	1,272,602	1,069,751
	2,430,084	**1,894,829**

Refuse

Current (0 -30 days)	444,078	429,935
31 - 60 days	128,216	88,268
61 - 90 days	96,140	61,711
91 - 120 days	64,361	49,932
121 - 150 days	49,394	42,835
> 150 days	1,227,286	1,004,151
	2,009,475	**1,676,832**

Sundry debtors

Current (0 -30 days)	2,058,975	957,046
31 - 60 days	228,546	198,294
61 - 90 days	162,218	97,037
91 - 120 days	151,914	67,493
121 - 150 days	77,408	61,868
> 150 days	3,523,128	3,029,609
	6,202,189	**4,411,347**

Housing rental

> 150 days	1,528	262

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Consumer debtors (exchange transactions) (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	2,593,303	3,217,848
31 - 60 days	211,291	144,355
61 - 90 days	158,290	84,232
91 - 120 days	79,435	46,245
121 - 150 days	31,457	28,987
> 150 days	198,975	164,501
	3,272,751	**3,686,168**

Industrial/ commercial		
Current (0 -30 days)	5,977,000	5,353,134
31 - 60 days	336,508	227,064
61 - 90 days	51,680	54,701
91 - 120 days	34,596	13,499
121 - 365 days	15,532	11,115
> 150 days	141,441	38,598
	6,556,757	**5,698,111**

National and provincial government		
Current (0 -30 days)	890,829	651,980
31 - 60 days	583,971	456,541
61 - 90 days	494,678	288,713
91 - 120 days	362,921	239,757
121 - 150 days	261,781	204,749
> 150 days	9,048,590	7,784,219
	11,642,770	**9,625,959**

Total		
Current (0 -30 days)	9,461,132	9,222,962
31 - 60 days	1,131,770	827,960
61 - 90 days	704,648	427,645
91 - 120 days	476,952	299,501
121 - 150 days	308,769	244,850
> 150 days	9,389,007	7,987,320
	21,472,278	**19,010,238**

Allowance for impairment		
Current (0 -30 days)	(9,267,544)	(8,190,453)
31 - 60 days	(9,177,993)	(8,413,004)
61 - 90 days	(8,926,916)	(8,130,710)
91 - 120 days	(8,692,306)	(7,955,849)
121 - 150 days	(8,786,979)	(7,964,504)
> 150 days	(345,560,514)	(297,715,741)
	(390,412,252)	**(338,370,261)**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(338,370,261)	(299,214,761)
Contributions to allowance	(52,041,991)	(73,263,393)
Debt impairment written off against allowance	-	34,107,893
	(390,412,252)	**(338,370,261)**

Figures in Rand	2018	2017

9. Consumer debtors (exchange transactions) (continued)

Consumer debtors pledged as security

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

10. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	55,227	48,291
Bank balances	-	357,701
Short-term deposits	922,994	1,087,489
Cash and cash equivalents	(1,790,475)	-
	(812,254)	**1,493,481**
Current assets	978,221	1,493,481
Current liabilities	(1,790,475)	-
	(812,254)	**1,493,481**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
ABSA - Operating account - 2170560119	526,586	790,131	264,220	798,917	(5,158,916)	(1,171,244)
ABSA - Banktel account - 2170142538	30,131	260,532	57,397	630,087	795,742	678,533
ABSA Call account - 90741555973	401,178	565,673	1,872,020	401,178	565,673	1,872,020
Old Mutual - 5208945	521,270	521,270	521,270	521,270	521,270	521,270
Total	**1,479,165**	**2,137,606**	**2,714,907**	**2,351,452**	**(3,276,231)**	**1,900,579**

11. Biological assets

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Game	72,952	-	72,952	45,000	-	45,000

Reconciliation of biological assets - 2018

	Opening balance	**Gains or losses arising from changes in fair value**	**Total**
Game	45,000	27,952	72,952

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

11. Biological assets (continued)

Reconciliation of biological assets - 2017

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

Non - Financial information

Quantities of each biological asset

	2018	2017
Blesbok	18	18
Springbuck	5	5
Wildebeest	2	2
Zebra	2	2
	27	**27**

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.

12. Investment property

	2018			2017		
	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	13,966,722	-	13,966,722

Reconciliation of investment property - 2018

	Opening balance	Additions	Disposals	Total
Investment property	13,966,722	-	-	13,966,722

Reconciliation of investment property - 2017

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

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.

12. Investment property (continued)

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. Property, plant and equipment

	2018			2017		
	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	246,544,088	(123,000,172)	123,543,916	240,578,736	(116,757,348)	123,821,388
Infrastructure	1,668,678,982	(857,713,507)	810,965,475	1,646,640,437	(817,252,698)	829,387,739
Other property, plant and equipment	18,618,395	(11,504,877)	7,113,518	19,748,278	(10,820,913)	8,927,365
Landfill sites	66,255,732	(41,099,949)	25,155,783	65,916,811	(27,638,571)	38,278,240
Leased assets	649,339	(450,090)	199,249	649,339	(233,643)	415,696
Total	**2,018,584,721**	**(1,033,768,595)**	**984,816,126**	**1,991,371,786**	**(972,703,173)**	**1,018,668,613**

Reconciliation of property, plant and equipment - 2018

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Land	17,838,185	-	-	-	-	17,838,185
Buildings	123,821,388	5,965,352	-	(6,242,824)	-	123,543,916
Infrastructure	829,387,739	28,258,698	(2,198,011)	(43,937,272)	(545,679)	810,965,475
Other property, plant and equipment	8,927,365	465,446	(627,994)	(1,648,698)	(2,601)	7,113,518
Landfill sites	38,278,240	338,921	-	(13,461,378)	-	25,155,783
Leased assets	415,696	-	-	(216,447)	-	199,249
	1,018,668,613	**35,028,417**	**(2,826,005)**	**(65,506,619)**	**(548,280)**	**984,816,126**

Reconciliation of property, plant and equipment - 2017

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Land	17,838,185	-	-	-	-	17,838,185
Buildings	117,225,338	12,505,568	(37,662)	(5,856,528)	(15,328)	123,821,388
Infrastructure	852,509,893	29,312,979	(1,560,552)	(50,873,609)	(972)	829,387,739
Other property, plant and equipment	9,093,232	1,563,354	-	(1,729,221)	-	8,927,365
Landfill sites	51,409,618	330,000	-	(13,461,378)	-	38,278,240
Leased assets	632,142	-	-	(216,446)	-	415,696
	1,048,708,408	**43,711,901**	**(1,598,214)**	**(72,137,182)**	**(16,300)**	**1,018,668,613**

Assets subject to finance lease (Net carrying amount)

	2018	2017
Office equipment	199,249	415,696

Other information

13. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018 included in property, plant and equipment

	Opening balance	Additions	Transfers	Closing balance
Buildings	4,250,632	5,965,351	(9,906,765)	309,218
Roads	24,875,850	15,820,049	(16,398,340)	24,297,559
Sewer	22,807,050	979,988	-	23,787,038
Solid waste	330,000	338,921	-	668,921
Water	96,357,656	7,847,777	(11,191,808)	93,013,625
	148,621,188	**30,952,086**	**(37,496,913)**	**142,076,361**

Reconciliation of Work-in-Progress 2017 included in property, plant and equipment

	Opening balance	Additions	Transfers	Closing balance
Buildings	4,630,621	16,896,880	(17,276,869)	4,250,632
Roads	33,768,733	6,698,483	(15,591,366)	24,875,850
Sewer	28,064,783	38,818	(5,296,551)	22,807,050
Solid waste	-	330,000	-	330,000
Water	72,876,739	23,480,917	-	96,357,656
	139,340,876	**47,445,098**	**(38,164,786)**	**148,621,188**

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.

14. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	240,691	(207,548)	33,143	240,691	(191,320)	49,371

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	49,371	-	(16,228)	33,143

Reconciliation of intangible assets - 2017

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

15. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Heritage assets (continued)

Heritage assets	529,800	-	529,800	529,800	-	529,800

Reconciliation of heritage assets 2018

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

Reconciliation of heritage assets 2017

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

16. Long-term deposit

	2018	2017
Non-current deposit	3,146,161	2,959,871

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

The long-term deposit bears interest of 5.3% per annum. If the municipality decides to cancel the service agreement with Eskom then the deposit amount will be paid back. If the account to which the deposits relate are in arrears then the deposits will be appropriated towards the specific account.

17. Other financial liabilities

	2018	2017
At amortised cost		
Bank loan The Development Bank of Southern Africa Limited. Refer to details of consolidation below.	6,538,222	7,543,785
Bank loan The Development Bank of Southern Africa Limited	-	1,294,107
	6,538,222	**8,837,892**
Total other financial liabilities	**6,538,222**	**8,837,892**

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.

On 14 August 2017 an agreement was made between DBSA and the Municipality for repayment of outstanding debt and arrears.

DBSA approved the release of collateral ceded to DBSA held by Standard Bank as security for the loans as partial repayment.

The outstanding balance including arrears of the two loans as disclosed below be consolidated into one loan with the same interest rate of 9.26%.

34 Month debit order of R 200 000 was actioned by the Municipality to settle the remaining balance of the loan.

Figures in Rand	2018	2017

17. Other financial liabilities (continued)

Non-current liabilities		
At amortised cost	4,138,222	6,649,242
Current liabilities		
At amortised cost	2,400,000	2,188,650

18. Finance lease obligation

Minimum lease payments due		
- within one year	276,840	276,840
- in second to fifth year inclusive	-	276,840
	276,840	553,680
less: future finance charges	(23,563)	(85,939)
Present value of minimum lease payments	**253,277**	**467,741**
Present value of minimum lease payments due		
- within one year	253,277	214,464
- in second to fifth year inclusive	-	253,277
	253,277	**467,741**
Non-current liabilities	-	253,277
Current liabilities	253,277	214,464
	253,277	**467,741**

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% (2017: 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 13.

19. Payables from exchange transactions

Accrued bonus	1,801,638	1,539,649
Accrued leave pay	8,446,400	7,459,874
Deferred revenue	388,748	448,891
Deposits received	48,844	48,844
Payments received in advance	1,921,800	-
Salary suspense	(1,275,334)	(2,863,395)
Trade payables	258,521,187	211,916,601
	269,853,283	**218,550,464**

20. Consumer deposits

Electricity and Water	1,483,143	1,365,185
Housing rental	29,970	36,727
	1,513,113	**1,401,912**

Notes to the Annual Financial Statements

21. Employee benefit obligations

Long service bonus awards (LSA)

According to the Municipality's long service bonus policy, employees are entitled to the following rewards upon completion of various periods of service:

- 5 years : 5 days accumulative leave + 2% of employee's annual salary;
- 10 years : 10 days accumulative leave + 3% of employee's annual salary;
- 15 years : 15 days accumulative leave + 4% of employee's annual salary;
- 20 years : 15 days accumulative leave + 5% of employee's annual salary;
- 25 years : 15 days accumulative leave + 6% of employee's annual salary;
- Every 5 year intervals after 25 years the benefit remains the same as the 25 year long service bonus.

Post retirement medical aid benefits (PEMAL)

The employer has no formal post-retirement medical aid subsidy policy but pays medical aid subsidies in respect of 11 pensioners. The current subsidy varies between 60% and 91,8% of the of the medical aid contributions for different pensioners. These subsidy rates were obtained from data provided by the employer.

On the retirement of a pensioner, the employer will continue to subsidise the medical scheme contributions of the spouse or adult dependant of the pensioner.

For the purposes of the valuation the benefit is assumed to accrue uniformly since the date that employment commenced at the employer until the expected date of retirement. The accrual of the benefit in this way is consistent with the Projected Unit Credit Method of valuation referred to in GRAP25.

The benefit for the pensioners is regarded as being fully accrued.

The liability for the existing pensioners is calculated as the estimated amount that would need to be invested at the valuation date that should be sufficient to pay for their future contributions subsidy.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Employee benefit obligations (continued)

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

	2018	2017
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7,954,000)	(6,877,000)
Carrying value per benefit		
Long service awards	(633,000)	(923,000)
Medical aid benefits	(7,321,000)	(5,954,000)
	(7,954,000)	**(6,877,000)**
Non-current liabilities	(7,161,000)	(6,347,000)
Current liabilities	(793,000)	(530,000)
	(7,954,000)	**(6,877,000)**
Non-current liabilities		
Long service awards	(499,000)	(757,000)
Medical aid benefits	(6,662,000)	(5,385,000)
	(7,161,000)	**(6,142,000)**
Current liabilities		
Long service awards	(134,000)	(166,000)
Medical aid benefits	(659,000)	(569,000)
	(793,000)	**(735,000)**

21. Employee benefit obligations (continued)

The medical contribution and long service provisions are actuarial calculations which were performed by Simeka Consultants and Actuaries (Pty) Ltd..

Simeka Consultants and Actuaries (Pty) Ltd. (FAIS license number 13900) is a member of the Sanlam group and an authorised financial service provider which specialises in retirement, actuarial, investment, health and wealth services.

Members of their executive committee include:
- Pieter Gericke B.Com Honours (Actuarial Science) FASSA, CFP
- Freddy Mwabi B Sc, AMASSA

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 incidence and the quantum of future awards are projected allowing for salary increases, rates of resignation/redundancy/retirements and mortality statistics. The projected values are then discounted to the calculation date.

The past service liability is the value of the accumulated liability as at the calculation date in respect of service already rendered. The future service liability is the sum of the value of the liabilities from service after the calculation date until the next dates the employee is entitled to receive a bonus payment. The total liability is evenly distributed over the period since service inception until the date when the benefit is payable.

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 actual cost of the benefits will be determined by the actual future medical contributions, the actual number of members that retire from the employer and the actual lifetime of each pensioner and his or her family. The actuarial valuation and the assumptions used in the valuation have no effect on the actual cost.

Medical schemes contributed to was Keyhealth and SAMWUMED.

The annual cost can be split into an interest cost and a service cost. The interest cost represents the investment return required so that the benefits accrued in respect of past service can be met in the future and the current service cost represents the cost required for the benefit accruing as a result of service to be rendered over the year commencing 1 July 2018. In the case of the Nketoana Local Municipality, this is nil as there are no employees who are eligible to accrue further post-employment medical aid subsidies.

The benefit for the pensioners is regarded as being fully accrued.

The accrued liability for the active employees represents the estimated amount will need to be invested now to pay for the accrued portion of the post-retirement medical aid contribution subsidy.

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.

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	2018	2017

21. Employee benefit obligations (continued)

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

Opening balance	6,877,000	11,455,000
Benefits paid - PEMAL	(475,000)	(505,000)
Benefits paid - LSA	(448,000)	(401,000)
Correction of error - LSA	-	(3,752,000)
Net expense recognised in the statement of financial performance	2,000,000	80,000
	7,954,000	**6,877,000**

Net expense recognised in the statement of financial performance

Current service cost - LSA	90,000	619,000
Interest cost - PEMAL	569,000	737,000
Interest cost - LSA	76,000	428,000
Actuarial (gains) losses - PEMAL	1,273,000	(1,616,000)
Actuarial (gains) losses - LSA	(8,000)	(88,000)
	2,000,000	**80,000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	1,265,000	(1,704,000)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Expected salary increase rate - LSA	7.00 %	7.00 %
Average retirement age - years - LSA	63	63
Number of employees - Male - LSA	39	39
Number of employees - Female - LSA	22	22
Average annual basic salary - Male - LSA	133,486	124,753
Average annual basic salary - Female - LSA	134,020	125,252
Salary weighted average age - Male - LSA	44.00	43.00
Salary weighted average age - Female - LSA	45.50	44.50
Salary weighted average service years - Male - LSA	11.20	10.20
Salary weighted average service years - Female - LSA	13.40	12.40
Number of pensioners - (Male and Female) - PEMAL	11.00	12.00
Average age (subsidy weighted) - Male PEMAL	70.70	73.40
Average age (subsidy weighted) - Female - PEMAL	73.10	72.10
Average total monthly subsidy - Male - PEMAL	5,395	3,620
Average total monthly subsidy - Female - PEMAL	3,577	3,280

LSA

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 yield curve as at 30 June 2017 was used to recalculate the Defined Benefit Obligation as at 30 June 2017.

Inflation rate

The long-term inflation rates implied from the government bond yields are measured as the differences between the nominal yields of the South African government zero coupon bond yield curve and the real yields of the South African government zero coupon bond yield curve at same durations.

Salary increases

Escalation in the general level of salaries as a result of inflation and real salary increases. The general trend is for salaries to increase faster than the increase in inflation. We assumed that salaries increases will exceed inflation by 1% each year.

Withdrawals

The withdrawal table that has been used is a generic withdrawal table. We would welcome any suggestions on changes to the withdrawal assumptions. It is important to note that a higher allowance for withdrawals will reduce the liability for the active members.

Mortality rates

The actauries assumed that the SA 85-90 mortality table will be suitable in estimating the expected mortality experience. This table reflects the mortality experience of males assured with South African life assurance companies during the years 1985 to 1990. We have made no allowance for mortality improvement or the impact of AIDS.

Normal retirement

Although the normal retirement age is 65, an average retirement age of 63 was assumed for employees in order to allow for potential early retirement.

21. Employee benefit obligations (continued)

Late retirement

No provision was made for retirement after the normal retirement age.

PEMAL

Discount rate
GRAP25 requires that the discount rate be set with regards to the market yield on government bonds at the reporting date. We have therefore based the discount rate and inflation assumptions on the yields taken from the government zero coupon bond yield curves (so-called zero rates) as at 30 June 2018. In effect, different discount rates (according to the yield curve) are used to discount future payments at different durations.

Inflation rate
The long-term inflation rates implied from the government bond yields is measured as the real difference between the nominal yields of the South African government zero coupon bond yield curve and the real yields of the South African government zero coupon bond yield curve at the same durations.

Rate of medical inflation
Medical scheme contributions have in the past increased at a significantly higher rate than general consumer price inflation. It is difficult (if not impossible) to predict the real rate (investment return minus medical scheme escalation). As in the previous valuation, it was assumed that future medical inflation would exceed the rate of general inflation by 1% per annum.

Investment returns relative to medical inflation
The real investment return is the difference between the discount rate and the medical inflation assumptions. It is this relative assumption that has a material effect on the results. The absolute levels of investment returns and medical inflation do not have a material effect.

Post-retirement mortality rates
The PA (90) mortality table has been used as the post-retirement mortality table. We have made no provision for future mortality improvement. The same assumptions were used in the previous valuation.

Marital statistics
Pensioners' actual current marital statuses was used to value the liability, and assumed males were 5 years older than females.

Late retirement
No provision was made for retirement after the normal retirement age.

Sensitivity analysis:

	One percentage point decrease	**One percentage point increase**
Effect of the real yields on the aggregate of the service cost and interest cost - LSA	139,000	130,000
Effect of the real yields on defined benefit obligation - LSA	685,000	586,000
Effect of the real yields on future service liability - LSA	788,000	623,000
Effect of medical inflation rates on the interest cost - PEMAL	607,000	717,000
Effect of medical inflation rates on defined benefit obligation - PEMAL	6,769,000	7,944,000
Effect of medical inflation assumption on the interest cost - PEMAL	(52,000)	58,000
Effect of medical inflation assumption on defined benefit obligation - PEMAL	(552,000)	623,000

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Intergrated National Electrification Programme Grant	1,572,327	-
Bulk Water Infrastructure Grant	2,426,399	-
	3,998,726	**-**

Movement during the year

Balance at the beginning of the year	-	92,019
Additions during the year	45,619,269	52,396,602
Income recognition during the year	(41,620,543)	(52,488,621)
	3,998,726	**-**

See note 31 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	51,071,642	1,380,479	-	-	-	52,452,121

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	49,813,316	1,258,326	-	-	-	51,071,642

Environmental rehabilitation provision

23. Provisions (continued)

The provision is for the estimated future cost of the rehabilitation of the solid waste dumping sites at Mamafubedu (Petrus Steyn), 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 87 639 square meters.

The Mamafubedu Landfill Site was a historically illegal dumpsite situated in the centre of a residential community. The NLM received a closure license for the site in September 2015, which classifies the site as a Class B landfill. Licence condition 10.4 requires that the NLM proceeds with the closure activity within 3 years or the licence lapses. To date no plans have been made to start with the rehabilitation works and therefore it is recommended that the NLM requests to the licence as soon as possible.

Present value (2018) of the rehabilitation of the solid waste site is R 36 850 899.

The Mamafubedu Landfill Site was closed and not operational at the time of the inspection, but there was evidence of illegal dumping

No future costs are discounted as the site is closed and needs to be rehabilitated within 3 years.

Lindley
The disposal site presently used has an approximate area of 60 226 square meters.

The Lindley Landfill Site is classified as a Class 2 landfill and is permitted in accordance with now superseded legislation (Environment Conservation Act, 73 of 89). The permit is dated January 1993, which is assumed as being the start date of disposal operations. The site is located in an old quarry and covers an extensive area. The site has an estimated remaining life of 20 years.

Present value (2018) of the rehabilitation of the solid waste site is R 8 393 825.

The future costs are discounted at a risk-adjusted weighted average cost of captial of 9.71% to establish the present value of the provision.

Petsana (Reitz)
The disposal site presently used has an approximate area of 91 180 square meters.

The Reitz Landfill Site is permitted as a GSB - site. The permit is dated November 2012 . Historical imagery shows that the site was developed with 3 cells.A lack of resources to operate the site in accordance with its permit has led to poor aesthetics and a largely uncovered waste body. The site has an estimated remaining life of 9 years.

Present value (2018) of the rehabilitation of the solid waste site is R 7 207 397

The future costs are discounted at a risk-adjusted weighted average cost of captial of 9.71% to establish the present value of the provision.

Figures in Rand	2018	2017

23. Provisions (continued)

Arlington
The disposal site as previously disclosed presently used has an approximate area of 14 250 square meters.

The Alington site is however a transfer station/ waste storage facility which doesn't need to be licensed in terms of 2013 Norms and Standards regulations.

Due to no rehabilitation obligation to be provided for the present value (2018) of the facility is R 0.

The provision that was included in the 2017 AFS was therefore corrected by management as a prior period error adjustment in accordance with GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors. Refer to note 51.

24. Accumulated surplus

Accumulated surplus (deficit)	707,209,146	798,821,852

25. Service charges

Sale of electricity	50,169,287	48,911,710
Sale of water	49,429,239	46,176,654
Sewerage and sanitation charges	20,637,802	18,766,439
Refuse removal	19,177,004	17,922,952
	139,413,332	**131,777,755**

26. Rental of facilities and equipment

Premises		
Rental of sites	368,768	309,893
Facilities and equipment		
Rental of facilities	145,910	59,452
	514,678	**369,345**

27. Interest received (trading)

Interest received (trading)	40,358,478	37,978,056

28. Other income

Building line relaxation	-	256
Building plans and clearance certificates	60,582	24,512
Connection fees	503,730	671,776
Insurance claims	-	27,841
Other income	470,281	117,536
Tender documents	189,880	192,813
	1,224,473	**1,034,734**

29. Investment revenue

Interest revenue		
Bank	831,922	1,990,617

Figures in Rand	2018	2017

30. Property rates

Rates received

Property rates	18,796,636	17,799,341

Valuations

Residential	1,105,623,907	1,099,810,907
Commercial	206,481,254	209,981,254
State	198,838,357	198,491,607
Municipal	329,681,900	328,492,500
Small holdings and farms	3,279,778,287	3,287,924,355
	5,120,403,705	**5,124,700,623**

Valuations on land and buildings are performed every 5 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 5% per annum (2017: 5%) is levied on overdue accounts.

The amended act (MPRA) prescribes that the valuation roll is valid for a period of 5 years.

This office has submitted an application to the MEC for the extension of the current valuation roll to 7 years.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Government grants and subsidies

Operating grants		
Equitable Share	79,880,000	78,751,000
Expanded Public Works Programme Grant	1,000,000	1,023,000
Municipal Finance Management Grant	1,700,000	1,717,019
Municipal Support Programme	-	1,250,000
	82,580,000	82,741,019
Capital grants		
Integrated National Electrification Programme Grant	3,427,673	-
Municipal Infrastructure Grant	25,755,000	26,718,000
Regional Bulk Infrastructure Grant	8,162,805	21,780,602
	33,917,805	48,498,602
	119,925,478	**131,239,621**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	40,045,478	52,488,621
Unconditional grants received	79,880,000	78,751,000
	119,925,478	**131,239,621**

Equitable Share

Current-year receipts	79,880,000	78,751,000
Conditions met - transferred to revenue	(79,880,000)	(78,751,000)
	-	**-**

The Equitable Share is an unconditional grant and in terms of the Constitution, it is used to subsidise the provision of basic services to indigent community members.

Integrated National Electrification Programme Grant

Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(3,427,673)	-
	1,572,327	**-**

Conditions still to be met - remain liabilities (see note 22).

Regional Bulk Infrastructure Grant

Current-year receipts	10,589,204	21,780,602
Conditions met - transferred to revenue	(8,162,805)	(21,780,602)
	2,426,399	**-**

Conditions still to be met - remain liabilities (see note 22).

Municipal Infrastructure Grant

Current-year receipts	25,755,000	26,718,000
Conditions met - transferred to revenue	(25,755,000)	(26,718,000)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Government grants and subsidies (continued)

Expanded Public Works Programme Grant

Current-year receipts	1,000,000	1,030,154
Conditions met - transferred to revenue	(1,000,000)	(1,030,154)
	-	-

Municipal Support Programme

Current-year receipts	-	1,250,000
Conditions met - transferred to revenue	-	(1,250,000)
	-	-

32. Public contributions and donations

Public contributions and donations	500,000	5,500

In 2016/2017 a donation of 5 Springbuck (R 5 500) was made to the municipality by Destea.

In 2017/2018 National Treasury paid suppliers (R 500 000) on behalf of the municipality.

33. Fines

Traffic fines	36,329	165,740

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Employee related costs

Acting allowances	2,677,750	1,784,009
Basic	71,470,553	60,305,954
Bonus	4,550,869	3,639,533
Defined contribution plans	287,000	1,165,000
Housing benefits and allowances	1,325,802	1,087,113
Leave pay and bonus provision	1,248,515	1,406,333
Medical aid - company contributions	1,760,198	2,198,867
Overtime payments	5,646,544	7,087,001
Pension	11,050,489	9,487,103
SALGA contributions	56,580	831,442
Skills development levy	965,412	864,888
Standby allowances	1,924,896	2,092,146
Telephone and other allowances	1,037,737	853,882
Travel allowances	4,843,971	3,297,415
UIF	777,867	648,965
WCA	94,919	128,531
	109,719,102	**96,878,182**

The *leave pay and bonus provision* comprises of the year-on-year movements in the leave and bonus provisions. Refer to note 21 for more detail on these employee benefit liabilities.

Remuneration of Executive Directors

Remuneration of Acting Accounting Officer

Annual remuneration	-	48,182

Remuneration of Accounting Officer

Annual remuneration	1,203,856	1,028,560
Acting allowance	100,749	-
Car allowance	96,000	188,000
Bonus	75,000	163,500
Other allowances	48,000	121,239
Contributions to UIF, medical and pension funds	16,920	228,947
	1,540,525	**1,730,246**

Remuneration of Acting Chief Financial Officer

Annual remuneratiion	340,692	328,269
Acting allowance	481,195	348,368
Car allowance	130,662	130,662
Bonus	28,391	26,445
Other allwances	4,514	21,913
Contributions to UIF, medical and pension funds	133,555	172,049
	1,119,009	**1,027,706**

Remuneration of Executive Director - Corporate Services

Annual remuneratiion	1,135,248	926,875
Car allowance	42,000	39,500
Bonus	68,000	54,000
Other allowances	36,000	44,702
Contributions to UIF, medical and pension funds	14,605	3,569
	1,295,853	**1,068,646**

Remuneration of Executive Director - Technical Services

Annual remuneration	382,363	764,759

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Employee related costs (continued)

Car allowance	45,000	104,667
Bonus	59,429	58,383
Other allowances	60,000	144,944
Contributions to UIF, medical and pension funds	6,160	3,569
	552,952	**1,076,322**

Remuneration of Executive Director - Community Services

Annual remuneration	537,751	874,875
Acting allowance	137,484	-
Car allowance	76,577	91,000
Bonus	28,391	54,000
Other allowances	2,633	44,477
Contributions to UIF, medical and pension funds	53,130	38,188
	835,966	**1,102,540**

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

35. Remuneration of councillors

Salaries	3,904,435	5,620,545
Mayor	582,722	512,959
Bonuses	-	33,870
Car and other allowances	1,406,428	1,034,465
	5,893,585	**7,201,839**

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	809,507	774,008
Executive Committee	1,424,913	1,534,404
Councillors	3,004,751	3,242,804
Speaker	654,414	698,529
	5,893,585	**6,249,745**

36. Depreciation and amortisation

Property, plant and equipment	65,506,618	72,138,171
Intangible assets	16,227	16,227
	65,522,845	**72,154,398**

Figures in Rand	2018	2017

37. Impairment of assets

Impairments		
Property, plant and equipment	548,280	16,300

During the annual asset verification process assets were identified that was lost, stolen or damaged.

The main classes of assets affected by impairment losses are:

Infrastructure assets - R 545 679 (2017: R 15 328)

Other property, plant and equipment - R 2 601 (2017: R 972)

38. Finance costs

Non-current borrowings	803,958	492,069
Trade and other payables	19,656,562	15,550,483
Landfill site provision	1,380,479	1,353,568
	21,840,999	**17,396,120**

39. Lease rentals on operating lease

Lease rentals on operating lease	721,754	3,231,749

40. Debt impairment

Bad debts written off	48,721,632	52,208,251
Contributions to debt impairment provision	51,357,726	39,753,354
	100,079,358	**91,961,605**

Actual bad debts written off amounted to R 48 721 632 (2017: R 52 208 251) whilst the increase in the provision for impairment amounted to R 51 357 726 (2017: R 39 753 354).

41. Repairs and maintenance

Repairs and maintenance	11,421,334	13,785,272

42. Bulk purchases

Electricity	46,522,420	46,062,661
Water	203,859	366,163
	46,726,279	**46,428,824**

43. Contracted services

Specialist Services	8,266,744	10,675,127
Other Contractors	3,351,515	1,166,366
	11,618,259	**11,841,493**

Figures in Rand	2018	2017

44. General expenses

Advertising	200,025	252,000
Assets expensed	1,051,957	2,318,742
Auditors remuneration	4,720,743	5,760,471
Bank charges	722,069	627,359
Chemicals	1,999,369	1,702,537
Cleaning	88,356	645,401
Commission paid	937,040	993,425
Conferences and seminars	350,049	608,125
Consumables	776,449	1,459,775
Debt collection	41,979	31,225
Donations	339,266	6,279,754
Electricity	5,088,056	5,085,636
Entertainment	(124,983)	627,344
Fines and penalties	151,452	8,090
Fuel and oil	2,913,236	2,509,648
Gifts (bursaries)	1,617,413	170,985
Hire of equipment	6,265,656	1,842,396
Insurance	1,716	1,161,162
Licences	483,612	2,246,195
Other expenses	13,170	1,104,320
Postage and courier	439,405	552,922
Printing and stationery	767,702	1,923,776
Promotions	1,606,049	1,737,664
Refuse	880,546	960,234
Security (guarding of municipal property)	25,424	45,457
Sports campaign	900	9,182
Subscriptions and membership fees	12,500	45,579
Telephone and fax	1,203,016	1,478,692
Tourism development	78,950	26,860
Training	719,175	272,161
Travel - local	1,719,238	2,567,590
Uniforms	1,148,154	1,375,696
	36,237,689	**46,430,403**

45. Loss on disposal of assets and liabilities

Property, plant and equipment	(1,647,498)	(1,464,358)

46. Fair value adjustments

Biological assets	27,953	14,987

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

47. Cash generated from operations

Deficit	(91,612,703)	(84,710,847)
Adjustments for:		
Depreciation and amortisation	65,522,845	72,154,398
Loss on sale of assets and liabilities	1,647,498	1,464,358
Fair value adjustments	(27,953)	(14,987)
Impairment deficit	548,280	16,300
Debt impairment	100,079,358	91,961,605
Movements in retirement benefit assets and liabilities	1,077,000	(826,000)
Movements in provisions	1,380,479	1,258,326
Public contributions and donations	-	(5,500)
Changes in working capital:		
Inventories	(60,351)	(97,195)
Receivables from exchange transactions	(11,422)	(8,306)
Consumer debtors	(102,541,398)	(92,939,748)
Other receivables from non-exchange transactions	(1,456,381)	(446,242)
Payables from exchange transactions	51,302,819	61,065,116
VAT	(195,898)	(7,155,966)
Unspent conditional grants and receipts	3,998,726	(92,019)
Consumer deposits	111,201	53,127
	29,762,100	**41,676,420**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

48. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	52,698,120	65,821,731
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	15,809,608	145,529,484
Total capital commitments		
Already contracted for but not provided for	52,698,120	65,821,731
Not yet contracted for and authorised by accounting officer	15,809,608	64,874,684
	68,507,728	**130,696,415**

Authorised operational expenditure

Already contracted for but not provided for		
• Expenditure	8,698,231	20,196,201
Not yet contracted for and authorised by accounting officer		
• Expenditure	-	32,061,829
Total operational commitments		
Already contracted for but not provided for	8,698,231	20,196,201
Not yet contracted for and authorised by accounting officer	-	32,061,829
	8,698,231	**52,258,030**

Total commitments

Total commitments		
Authorised capital expenditure	68,507,728	130,696,415
Authorised operational expenditure	8,698,231	52,258,030
	77,205,959	**182,954,445**

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	83,354	75,221
- in second to fifth year inclusive	181,213	203,554
- later than five years	58,654	92,265
	323,221	**371,040**

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

49. Contingencies

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

Litigation is in the process against the municipality relating to damage to property of J Shabalala. The amount under dispute is R 187 100. The legal fees amount to R 46 775.

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 2,104,255. 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.

Litigation is in the process against the municipality relating to a claim of payment for performance and premature termination of contract with Tshiya Infrastructure Development (PTY) Ltd . The amount under dispute is R 1 739 517. The legal fees amount to R 434 880.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

50. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report
Chief Financial Officer	Xolani Malindi
Councillors	Shabalala Ncani Selina (Dexpro Construction and Trading)
	Blignaut Marthinus (Agristan SA, Monaufc Belegging; NG Welsyn Reitz Wooneenhede; NG Welsyn Reitz Tehuis, Tipakri Eiemdomsbeleggings)
	Mokoena Kgaketla Abram (Re Bonahetse Construction)
	Mofokeng Phoka Petrus (PMMM Builders, Purple Moss 1057)
	Mofokeng Nto,mbizonke Liesbet (Mamafielo Construction)
	Mphaka Mamahlape Roselina (Nketoane Women Primary Cooperative Limited)
	Mkwanazi Motemote(Kgwale Security and Cleaning Services)
	Mosia Mokete Jeremiah (Liphororo Productions, Central Bridge Trading 483)
	Nhlapo Buyisiwe Martha (Ibutho Multi-Purpose Co-opeterive Limited, Buyiphila Trading)
Managers	Maseko Sebina Mable (Maseko and Moji Trading and Projects)
	Letsela Simon Moeketsi (Thabo Mofutsanyane Goodman Football Academy, Small Green Garden Centre, Lapoloha Restaurant, Thanks Farm Enterprise)
	Mzizi Masolomane Samuel (Mgibane Construction, Mzito Civils Enterprise)
	Fume Lebese Louis(Feu Riough Tradiung and Projects)
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, Moletsanemm Project Management and Construction)
	Nhlapo Solomon Mokete (Kido Consulting)
	Manzi Mwandile Penwell (Pemza Consultancy agency, Nthape IT, Mamampu Trading Enterprise, Mzwajo project Management Services)
	Malindi Xolani (Lokshin Vibez, Sebenzile Sonke, African Elimu Fund)
	Morokolo Motlanalo Patricia (Katlego Hair Salon, MKM Project Managers,MKTT Salon and Transport)

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.

50. Related parties (continued)

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.

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

Remuneration of management and council
Details relating to remuneration of key management and council have been included in notes 34 & 35.

51. Prior period errors

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

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's provison for leave account and Employee cost. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Accumulated surplus R 90 912
- Decrease/Debit Employee cost R 203 294
- Increase/Credit Provision for leave (R 294 207)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Biological Asset, contributions and donations and fair value adjustment. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Biological Assets R 7 300
- Increase/Credit Public contributions and donations (R 5 500)
- Increase/Credit Fair value adjustment (R 1800)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Provision (landfill site), Finance cost and Accumulated surplus .These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Accumulated Surplus R 41 704 313
- Increase/Debit Finance cost R 804 853
- Increase/Credit Provision for solid waste (R 42 509 166)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Bulk water purchases and Trade and other payables. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Expenditure:Bulk Water Purchase R 101 096
- Increase/Credit Trade and other payables (R 101 096)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Employee benefit obligation and Accumulated suplus. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Employee benefit obligation - LSA R 3 752 000
- Increase/Credit Accumulated surplus (R 3 752 000)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Property, plant and equipment. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Property,plant and equipment - Cost R 66 818 543
- Increase/Credit Property,palnt and equipment - Accumulated depreciation R 21 410 199
- Increase/Credit Accumulated surplus (R 45 408 344)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made the following reclassifications:
- Decrease/Credit Depreciation R 16 300
- Increase/Credit Impairment loss/ Reversal of impairments (R 16 300)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Cash book balances . These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Input VAT R 8
- Decrease/Credit Cash and Cash Equivalents (R 366 621)
- Increase/Debit Accumulated Surplus R 366 613

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Trade and other payables and General Expenditure . These corrections were treated as prior period errors and the net effect was as follows:

Figures in Rand	2018	2017

51. Prior period errors (continued)
- Increase/Debit General Expenses R 7 899
- Increase/Credit Trade and other payables (R 7 899)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Trade and other payables and Accumulated Surplus . These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Trade and other payables R 2 327 603
- Increase/Credit Accumulated Surplus (R 2 327 603)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's DEPOSIT ESKOM . These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Long-term deposit R 941 371
- Increase/Credit Interest on investments (R 941 371)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Provision for bad debts impairment . These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Debt Impairment R 1 820 933
- Decrease/Credit VAT Output suspense (R 1 820 933)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Accumulated Surplus and creditors. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Accumulated surplus R 998 882
- Decrease/Credit Accounts payables (R 998 882)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Expenditure, Input Vat, Accrual and creditors. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit Exependiture R 3 114 464
- Decrease/Debit Accounts Accruals R 4 709
- Increase/Debit VAT Input suspense R 358 492
- Increase/Credit Accounts payables (R 3 477 665)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Expenditure and creditors. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Accounts payable R 2 116 132
- Decrease/Credit Expenditure (R 1 854 967)
- Increase/Credit Input VAT (R261 165)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Expenditure and creditors. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Accounts payable R 1 445 708
- Decrease/Credit Expenditure (R 1 445 708)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's VAT receivable and Debt impairment. These corrections were treated as prior period errors and the net effect was as follows:
- Increase/Debit VAT output suspense R 25 753 855
- Decrease/Credit Debt impairment (R 25 753 855)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Accumulated Surplus and Creditors. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Accounts payable R 75 824
- Increase/ Credit Accumulated surplus (R 75 824)

Figures in Rand	2018	2017

51. Prior period errors (continued)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Accumulated Surplus and Cash and Cash Equivalents. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Cash and cash equivalents R806
- Increase/ Credit Accumulated surplus (R806)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Salary Suspense and Cash and Cash Equivalents. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Cash and cash equivalents R5,535,137
- Increase/ Credit Salary suspense (R5,535,137)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Trade Payables and Cash and Cash Equivalents. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Trade payables R1,369,850
- Increase/ Credit Cash and cash Equivalents (R1,369,850)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Accumulated Surplus and Salary Suspense. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Salary suspense R9,145,383
- Increase/ Credit Accumulated surplus (R9,145,383)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's Accumulated Surplus and Cash and Cash Equivalents. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit Cash and cash equivalents R188,243
- Increase/ Credit Accumulated surplus (R188,243)

Management of Nketoana Local Municipality, while preparing the annual financial statements for the year ending 30 June 2018, made corrections to prior year's General Expenses and Cash and Cash Equivalents. These corrections were treated as prior period errors and the net effect was as follows:
- Decrease/Debit General expenses R693
- Increase/ Credit Cash and cash equivalents (R693)

The correction of the errors resulted in adjustments as follows

Statement of financial position 2015/2016		
Cash and Cash Equivalents	-	4,720,942
VAT Receivable - Input suspense	-	(8)
VAT Receivable - Output suspense	-	25,753,855
Employee benefit obligation	-	3,752,000
Trade and Other Payables - Accruals	-	(7,690,687)
Trade and Other Payables	-	(931,114)
Property, Plant and Equipment	-	45,408,344
Provision for solid waste	-	(41,704,313)
Trade and other payabes - Accrued leave pay	-	(90,912)
Increase/(Decrease) in Accumulated Surplus 2015/2016	**-**	**29,218,107**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

51. Prior period errors (continued)

Statement of financial position 2016/2017		
Provision for leave	-	(203,295)
Provision for solid waste	-	(804,853)
Biological assets	-	7,300
Property, Plant and Equipment	-	(13,309,372)
Trade and Other Payables	-	93,015
VAT Receivable - Output suspense	-	1,820,933
Long-term deposits	-	941,371
Increase/(Decrease) in Accumulated Surplus 2016/2017	**-**	**(11,454,901)**

Statement of Financial Performance		
Bulk purchases	-	101,096
Depreciation and amortisation	-	13,293,072
Employee cost	-	203,295
Fair value adjustments	-	(5,500)
Finance cost	-	804,853
Impairment loss/ Reversal of impairments	-	16,300
Public contributions and donations	-	(1,800)
General expenses	-	(194,804)
Debt impairment	-	(1,820,933)
Interest received (trading)	-	(941,371)
Increase/ (decrease) in deficit for the year	**-**	**11,454,208**

52. Risk management

Financial risk management

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

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

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

The municipality monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:
- liquidity risk;
- credit risk; and
- market risk (including interest rate risk).

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

52. Risk management (continued)

Liquidity risk

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

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

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

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

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

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.

Figures in Rand	2018	2017

52. Risk management (continued)

Interest rate risk

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

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

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

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

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

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

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

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

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

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

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

Cash flow interest rate risk

Fair value interest rate risk

52. Risk management (continued)

Capital risk

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

Financial instrument		
VKB - Unlisted shares	5,000	5,000

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

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

53. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 707,209,146 and that the municipality's total 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 2018 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 that was approved by council. This strategy includes the collection of arrears via the prepaid electricity system; and termination, blocking or reduction of services due to non-payment.

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

54. Unauthorised expenditure

	2018	2017
Opening balance	259,629,854	181,728,780
Current year	-	77,901,074
	259,629,854	**259,629,854**

2018

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.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

55. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	36,527,507	19,728,643
Current year - interest on overdue accounts	21,335,407	16,798,864
	57,862,914	**36,527,507**

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

Details of fruitless and wasteful expenditure	2018 Interest on overdue accounts	2017 Interest on overdue accounts
Auditor-General	517,922	453,499
DBSA	200,779	421,153
Eskom	19,502,406	15,509,062
Other suppliers	1,011,989	47,838
South African Revenue Services	102,311	367,312
	21,335,407	**16,798,864**

56. Irregular expenditure

Opening balance	143,930,775	120,117,675
Add: Irregular Expenditure - current year	16,692,081	23,813,100
	160,622,856	**143,930,775**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Section 32	None	14,117,486
SCM processes not followed	None	696,084
Bidding process not followed (N&C)	None	558,966
Current year payments toward prior year irregular contracts	None	1,319,545
		16,692,081

57. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	234,090	-
Current year subscription / fee	105,547	782,040
Amount paid - current year	(105,547)	(547,950)
Amount paid - previous years	(206,953)	-
	27,137	**234,090**

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

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

Material distribution losses

Electricity	6,567,039	927,490
Water	8,553,933	7,186,783
	15,120,972	**8,114,273**

Bulk water losses	Kiloliter	Percentage (%)
2018	993,488	27
2017	1,007,964	27
	2,001,452	**54**

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% (2017: 27%).

kL - units	993 488	1 007 964
Percentage	27%	27%

Distribution losses - Electricity
In the current year the energy losses were 12.65% (2017: 1.13%). 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	5 051568	605 174
Percentage	12.65%	1.13%

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

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

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

Audit fees

Opening balance	5,809,135	5,102,792
Current year subscription / fee	4,703,317	5,706,343
Amount paid - current year	(4,703,317)	(5,000,000)
Amount paid - previous years	(2,978,396)	-
	2,830,739	**5,809,135**

PAYE and UIF

Current year subscription / fee	12,265,936	10,478,429
Amount paid - current year	(12,265,936)	(10,478,429)
	-	-

Figures in Rand	2018	2017

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

Pension and Medical Aid Deductions

	2018	2017
Opening balance	2,984,193	1,014,303
Current year subscription / fee	20,570,753	16,890,394
Amount paid - current year	(20,570,753)	(14,920,504)
Amount paid - previous years	(2,984,193)	-
	-	**2,984,193**

VAT

	2018	2017
VAT receivable	21,324,237	21,128,339

VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have not been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding more than 90 days R
Makhoba, P	31,764
Mofokeng, OS	2,910
Mokoena, TE	4,198
Mosia, MJ	23,023
Tsotetsi, Ms	11,559
	73,454

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

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

Non-compliance with sections of MFMA

- Section 14(2)
- Section 32(2)(a) and (b), 32(4)
- Section 62(2)(e)

58. Utilisation of Long-term liabilities reconciliation

	2018	2017
Long-term liabilities raised	6,538,222	8,837,892

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

58. Utilisation of Long-term liabilities reconciliation (continued)

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

59. Deviation from supply chain management regulations

	2018	2017
Deviations for the current year	1,454,028	79,779

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 441 571 - 2 emergency deviation instances occured to purchase new pumps.

R 1 012 457 - 5 emergency deviation instances occured to repair faulty existing pumps.

60. Change in estimate

Property, plant and equipment

The residual values, estimated useful lives and depreciation method were reviewed at 30 June 2018. Adjustments to the residual values and useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well.

The remaining useful lives of Buidlings, Infrastructure and Other property, plant and equipment was increased based on the condition of the assets. Effect of the change in the usefull lives:

	2018	2017
Increase / (Decrease) in Depreciation on Buildings	(7,503,007)	-
Increase / (Decrease) in Depreciation on Infrastructure assets	(116,214)	-
Increase / (Decrease) in Depreciation on Other property, plant and equipment	(295,299)	-
	(7,914,520)	**-**