



**Lukhanji Local Municipality  
(Registration number EC134)  
Annual Financial Statements  
for the year ended 30 June 2016**

# Lukhanji Local Municipality

(Registration number EC134)

Annual Financial Statements for the year ended 30 June 2016

## General Information

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<b>Legal form of entity</b>	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)
<b>Nature of business and principal activities</b>	Lukhanji Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)
<b>Mayoral committee</b>	
Executive Mayor	Mrs. N. Makanda
Councillors	Mr. TM Jocki Mrs. S Van Heerden Mrs. NC Pambo Mr. M Peter Mr. MZ Gwantshu Mrs. AE Hulushe Mrs. Lungisa Mr. ML Dyan
<b>Grading of local authority</b>	Grade 4
<b>Accounting Officer</b>	Mrs. NZ Gqiba
<b>Registered office</b>	70 Cathcart Road Queenstown 5320
<b>Postal address</b>	Private Bag X7111 Queenstown 5320
<b>Bankers</b>	ABSA FNB Queenstown
<b>Auditors</b>	Auditor-General South Africa
<b>Attorneys</b>	Smith Tabata Bowes McDougall Incorporated Wheeldom, Rushmere and Cole Incorporated Bobotyana and Company

# Lukhanji Local Municipality

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## Index

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

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### Abbreviations

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)
ASB	Accounting Standards Board

# Lukhanji Local Municipality

(Registration number EC134)

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## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act 56 of 2003 (MFMA), 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 period 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 are 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 she 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.

In terms of the Provincial Gazette No. 3717, Provincial Notice 182 of 2016 Lukhanji Local Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality will be disestablished with effect from 10 August 2016 and Enoch Mgijima Local Municipality (EMLM) will be established. The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future as a part of EMLM.

The annual financial statements set out on pages 4 to 82, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

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**Mrs. NZ Gqiba**  
**Municipal Manager**

# Lukhanji Local Municipality

(Registration number EC134)

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Notes	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	2	63,073,855	34,627,333
Receivables from non-exchange transactions	3	36,921,565	25,191,790
VAT receivable	4	9,526,432	4,454,754
Cash and cash equivalents	5	107,977,094	183,834,219
		<b>217,498,946</b>	<b>248,108,096</b>
<b>Non-Current Assets</b>			
Biological assets that form part of an agricultural activity	6	5,651,900	2,592,120
Investment property	7	289,493,178	289,493,178
Property, plant and equipment	8	906,235,315	894,969,209
Heritage assets	9	1,049,100	1,049,100
Other financial assets	10	325,633	312,429
Long term debtors		-	3,211,039
		<b>1,202,755,126</b>	<b>1,191,627,075</b>
<b>Total Assets</b>		<b>1,420,254,072</b>	<b>1,439,735,171</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	11	-	523,924
Finance lease obligation	12	38,515	1,103,678
Payables from exchange transactions	13	18,568,480	47,211,245
Consumer deposits	14	9,592,387	9,230,952
Employee benefit obligation	15	19,858,346	17,321,601
Unspent conditional grants and receipts	16	13,652,039	14,374,907
		<b>61,709,767</b>	<b>89,766,307</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	11	-	105,766
Finance lease obligation	12	3,591	42,106
Employee benefit obligation	15	42,452,059	41,486,865
Provisions	17	16,881,913	4,245,104
		<b>59,337,563</b>	<b>45,879,841</b>
<b>Total Liabilities</b>		<b>121,047,330</b>	<b>135,646,148</b>
<b>Net Assets</b>		<b>1,299,206,742</b>	<b>1,304,089,023</b>
Accumulated surplus		1,299,206,742	1,298,414,147

\* See Note 43

# Lukhanji Local Municipality

(Registration number EC134)

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	222,478,554	200,863,603
Rental of facilities and equipment	19	3,062,888	2,760,577
Interest received - debtors		25,820,620	18,402,234
Agency services		4,695,420	4,244,034
Other income	20	6,530,804	10,159,570
Interest received - investment	21	11,454,355	8,837,197
<b>Total revenue from exchange transactions</b>		<b>274,042,641</b>	<b>245,267,215</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	22	72,825,319	66,069,013
<b>Transfer revenue</b>			
Government grants & subsidies	23	164,477,999	166,805,468
Fines, Penalties and Forfeits		166,399	192,808
Licences and permits		3,260,278	3,844,095
<b>Total revenue from non-exchange transactions</b>		<b>240,729,995</b>	<b>236,911,384</b>
<b>Total revenue</b>		<b>514,772,636</b>	<b>482,178,599</b>
<b>Expenditure</b>			
Employee related costs	24	(150,620,341)	(126,623,981)
Remuneration of councillors	25	(23,204,377)	(22,305,544)
Depreciation and amortisation	26	(52,224,730)	(51,105,753)
Impairment loss		(405,836)	-
Finance costs	27	(338,750)	(403,072)
Debt Impairment	28	(22,542,851)	(4,472,886)
Repairs and maintenance	29	(19,513,139)	(12,483,526)
Bulk purchases	30	(185,160,441)	(164,019,181)
Contracted services	31	(7,436,536)	(5,855,784)
Grants expenditure	32	(8,347,694)	(7,705,989)
General Expenses	33	(49,484,301)	(39,096,076)
<b>Total expenditure</b>		<b>(519,278,996)</b>	<b>(434,071,792)</b>
<b>Operating (deficit) surplus</b>		<b>(4,506,360)</b>	<b>48,106,807</b>
Loss on disposal of assets and liabilities		(864,826)	-
Fair value adjustments	35	3,059,780	-
Actuarial gains/losses	15	3,104,001	8,969,856
		<b>5,298,955</b>	<b>8,969,856</b>
<b>Surplus for the year from continuing operations</b>		<b>792,595</b>	<b>57,076,663</b>
Discontinued operations	36	-	(14,989,381)
<b>Surplus for the year</b>		<b>792,595</b>	<b>42,087,282</b>

\* See Note 43

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,104,115,344	1,104,115,344
Adjustments		
Correction of errors	152,211,521	152,211,521
<b>Balance at 01 July 2014 as restated*</b>	<b>1,256,326,865</b>	<b>1,256,326,865</b>
Changes in net assets		
Surplus for the year	42,087,282	42,087,282
Total changes	42,087,282	42,087,282
<b>Restated* Balance at 01 July 2015</b>	<b>1,298,414,147</b>	<b>1,298,414,147</b>
Changes in net assets		
Surplus for the year	792,595	792,595
Total changes	792,595	792,595
<b>Balance at 30 June 2016</b>	<b>1,299,206,742</b>	<b>1,299,206,742</b>

Note(s)

\* See Note 43

# Lukhanji Local Municipality

(Registration number EC134)

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Ratepayers and other		293,592,686	296,696,999
Grants		164,477,999	166,805,468
Interest income		11,454,355	8,837,197
		<u>469,525,040</u>	<u>472,339,664</u>
<b>Payments</b>			
Employee costs		(170,322,779)	(149,058,750)
Suppliers		(286,309,495)	(223,217,501)
		<u>(456,632,274)</u>	<u>(372,276,251)</u>
<b>Net cash flows from operating activities</b>	39	<b><u>12,892,766</u></b>	<b><u>100,063,413</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(60,731,702)	(28,257,257)
Proceeds from sale of property, plant and equipment	8	-	113,751
Proceed from disposal of movable and immovable assets		170,747	-
Purchase of biological assets that form part of an agricultural activity	6	(548,865)	-
Increase/(decrease) in long term debtors		(3,211,039)	227,752
(Increase)/ Decrease in financial assets		(13,086)	-
Other adjustments		(22,543,348)	-
		<u>(86,877,293)</u>	<u>(27,915,754)</u>
<b>Cash flows from financing activities</b>			
Finance lease payments		(1,242,908)	(9,369,195)
Long term loan (raised)/repaid		(629,690)	(7,908,145)
		<u>(1,872,598)</u>	<u>(17,277,340)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(75,857,125)</u></b>	<b><u>54,870,319</u></b>
Cash and cash equivalents at the beginning of the year		183,834,219	128,963,900
<b>Cash and cash equivalents at the end of the year</b>	5	<b><u>107,977,094</u></b>	<b><u>183,834,219</u></b>

\* See Note 43



# Lukhanji Local Municipality

(Registration number EC134)

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	235,834,511	-	<b>235,834,511</b>	222,478,554	<b>(13,355,957)</b>	1
Rental of facilities and equipment	2,476,032	-	<b>2,476,032</b>	3,062,888	<b>586,856</b>	2
Interest received - debtors	8,681,021	16,406,742	<b>25,087,763</b>	25,820,620	<b>732,857</b>	3
Agency services	4,012,205	600,000	<b>4,612,205</b>	4,695,420	<b>83,215</b>	
Other income	88,865,167	(3,000)	<b>88,862,167</b>	6,530,804	<b>(82,331,363)</b>	4
Interest received - investment	5,650,000	3,933,367	<b>9,583,367</b>	11,454,355	<b>1,870,988</b>	5
<b>Total revenue from exchange transactions</b>	<b>345,518,936</b>	<b>20,937,109</b>	<b>366,456,045</b>	<b>274,042,641</b>	<b>(92,413,404)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	80,146,512	-	<b>80,146,512</b>	72,825,319	<b>(7,321,193)</b>	6
<b>Transfer revenue</b>						
Government grants and subsidies	130,818,550	1,085,000	<b>131,903,550</b>	164,477,999	<b>32,574,449</b>	7
Fines	347,690	(100,000)	<b>247,690</b>	166,399	<b>(81,291)</b>	8
Motor vehicle registrations	3,970,702	(355,000)	<b>3,615,702</b>	3,260,278	<b>(355,424)</b>	9
<b>Total revenue from non-exchange transactions</b>	<b>215,283,454</b>	<b>630,000</b>	<b>215,913,454</b>	<b>240,729,995</b>	<b>24,816,541</b>	
<b>Total revenue</b>	<b>560,802,390</b>	<b>21,567,109</b>	<b>582,369,499</b>	<b>514,772,636</b>	<b>(67,596,863)</b>	
<b>Expenditure</b>						
Employee related costs	(172,983,840)	10,501,313	<b>(162,482,527)</b>	(150,620,341)	<b>11,862,186</b>	10
Remuneration of councillors	(21,536,056)	(817,644)	<b>(22,353,700)</b>	(23,204,377)	<b>(850,677)</b>	11
Depreciation and amortisation	(26,652,382)	-	<b>(26,652,382)</b>	(52,224,730)	<b>(25,572,348)</b>	12
Impairment loss/ Reversal of impairments	-	-	-	(405,836)	<b>(405,836)</b>	
Finance costs	(57,428)	(1,036,227)	<b>(1,093,655)</b>	(338,750)	<b>754,905</b>	13
Debt impairment	(57,972,818)	(17,009,392)	<b>(74,982,210)</b>	(22,542,851)	<b>52,439,359</b>	15
Repairs and maintenance	-	-	-	(19,513,139)	<b>(19,513,139)</b>	16
Bulk purchases	(188,770,176)	-	<b>(188,770,176)</b>	(185,160,441)	<b>3,609,735</b>	17
Contracted Services	(5,159,139)	(800,001)	<b>(5,959,140)</b>	(7,436,536)	<b>(1,477,396)</b>	18
Transfers and Subsidies	(7,463,550)	(1,085,000)	<b>(8,548,550)</b>	(8,347,694)	<b>200,856</b>	19
Loss on disposal of assets	-	-	-	(864,826)	<b>(864,826)</b>	
General Expenses	(80,207,042)	(11,320,118)	<b>(91,527,160)</b>	(49,484,301)	<b>42,042,859</b>	20
<b>Total expenditure</b>	<b>(560,802,431)</b>	<b>(21,567,069)</b>	<b>(582,369,500)</b>	<b>(520,143,822)</b>	<b>62,225,678</b>	
<b>Operating deficit</b>	<b>(41)</b>	<b>40</b>	<b>(1)</b>	<b>(5,371,186)</b>	<b>(5,371,185)</b>	
Grants funded capital expenditure	-	-	-	3,059,780	<b>3,059,780</b>	
Actuarial gains/losses	-	-	-	3,104,001	<b>3,104,001</b>	21
	-	-	-	<b>6,163,781</b>	<b>6,163,781</b>	
<b>Capex Budget</b>	<b>76,702,000</b>	<b>23,133,000</b>	<b>99,835,000</b>	<b>792,595</b>	<b>(99,042,405)</b>	

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>76,702,000</b>	<b>23,133,000</b>	<b>99,835,000</b>	<b>792,595</b>	<b>(99,042,405)</b>	

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from exchange transactions	36,254,470	6,045,675	<b>42,300,145</b>	63,073,855	<b>20,773,710</b>	1
Receivables from non-exchange transactions	28,657,201	(7,154,901)	<b>21,502,300</b>	36,921,565	<b>15,419,265</b>	
VAT receivable	-	-	-	9,526,432	<b>9,526,432</b>	
Cash and cash equivalents	97,210,971	63,447,173	<b>160,658,144</b>	107,977,094	<b>(52,681,050)</b>	
	<b>162,122,642</b>	<b>62,337,947</b>	<b>224,460,589</b>	<b>217,498,946</b>	<b>(6,961,643)</b>	
<b>Non-Current Assets</b>						
Biological assets that form part of an agricultural activity	-	-	-	5,651,900	<b>5,651,900</b>	
Investment property	153,473,367	116,639,448	<b>270,112,815</b>	289,493,178	<b>19,380,363</b>	
Property, plant and equipment	966,055,814	176,607,680	<b>1,142,663,494</b>	906,235,315	<b>(236,428,179)</b>	
Heritage assets	-	-	-	1,049,100	<b>1,049,100</b>	2
Other financial assets	-	-	-	325,633	<b>325,633</b>	
	<b>1,119,529,181</b>	<b>293,247,128</b>	<b>1,412,776,309</b>	<b>1,202,755,126</b>	<b>(210,021,183)</b>	
<b>Total Assets</b>	<b>1,281,651,823</b>	<b>355,585,075</b>	<b>1,637,236,898</b>	<b>1,420,254,072</b>	<b>(216,982,826)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	1,093,655	-	<b>1,093,655</b>	-	<b>(1,093,655)</b>	
Finance lease obligation	-	-	-	38,515	<b>38,515</b>	
Payables from exchange transactions	31,177,690	2,478,341	<b>33,656,031</b>	18,568,483	<b>(15,087,548)</b>	3
Consumer deposits	178,127	9,413,294	<b>9,591,421</b>	9,592,387	<b>966</b>	
Employee benefit obligation	-	-	-	19,858,346	<b>19,858,346</b>	
Unspent conditional grants and receipts	-	-	-	13,652,039	<b>13,652,039</b>	
Provisions	80,454,134	(14,198,660)	<b>66,255,474</b>	-	<b>(66,255,474)</b>	
	<b>112,903,606</b>	<b>(2,307,025)</b>	<b>110,596,581</b>	<b>61,709,770</b>	<b>(48,886,811)</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	1,093,655	-	<b>1,093,655</b>	-	<b>(1,093,655)</b>	4
Finance lease obligation	-	-	-	3,591	<b>3,591</b>	
Employee benefit obligation	-	-	-	42,452,059	<b>42,452,059</b>	
Provisions	4,240,830	-	<b>4,240,830</b>	16,881,913	<b>12,641,083</b>	
	<b>5,334,485</b>	-	<b>5,334,485</b>	<b>59,337,563</b>	<b>54,003,078</b>	
<b>Total Liabilities</b>	<b>118,238,091</b>	<b>(2,307,025)</b>	<b>115,931,066</b>	<b>121,047,333</b>	<b>5,116,267</b>	
<b>Net Assets</b>	<b>1,163,413,732</b>	<b>357,892,100</b>	<b>1,521,305,832</b>	<b>1,299,206,739</b>	<b>(222,099,093)</b>	

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,163,413,732	357,892,100	<b>1,521,305,832</b>	1,299,206,739	<b>(222,099,093)</b>	5

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These accounting policies are consistent with the previous period.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

Standards

#### Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2012)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2012)
- GRAP 5 - Borrowing Costs (as revised in 2013)
- GRAP 6 - Consolidated and Separate Financial Statements (as revised 2010)
- GRAP 7 - Investments in Associates (as revised 2012)
- GRAP 8 - Interests in Joint Ventures (as revised 2010)
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2012)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2012)
- GRAP 13 - Leases (as revised in 2012)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2012)
- GRAP 17 - Property Plant and Equipment (as revised in 2012)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 27 - Agriculture (Replaces GRAP101) (as revised 2012)
- GRAP 31 - Intangible Assets (replace GRAP 102) (as revised in 2012)
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2013)
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments
- GRAP 100 - Discontinuing operations
- GRAP 105 - Transfer of functions between entities under common control)
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

#### Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

- GRAP 18 - Segmental Reporting
- GRAP 20 - Related Party Disclosures
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP108 - Statutory Receivables

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### Interpretations Issued and Effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 - Loyalty programmes
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 11 - Consolidation Special purpose entities
- IGRAP 12 - Jointly controlled entities – Non-monetary contributions by ventures
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

### Interpretations Issued, Future Effective Date - can base accounting policy on, or early adopt

- IGRAP 11 - Consolidation Special purpose entities
- IGRAP 12 - Jointly controlled entities – Non-monetary contributions by ventures
- IGRAP 17 - Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The amounts are all rounded to the nearest Rand.

### 1.2 Going concern assumption

In terms of Provincial Gazette No. 3717, Provincial Notice 182 of 2016, Lukhanji Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality will be disestablished with effect from 10 August 2016 and Enoch Mgijima Local Municipality will be established. The annual financial statements have been prepared on a going concern basis as it is expected that the municipality will continue to operate for at least the next 12 months as part of Enoch Mgijima Local Municipality.

### 1.3 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with South African Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. These include:

#### Trade receivables and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

On receivables an impairment loss is recognised in the surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at the initial recognition.

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

#### Employee benefit obligation

The present value of the employee benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Employee Benefit Obligation note 15 to the financial statements.

#### Effective interest method

The municipality used the prime interest rate to discount future cash flows.

#### Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

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

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

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

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

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

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

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Biological assets are derecognised when disposed off. The gains or losses are then recognised through the Statement of Financial Performance.

### 1.5 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.

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.

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.

The cost of self-constructed investment property is the cost at the date of completion.

The following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for currently undetermined future use. If the Municipality has not determined that it will use the land as owner-occupied property, or for a short term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behalf of the Municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, Plant and Equipment or Non-current Assets Held for Sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as Investment Property;
- Property that is leased out under a finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and or service delivery.

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.



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### 1.5 Investment property (continued)

Property interest held under operating leases are classified and accounted for as investment property if property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied and from property held for sale is established by using criteria that it can utilise to exercise judgment consistently in accordance with the definition of investment property and with the related guidance.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	30 years
Air-conditioners	3-7 years

Investment property is unrecognised 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.

Subsequent to initial recognition, Investment property is carried at cost less accumulated depreciation and impairment. No depreciation is recognised where the residual value of the property exceeds the historical cost of the Investment property.

### 1.6 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.

Property, plant and equipment are initially recognised at cost on the acquisition date, or in the case of assets acquired by grant or donation, deemed cost being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other cost 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. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site on which is located.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e non-exchange transaction), the cost is deemed to be equal to the fair value of the asset on the date acquired.

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.

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

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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property plant and equipment.

Subsequent to initial measurement, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

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

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the Municipality. Components of assets that are significant in relation to the whole asset or that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the expenditure will flow to the municipality and the cost can be measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity of future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

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

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Item	Depreciation method	Average useful life
Land		Indefinite years
Finance lease assets		
• Office equipment	Straight line	3 years
• Motor vehicles	Straight line	5 years
Infrastructure		25 years
• Roads and paving	Straight line	25 years
• Pedestrian malls	Straight line	40 years
• Electricity		

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

#### Community

• Buildings	Straight line	30 years
• Recreational facilities	Straight line	20-30 years
• Halls	Straight line	50 years
• Libraries	Straight line	50 years
• Parks and gardens	Straight line	20 years
• Other assets	Straight line	15-20 years

#### Other property, plant and equipment

• Buildings	Straight line	30 years
• Motor vehicles	Straight line	5-7 years
• Office equipment	Straight line	3-7 years
• Furniture and fittings	Straight line	7-10 years
• Bins and containers	Straight line	5 years
• Plant and equipment	Straight line	3-10 years
• Landfill sites	Straight line	10-50 years
• Emergency equipment	Straight line	5-15 years
• Computer equipment	Straight line	3-5 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

The depreciation 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.

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

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.

#### Incomplete construction work

Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

#### Finance leases

Assets capitalised under finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety terms of the assets management policy.

#### Infrastructure assets

Infrastructure assets are any assets that are part of a network or similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

#### Derecognition of property, plant and equipment assets

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected to flow from its use or disposal.

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. Gains are not included in the revenue. These are included in other income.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the statement of financial performance as a gain or loss on disposal of property, plant and equipment.

### 1.7 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.

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.

Intangible assets are initially recognised at cost.

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.

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

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### 1.7 Intangible assets (continued)

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.

If the expectations from previous estimates change, the change is treated as a change in accounting estimate.

Where an intangible assets is acquired in exchange for non-monetary asset, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (cost). If the fair value cannot be determined, its deemed cost is the carrying amount of the assets given up.

Intangible assets are assessed annually for impairment, with any reduction in the carrying amount reflected through the surplus or deficit in the period incurred.

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.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows: Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the Municipality give the Municipality access to land for specific purposes for an unlimited period however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of the value in use and the fair value less cost to sell.

The estimated useful life and amortisation methods are reviewed annually at the end of each financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the statement of financial performance for the year.

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:

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset. The gain or loss is recognised in the period in which it is incurred through the surplus or deficit for the period.

### 1.8 Heritage assets

Class of heritage assets means a grouping of heritage assets of a similar nature or function in the 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.

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### 1.8 Heritage assets (continued)

An inalienable item is an asset that the municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

#### 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.

#### Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### 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).

### 1.9 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 for impairment or uncollectibility.

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### 1.9 Financial instruments (continued)

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.

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality's statement of financial position.

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, the municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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 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.

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

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 municipality 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.

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### 1.9 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

#### Initial measurement

The municipality 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.



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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality 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.

#### Reclassification

The municipality 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.

#### Gains and losses

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 municipality 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:

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. 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. 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.

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.

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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.

##### Financial liabilities

The municipality 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.

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.

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.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality 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.

### 1.10 Leases

#### The Municipality as a Lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

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### 1.10 Leases (continued)

The Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant lease.

#### 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 if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

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.

#### 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.

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.

### 1.11 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.

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.

Subsequent to initial measurement

Consumable stores, raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. In general the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost or current replacement cost.

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### 1.11 Inventories (continued)

Redundant and slow moving inventory items are identified and written down from cost to net realisable value with regards to their estimated economic or realisable values and sold at public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period in which the is sold, utilised or written off unless it qualifies for capitalisation to the cost of an asset.

Current replacement cost is the cost to replace the item at the current reporting date.

The cost of inventories comprises all costs of purchase, conversion and other costs necessary to bring the item to their present location and condition. Where inventory is manufactured, constructed or produced the cost includes the cost of labour, material and overheads used during the manufacturing process.

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

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

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

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

#### Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable 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 a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Recognition and measurement (individual assets)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Recognition and measurement (cash-generating units)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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

#### Reversal of impairment loss

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

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable 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 cash-generating asset is recognised immediately in surplus or deficit.

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

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

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

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### 1.13 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

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

#### Identification of a potential impairment

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 municipality 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 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 of non-cash generating units

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP 21 - Impairment of non-cash generating assets.

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.



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### 1.13 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.

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.

### 1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.15 Employee benefits

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

- an municipality's decision to terminate an employee's employment before the normal retirement date; or

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

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### 1.15 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 municipality 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 municipality 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 municipality 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 benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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 municipality during a reporting period, the municipality 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, the municipality recognises 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.

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

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### 1.15 Employee benefits (continued)

#### 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.

#### Other post retirement obligations

The municipality provides post-retirement health care medical aid benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.16 Provisions

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.

# Lukhanji Local Municipality

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### 1.16 Provisions (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in measuring a provision.

### 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 municipality 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 municipality 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 1.12 and 1.13.

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.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.17 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, VAT and volume rebates.

# Lukhanji Local Municipality

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## Accounting Policies

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### 1.17 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.

#### 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.

#### Interest

Revenue arising from the use by others of the municipality assets yielding interest 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 method.

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

#### Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

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. The tariffs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

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### 1.17 Revenue from exchange transactions (continued)

#### Finance Income

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

#### Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorising tariff. This includes the issue of licenses and permits.

#### Income from Agency Services

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

#### Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used.

### 1.18 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.

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.

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.

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

# Lukhanji Local Municipality

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## Accounting Policies

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### 1.18 Revenue from non-exchange transactions (continued)

#### 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.

#### Rates, including collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from the revenue.

#### 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.

#### 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.



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### 1.18 Revenue from non-exchange transactions (continued)

#### Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts or where the donation is in the form of; property, plant and equipment, when such items are available for use.

#### Public contributions

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not been met, a liability is recognised.

#### Government Grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investments is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

#### Other grants and donations

The Municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive goods and services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occurred.

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## Accounting Policies

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### 1.19 Investment income

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

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 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.  
expenditure not in terms of the conditions of the allocation from another sphere of Government, Municipality or Organ of State and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003).

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.

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.22 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.

If the expenditure is not subsequently certified as irrecoverable by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), and the Public Office Bearers Act (Act 20 of 1998), or is in contravention of the municipality's supply chain management policies.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by Council it is treated as an asset until it is recovered or written off.

### 1.24 Revenue from recovery of Unauthorised, Irregular, Fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery from the responsible Councilors or officials is virtually certain. Such revenue is based on legislated procedures.

### 1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is required or permitted by a standard of GRAP

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## Accounting Policies

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### 1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.27 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 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 in the annual financial statements. Refer to note 51.

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.29 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note 43 to the financial statements where applicable.

### 1.30 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note 40 to the financial statements.

### 1.31 Contingent assets and contingent liabilities

The municipality does not recognise contingent liabilities or contingent assets, but discloses them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable. Contingent assets and contingent liabilities are disclosed in note 41.

### 1.32 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.33 Going concern

In terms of Provincial Gazette No. 3717, Provincial Notice 182 of 2016, Lukhanji Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality will be disestablished with effect from 10 August 2016 and EMLM will be established. The annual financial statements have been prepared on a going concern basis as it is expected that the municipality will continue to operate for at least the next 12 months as part of EMLM.

### 1.34 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 2. Receivables from exchange transactions

Service Receivables	291,254,477	256,241,278
Provision for bad debts	(229,113,046)	(222,687,406)
Other receivables	94,785	184,245
Chris Hani District Municipality (Water and Sanitation)	837,639	889,216
	<b>63,073,855</b>	<b>34,627,333</b>

Debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	10,297,500	1,438,623	13,034,416	24,770,539
Refuse removal	6,842,084	2,963,102	158,032,035	167,837,221
Sundry	5,938,615	970,337	91,737,766	98,646,718
	<b>23,078,199</b>	<b>5,372,062</b>	<b>262,804,217</b>	<b>291,254,478</b>

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Trade receivables

#### Counterparties without external credit rating

Category A	-	-
Category B	2,759	2,759
Category C	53,865	53,865
	<b>56,624</b>	<b>56,624</b>

Category A – The debtors are of good quality no default in payment is expected.

Category B – These debtors are usually good payers, but there is a possibility that the debtor might not be able to pay on time.

Category C – These debtors usually pay but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

None of the financial assets that are fully performing have been renegotiated in the last year.

### Reconciliation of provision for impairment of trade and other receivables

Opening balance	222,687,406	222,453,557
Provision for impairment	6,425,640	233,849
	<b>229,113,046</b>	<b>222,687,406</b>

Debts are required to be settled after 30 days, interest is charged after this date at prime +1%. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

The fair value of trade and other receivables approximates their carrying amounts.

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### 3. Receivables from non-exchange transactions

Rates	145,136,795	100,183,455
Provision for bad debts	(108,215,230)	(74,991,665)
	<b>36,921,565</b>	<b>25,191,790</b>

Ageing of Receivables from Non-Exchange Transactions:

#### (Rates): Ageing

Current (0 - 30 days)	9,556,297	38,001,419
31 - 60 days	3,567,220	2,243,352
61 - 90 days	132,013,278	2,239,767
91 - 1830 days	-	77,302,553
	<b>145,136,795</b>	<b>119,787,091</b>

### Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

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

Opening balance	74,991,665	92,536,251
Provision for impairment	33,223,565	(17,544,586)
	<b>108,215,230</b>	<b>74,991,665</b>

Debts are required to be settled after 30 days, interest is charged after this date at prime +1%.

The fair value of trade and other receivables approximates their carrying amounts.

### 4. VAT receivable

VAT	9,526,432	4,454,754
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### 5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash Floats	36,992	30,992
Current Accounts	12,655,876	57,082,535
Call Investments Deposits	95,284,226	126,720,692
	<b>107,977,094</b>	<b>183,834,219</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
<b>Account number / description</b>	<b>Bank statement balances</b>			<b>Cash book balances</b>		
FNB Bank - Current A/C - 6243 8159 809	1,294,968	55,947,001	6,040,241	1,389,486	55,733,628	5,955,115
ABSA Bank - Current A/C 216 014 3854	11,278,178	42,721	2,650,540	11,266,390	42,721	2,650,540
ABSA Bank - Current A/C 405 281 9154	-	938,866	6,225,087	-	1,306,185	6,788,392
<b>Account number / description</b>	<b>Bank statement balances</b>			<b>Cash book balances</b>		
FNB Bank - Call Account - 624 59044 162	78,611,370	119,540,639	113,076,013	78,611,370	119,540,639	113,076,013
FNB Bank - Call Account (EPWP) A/C 624 96427 967	96,224	78,011	-	96,224	78,011	-
FNB Call Account (ISDG) A/C 62496432 635	359,958	1,000	-	359,958	1,000	-
FNB Call Account (MSIG) A/C 624 96436 265	655,638	271,665	-	655,638	271,665	-
FNB Call Account (FMG) A/C 624 96439 607	708,972	1,000	-	708,972	1,000	-
FNB Call Account (MIG) A/C 624 96441 842	11,840,310	6,341,407	-	11,840,310	6,341,407	-
FNB Call Account (INEP) A/C 625 99305 763	3,011,754	-	-	3,011,754	-	-
ABSA 32 Days notice - 909-044-8293	-	336,010	317,673	-	336,010	317,673
ABSA Call account - 2160-143-862 (Former current account)	-	147,937	142,166	-	147,937	142,166
ABSA call account - 9264-430-911(Former MIG)	-	1,008	1,003	-	1,008	1,003
ABSA call account - 9264-431-462 (Former MSIG)	-	1,008	1,003	-	1,008	1,003
ABSA call account - 9264-431-200 (Former FMG)	-	1,008	1,003	-	1,008	1,003
<b>Total</b>	<b>107,857,372</b>	<b>183,649,281</b>	<b>128,454,729</b>	<b>107,940,102</b>	<b>183,803,227</b>	<b>128,932,908</b>



# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

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### 6. Biological assets that form part of an agricultural activity

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game animals	5,651,900	-	5,651,900	2,592,120	-	2,592,120

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

	Opening balance	Biological growth	Gains or losses arising from changes in fair value	Total
Game animals	2,592,120	548,865	2,510,915	5,651,900

### Reconciliation of biological assets that form part of an agricultural activity - 2015

	Opening balance	Total
Game animals	2,592,120	2,592,120

### Non - Financial information

No title or other restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the development or acquisition of biological assets.

All biological assets are located in the nature reserve and spa. The primary activities revolving around biological assets are as follows:

- Ensure that the game life of the municipal area are conserved for future generations.
- Ensure that game numbers are managed adequately. When the need arises to reduce the game number, prospective hunters are invited to submit tenders for the purchase game, resulting in an inflow of resources to the municipality.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets.
- Regular monitoring of game quantities by municipal staff.

### Methods and assumptions used in determining fair value

Game Type	Quantity (Units)	Fair Value (per animal) R	Fair Value
Rhino	7	300,000	2,100,000
Giraffe	14	14,000	196,000
Eland	50	5,000	250,000
Kudu	50	4,000	200,000
Zebra	54	5,000	270,000
Nyala	50	12,000	600,000
Lechwe	57	12,500	712,500
Blesbok	166	1,000	166,000

# Lukhanji Local Municipality

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Figures in Rand	2016	2015
<b>6. Biological assets that form part of an agricultural activity (continued)</b>		
Impala	145	145,000
Springbok	47	47,000
Fallow Deer	23	103,500
Gemsbok	56	280,000
Duiker	8	12,000
Steenbok	1	1,800
Blackwildebeest	134	201,000
Hartebeest	82	287,000
Ostrich	12	21,600
Reed buck	39	58,500
	<b>995</b>	<b>5,651,900</b>
Fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest	5,651,900	2,592,120

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## Notes to the Annual Financial Statements

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### 7. Investment property

	2016			2015		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	289,493,178	-	289,493,178	289,493,178	-	289,493,178

#### Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	289,493,178	289,493,178

#### Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	289,493,178	289,493,178

#### Pledged as security

Investment property is made up of land and buildings.  
No investment properties were pledged as security for liabilities.

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.

The prior year balance has been restated due to errors corrected during the year, refer to note 43 for further details.

### 8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	271,140,066	(90,206,114)	180,933,952	241,230,513	(77,592,451)	163,638,062
Computer equipment	3,593,294	(1,756,442)	1,836,852	3,009,515	(1,286,950)	1,722,565
Electricity	221,987,412	(75,693,478)	146,293,934	217,909,848	(66,221,875)	151,687,973
Furniture and fixtures	5,264,035	(2,023,562)	3,240,473	4,887,404	(1,447,715)	3,439,689
Land	77,228,690	-	77,228,690	77,228,690	-	77,228,690
Landfill sites	15,966,890	(622,245)	15,344,645	3,529,601	(302,908)	3,226,693
Motor vehicles	99,903,036	(25,764,762)	74,138,274	89,501,625	(20,211,870)	69,289,755
Office equipment	2,642,321	(781,955)	1,860,366	2,419,017	(519,094)	1,899,923
Other equipment	4,097,108	(1,629,130)	2,467,978	3,557,792	(1,185,713)	2,372,079
Capital Work In Progress	21,073,799	-	21,073,799	28,447,319	-	28,447,319
Roads and stormwater	540,044,639	(158,228,287)	381,816,352	527,776,081	(135,759,620)	392,016,461
<b>Total</b>	<b>1,262,941,290</b>	<b>(356,705,975)</b>	<b>906,235,315</b>	<b>1,199,497,405</b>	<b>(304,528,196)</b>	<b>894,969,209</b>

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## Notes to the Annual Financial Statements

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

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

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Buildings	163,638,062	9,541,208	-	20,368,345	(12,613,663)	-	180,933,955
Computer equipment	1,722,565	629,230	-	-	(514,943)	-	1,836,852
Electricity	151,687,973	-	(170,747)	4,315,965	(9,539,257)	-	146,293,939
Furniture and fixtures	3,439,689	376,631	-	-	(575,847)	-	3,240,473
Land	77,228,690	-	-	-	-	-	77,228,690
Landfill sites	3,226,694	12,437,289	-	-	(319,338)	-	15,344,645
Motor vehicles	69,289,755	11,273,175	(694,079)	-	(5,730,577)	-	74,138,274
Office equipment	1,899,923	223,304	-	-	(262,861)	-	1,860,366
Machinery and equipment	2,372,079	539,316	-	-	(443,417)	-	2,467,978
Capital Work In Progress	28,447,319	21,022,730	-	(28,396,250)	-	-	21,073,799
Roads and stormwater	392,016,461	8,556,618	-	3,711,940	(22,062,831)	(405,836)	381,816,352
	<b>894,969,210</b>	<b>64,599,501</b>	<b>(864,826)</b>	<b>-</b>	<b>(52,062,734)</b>	<b>(405,836)</b>	<b>906,235,311</b>

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	169,406,639	-	-	5,411,979	(11,180,556)	163,638,062
Computer equipment	2,433,369	124,187	(96,331)	-	(738,660)	1,722,565
Electricity	161,148,241	-	-	-	(9,460,268)	151,687,973
Furniture and fixtures	4,159,103	176,279	(115,608)	-	(780,085)	3,439,689
Land	77,228,690	-	-	-	-	77,228,690
Landfill sites	3,277,177	-	-	-	(50,484)	3,226,693
Motor vehicles	78,231,304	-	457,757	-	(9,399,306)	69,289,755
Office equipment	1,852,456	362,300	(41,570)	-	(273,263)	1,899,923
Machinery and equipment	2,922,148	56,181	(90,497)	-	(515,753)	2,372,079
Capital Work In Progress	56,176,877	27,538,310	-	(55,267,868)	-	28,447,319
Roads and stormwater	357,495,936	-	-	49,855,889	(15,335,364)	392,016,461
	<b>914,331,940</b>	<b>28,257,257</b>	<b>113,751</b>	<b>-</b>	<b>(47,733,739)</b>	<b>894,969,209</b>

#### Pledged as security

Leased assets: Motor Vehicles - 509,152

Leased assets: Office Equipment 99,638 549,779

Leased assets are pledged as security over the finance lease obligation.

#### Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	28,447,319	28,447,319
Additions/capital expenditure	21,022,730	21,022,730
Transferred to completed items	(28,396,250)	(28,396,250)
	<b>21,073,799</b>	<b>21,073,799</b>

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Figures in Rand 2016 2015

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

#### Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	56,176,877	56,176,877
Additions/capital expenditure	27,538,310	27,538,310
Other movements [specify]	(55,267,868)	(55,267,868)
	<b>28,447,319</b>	<b>28,447,319</b>

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.

The prior year balance has been restated due to errors corrected during the year, refer to note 43 for further details.

### 9. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	1,049,100	-	1,049,100	1,049,100	-	1,049,100

#### Reconciliation of heritage assets 2016

	Opening balance	Total
Art Collections, antiquities and exhibits	1,049,100	1,049,100

#### Reconciliation of heritage assets 2015

	Opening balance	Total
Art Collections, antiquities and exhibits	1,049,100	1,049,100

#### Pledged as security

No heritage assets pledged as security.

### 10. Other financial assets

#### At amortised cost

Fixed Deposits	325,633	312,429
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Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 3.55 % to 5.35 % per annum. (2012 - 5.39% to 6.02%) with a accredited financial services institution (ABSA).

Fixed deposits consist out of the following accounts:

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## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>10. Other financial assets (continued)</b>		
Account number 20-5775-0882 ABSA FIXED DEPOSIT	22,954	21,600
Account number 20-6068-1802 ABSA FIXED DEPOSIT	47,954	45,110
Account number 20-6068-1577 ABSA FIXED DEPOSIT	54,225	51,225
Account number 20-4601-2562 ABSA FIXED DEPOSIT	11,461	10,951
Account number 20-6066-7315 ABSA FIXED DEPOSIT	6,872	6,554
Account number 20-5423-8637 ABSA FIXED DEPOSIT	16,000	16,000
Account number 20-5441-0158 ABSA FIXED DEPOSIT	7,629	7,278
Account number 20-5487-1867 ABSA FIXED DEPOSIT	7,382	7,382
Account number 20-5488-0953 ABSA FIXED DEPOSIT	7,382	7,382
Account number 20-5533-9377 ABSA FIXED DEPOSIT	10,100	10,100
Account number 20-5759-5270 ABSA FIXED DEPOSIT	14,500	14,500
Account number 20-5868-1438 ABSA FIXED DEPOSIT	15,930	15,000
Account number 20-5874-5343 ABSA FIXED DEPOSIT	14,177	14,177
Account number 20-5874-5458 ABSA FIXED DEPOSIT	10,935	10,935
Account number 20-5874-5521 ABSA FIXED DEPOSIT	8,266	8,266
Account number 20-5923-6583 ABSA FIXED DEPOSIT	11,612	10,947
Account number 20-5923-6672 ABSA FIXED DEPOSIT	25,974	24,485
Account number 20-6423-5597 ABSA FIXED DEPOSIT	32,280	30,537
	<b>325,633</b>	<b>312,429</b>
<b>Non-current assets</b>		
At amortised cost	325,633	312,429
<b>11. Other financial liabilities</b>		
<b>At amortised cost</b>		
Bank loan	-	629,690
There are no loans outstanding. The loans carried interest at 9.79% and 9.89% per annum respectively and were fully redeemed on 01 December 2015 and 30 June 2016 respectively.		
The loan is secured by an call investment deposit disclosed in note 5		
<b>Non-current liabilities</b>		
At amortised cost	-	105,766
<b>Current liabilities</b>		
At amortised cost	-	523,924

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>12. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	43,858	1,176,154
- in second to fifth year inclusive	3,655	47,513
	<u>47,513</u>	<u>1,223,667</u>
less: future finance charges	(5,406)	(77,883)
<b>Present value of minimum lease payments</b>	<b>42,107</b>	<b>1,145,784</b>
<b>Present value of minimum lease payments due</b>		
- within one year	38,515	1,103,678
- in second to fifth year inclusive	3,591	42,106
	<u>42,106</u>	<u>1,145,784</u>
Non-current liabilities	3,591	42,106
Current liabilities	38,515	1,103,678
	<u>42,106</u>	<u>1,145,784</u>

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

### 13. Payables from exchange transactions

Trade payables	10,271,944	38,942,696
Debtors received in advance	5,712,119	7,208,711
Payroll payables	(15,860)	4,116
Pre-paid electricity	(7,516)	(7,516)
Other payables	2,607,793	1,063,238
	<u>18,568,480</u>	<u>47,211,245</u>

The prior year balance has been restated due to errors corrected during the year, refer to note 43 for further details.

### 14. Consumer deposits

Electricity	<u>9,592,387</u>	<u>9,230,952</u>
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Consumer deposits are made of deposits from consumers for the electricity connections, for those making use of the conventional electricity.

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>15. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Non-current portion of Post retirement benefits	(36,081,245)	(35,884,048)
Non-current portion of Long term services	(6,307,815)	(5,602,817)
Current portion of Post retirement benefits	(1,481,040)	(1,460,580)
Current portion of Long term services	(892,801)	(1,090,613)
Accrual for bonuses	(2,876,207)	(2,311,605)
Accrual for leave gratuity	(14,671,297)	(12,458,803)
	<b>(62,310,405)</b>	<b>(58,808,466)</b>
Non-current liabilities	(42,452,059)	(41,486,865)
Current liabilities	(19,858,346)	(17,321,601)
	<b>(62,310,405)</b>	<b>(58,808,466)</b>

\* See Note 43



# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>15. Employee benefit obligations (continued)</b>		
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	2,650,910	2,378,377
Interest cost	4,317,262	3,696,803
Actuarial (gains) losses	(3,104,001)	(4,464,761)
	<b>3,864,171</b>	<b>1,610,419</b>

### Calculation of actuarial gains and losses

#### Other assumptions

	2016	2015
Pre retirement mortality	SA 85-90 L	SA 85-90 L
Post retirement mortality	PA (90)-1	PA (90)-1
Normal retirement age	63 years	63 years
Spouse age differences (male older than female)	3 years	3 years
AIDS	No assumption made	No assumption made

#### Defined contribution plan

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance:

SALA Pension Fund	2,450,843	2,350,807
Cape Joint Retirement Fund	7,319,142	4,995,532
Cape Joint Pension Fund	235,865	219,820
Municipal Councillors Pension Fund	1,347,963	1,278,458
Municipal Employees Pension Fund	3,158,110	2,975,781
SAMWU National Provident Fund	630,586	509,673

#### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Expanded Public Works Program	17,225	-
Finance Management Grant	1,619	-
Municipal Infrastructure Grant	5,412,977	5,443,790
Municipal Systems Improvement Grant	644	375,465
Skills Development Grant - ISDG	240,414	-
Library Subsidy	174,700	174,700
LED Strategies & Spatial	821,689	821,689
Other Provincial Funds	3,762,004	4,001,350
District Municipality Grants	823,374	823,374
Other Grant Providers	1,805,261	1,775,812
Integrated National Electrification Grant	592,132	958,727
	<b>13,652,039</b>	<b>14,374,907</b>

\* See Note 43

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

2016  
2015  
Restated\*

### 16. Unspent conditional grants and receipts (continued)

#### Movement during the year

Balance at the beginning of the year	14,374,907	9,464,858
Additions during the year	45,084,449	57,376,128
Income recognition during the year	(45,807,317)	(52,466,079)
	<b>13,652,039</b>	<b>14,374,907</b>

See note 23 for reconciliation for breakdown of grants.

These amounts are invested in a ring-fenced investment until utilised.

### 17. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	4,245,104	12,636,809	16,881,913

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	4,240,830	4,274	4,245,104

The municipality has 3 Landfill sites.

It is estimated that no site will be decommissioned within 1 year from reporting date and thus there are no short term portion associated with this provision. The timing of the outflow of resources relating this provision is uncertain, but management expects the timing to be in line with the closure dates of the various sites.

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. These costs are based on 100% utilisation of the site. The assumptions used are as follows:

The discount rate used to calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. The following rate was used - 5% (2014 - 5%).

### 18. Service charges

Sale of electricity	192,197,905	171,875,697
Sewerage and sanitation charges	-	2,153
Refuse removal	30,280,649	28,985,753
	<b>222,478,554</b>	<b>200,863,603</b>

\* See Note 43

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>19. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	197,268	200,824
Rental of equipment	162,973	106,451
Rental of container	20,342	21,918
Rental of municipal property	2,682,305	2,431,384
	<b>3,062,888</b>	<b>2,760,577</b>
<b>20. Other income</b>		
Advert Costs	789	439
Availability Charges	170,957	118,258
Certificates	372,158	209,988
Commission	41,327	53,908
Community Levy	173,544	173,075
Digging of Graves	15,341	195,113
Electricity Meters	3,029	7,162
Fees	3,310,003	3,406,190
Gate Monies	87,460	104,760
Hunting Packages	326,474	241,679
Internet	203	322
Lost Books and Records	678	64
Photocopies	61,214	51,598
Sales	972,995	762,779
Special Permits	171,655	199,227
Sundry Revenue	822,977	4,634,359
Surplus Cash	-	649
	<b>6,530,804</b>	<b>10,159,570</b>
<b>21. Interest received - investments</b>		
<b>Interest revenue</b>		
Bank Accounts	10,308,899	6,987,265
Call Deposits	1,145,456	1,849,932
	<b>11,454,355</b>	<b>8,837,197</b>

\* See Note 43

# Lukhanji Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>22. Property rates</b>		
<b>Rates received</b>		
Assessment rates	72,825,319	66,069,013
<b>Basic Rate:</b>		
Residential	0.00705900	0.006659
Businesses, Commercial, Industrial	0.0089250	0.00842
Educational	0.0070590	0.006659
Public Service Infrastructure	0.0018020	0.001700
Vacant Land	0.032970	0.03110
Infrastructure Rate	81.91	70.25

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

### Valuations

Agricultural	897,236,027	897,236,027
Business	2,198,430,567	2,198,430,567
Churches	877,500	877,500
Education	523,657,473	523,657,473
Government	262,980,972	262,980,972
Industrial	24,244,000	24,244,000
Municipal	260,625,151	260,625,151
Public Benefit Organisation	19,995,540	19,995,540
Public Service Infrastructure	31,460,803	31,460,803
Residential	6,151,987,317	6,151,987,317
Specialised Non-Market Properties	1,190,000	1,190,000
Vacant Land	250,179,775	250,179,775
	<b>0,622,865,125</b>	<b>0,622,865,125</b>

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2015. Rebates were granted on land with buildings used solely for dwellings purposes as follows: Residential - The first R15 000 on the valuation is exempted.

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	117,675,235	115,532,287
National Government Grants	7,049,563	7,460,407
Provincial Government Grants	4,150,000	4,150,000
Other grant providers	1,234,791	584,412
	<b>130,109,589</b>	<b>127,727,106</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	32,001,814	37,147,210
Integrated National Electrification Grant	2,366,596	1,931,152
	<b>34,368,410</b>	<b>39,078,362</b>
	<b>164,477,999</b>	<b>166,805,468</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	5,443,790	-
Current-year receipts	31,971,000	42,591,000
Conditions met - transferred to revenue	(32,001,813)	(37,147,210)
	<b>5,412,977</b>	<b>5,443,790</b>
Conditions still to be met - remain liabilities (see note 16).		
The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.		
<b>Integrated National Electrification Grant</b>		
Balance unspent at beginning of year	958,727	-
Current-year receipts	2,000,000	2,889,879
Conditions met - transferred to revenue	(2,366,596)	(1,931,152)
	<b>592,131</b>	<b>958,727</b>
Conditions still to be met - remain liabilities (see note 16).		
The grant was provided for rural electrification, with the main focus on the historically disadvantaged areas.		
The prior year was adjusted refer to note 43.		
<b>Expanded Public Works Program</b>		
Balance unspent at beginning of year	-	1,443
Current-year receipts	1,529,000	1,637,989
Conditions met - transferred to revenue	(1,511,775)	(1,639,432)
	<b>17,225</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 16).		

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

2016	2015 Restated*
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### 23. Government grants and subsidies (continued)

This program is aimed at providing poverty en income relief through the creation of temporary work opportunities.

The prior year was adjusted refer to note 43.

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	375,465	775,900
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(1,304,821)	(1,334,435)
	<b>644</b>	<b>375,465</b>

Conditions still to be met - remain liabilities (see note 16).

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

#### FMG Funds

Current-year receipts	1,675,000	1,600,000
Conditions met - transferred to revenue	(1,673,381)	(1,600,000)
	<b>1,619</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 16).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

#### Skills Development Grant - ISDG

Balance unspent at beginning of year	-	686,540
Current-year receipts	2,800,000	2,200,000
Conditions met - transferred to revenue	(2,559,586)	(2,886,540)
	<b>240,414</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 16).

#### Library Subsidy

Balance unspent at beginning of year	174,700	174,700
Current-year receipts	4,150,000	4,150,000
Conditions met - transferred to revenue	(4,150,000)	(4,150,000)
	<b>174,700</b>	<b>174,700</b>

Conditions still to be met - remain liabilities (see note 16).

#### LED Strategies & Spatial

Balance unspent at beginning of year	821,689	821,689
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Conditions still to be met - remain liabilities (see note 16).

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

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2016	2015 Restated*
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### 23. Government grants and subsidies (continued)

The grant is to be used for the promotion of the LED function in the municipality and areas serviced by the municipality.

#### Other Provincial Funds

Balance unspent at beginning of year	4,001,350	4,178,864
Current-year receipts	-	1,373,260
Conditions met - transferred to revenue	(239,346)	(1,550,774)
	<b>3,762,004</b>	<b>4,001,350</b>

Conditions still to be met - remain liabilities (see note 16).

#### District Municipality Grants

Balance unspent at beginning of year	823,374	823,374
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Conditions still to be met - remain liabilities (see note 16).

#### Other Grant Providers

Balance unspent at beginning of year	1,775,812	2,002,347
Current-year receipts	29,449	-
Conditions met - transferred to revenue	-	(226,535)
	<b>1,805,261</b>	<b>1,775,812</b>

Conditions still to be met - remain liabilities (see note 16).

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\* See Note 43

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	2016	2015 Restated*
<b>24. Employee related costs</b>		
Basic	85,871,050	70,397,877
Bonus	530,104	381,749
Casual labour	3,512,127	3,978,317
Contract Workers	5,332,821	5,821,345
Defined contribution plans	3,729,126	5,873,947
Leave encashment	(16,859)	849,302
Housing benefits and allowances	1,617,092	198,534
Leave pay provision charge	13,072,293	7,034,870
Medical aid - company contributions	8,313,490	5,670,526
Group Life Insurance	614,757	546,256
Pension Fund Contributions	14,388,855	14,134,425
Other short term costs	392,120	589,009
Overtime payments	6,360,317	6,462,748
Travel, motor car, accommodation, subsistence and other allowances	5,146,787	3,429,551
UIF	828,435	682,229
WCA	927,826	573,296
	<b>150,620,341</b>	<b>126,623,981</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	1,092,038	106,929
Acting allowance	-	324,486
Backpay	41,717	-
Contributions to UIF, Medical and Pension Funds	144,000	-
Housing subsidy	120,000	-
Golden handshake	-	1,369,005
Other allowance and contributions	36,000	7,304
Leave payout	-	355,941
	<b>1,433,755</b>	<b>2,163,665</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	862,530	336,056
Contributions to UIF, Medical and Pension Funds	114,000	-
Acting allowance	-	148,674
Other allowance	177,600	122,278
Backpay	27,999	-
Bonus Structured from package	100,000	-
	<b>1,282,129</b>	<b>607,008</b>
<b>Remuneration of the Director: Technical Services</b>		
Acting allowance	75,468	108,653
<b>Remuneration of the Director: Community and Social Services</b>		
Annual Remuneration	-	522,597
Acting allowance	132,986	39,168
Other	-	199,866
Leave payout	-	485,029
	<b>132,986</b>	<b>1,246,660</b>

\* See Note 43



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## Notes to the Annual Financial Statements

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2016	2015 Restated*
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### 24. Employee related costs (continued)

#### Remuneration of the Director: Corporate and Support Services

Annual Remuneration	778,251	778,695
Backpay	61,098	-
Acting allowance	-	1,691
Other Allowance and Contributions	60,000	86,436
Bonus Structured from Package	85,625	-
	<b>984,974</b>	<b>866,822</b>

#### Remuneration of the Director: Human Settlements

Annual Remuneration	-	451,105
Acting Allowance	164,561	56,524
Other Allowance and Contributions	-	271,272
Leave Payout	-	962,652
	<b>164,561</b>	<b>1,741,553</b>

#### Remuneration of the Director: Strategic Executive

Annual Remuneration	664,788	611,775
Acting Allowance	-	6,893
Backpay	96,118	-
Bonus	86,116	-
Other Allowance	76,524	327,232
	<b>923,546</b>	<b>945,900</b>

#### Remuneration of the Director: IPED

Annual Remuneration	976,657	877,437
Backpay	195,093	-
Other Allowance	-	1,866
	<b>1,171,750</b>	<b>879,303</b>

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\* See Note 43

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	2016	2015 Restated*
<b>25. Remuneration of councillors</b>		
Honourable Mayor	811,529	770,497
M-PAC	655,132	544,841
Chief Whip	619,711	577,656
Speaker	654,110	621,291
Ward Committee Members	3,211,500	3,158,195
Councillors' Salaries	10,935,066	10,429,245
Contributions to Medical, Pension Funds and UIF	1,926,378	1,842,329
Executive Committee Members	4,390,951	4,361,490
	<b>23,204,377</b>	<b>22,305,544</b>
<b>Executive Committee Members</b>		
Mrs. S. Van Heerden	541,984	583,991
Mr. T.M. Jocki	557,008	399,705
Ms. N.C. Pambo	512,300	583,991
Mr. M. Peter	614,764	583,991
Mr. M.Z. Gwantshu	541,984	583,991
Mrs. A.E. Hulushe	541,984	582,011
Mr. M.M. Matiwane	-	184,106
Mrs. Sopapaza-Lungisa	541,984	583,991
Mr. M.L Dyan	538,943	393,549
	<b>4,390,951</b>	<b>4,479,326</b>
<b>26. Depreciation and amortisation</b>		
Property, plant and equipment	52,224,730	51,105,753
The prior year balance has been restated refer to note 43.		
<b>27. Finance costs</b>		
Finance leases	-	157,287
Current borrowings	139,230	245,785
Other interest paid	199,520	-
	<b>338,750</b>	<b>403,072</b>
<b>28. Debt impairment</b>		
Contributions to debt impairment provision	22,542,851	4,472,886

\* See Note 43

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>29. Repairs and maintenance</b>		
Electricity reticulation	6,182,324	6,872,024
Fencing	17,970	-
	-	-
Land and Buildings	563,652	444,874
	-	-
Plant and machinery	3,298,503	3,629,573
Street Lights	-	162,829
Streets and stormwater	9,445,632	1,166,375
Vehicles and Implements	-	54,086
	-	-
Other	5,058	153,765
	<b>19,513,139</b>	<b>12,483,526</b>
<b>30. Bulk purchases</b>		
Electricity	185,160,441	164,019,181
<b>31. Contracted services</b>		
Other Contractors	7,436,536	5,855,784
<b>32. Grants expenditure</b>		
<b>Other subsidies</b>		
Other	8,347,694	7,705,989

Refer to note 44 for change in comparative.

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>33. General expenses</b>		
Advertising	2,488,344	729,522
Auditors remuneration	4,587,499	4,515,010
Bank charges	670,847	898,891
Aids council	4,800	-
World Aids Day	177,730	17,400
Computer expenses	5,789	-
Consulting and professional fees	10,500,836	10,320,746
Consumables	775,746	842,343
Debt collection	6,773	67,995
Donations	150,000	175,000
Entertainment	970,964	621,048
Animal Costs	1,052,537	785,226
Insurance	1,876,009	1,625,625
Conferences and delegations	63,782	49,140
IT expenses	86,935	3,212
Horticulture	6,987	4,490
Promotions	679,439	99,547
Levies	3,045,792	4,516,391
Medical expenses	19,631	25,161
Motor vehicle expenses	129,990	184,389
Fuel and oil	8,154,768	8,198,707
Postage and courier	702,659	1,115,098
Printing and stationery	979,579	740,968
Protective clothing	465,659	586,239
License fees	1,670,998	1,496,060
Subscriptions and membership fees	25,582	52,817
Telephone and fax	3,560,134	2,810,612
Training	2,869,237	982,294
Travel - local	1,444,354	1,818,864
Assets expensed	(45,839)	-
Electricity	1,704,475	1,084,417
Sewerage and waste disposal	-	6,359
Water	7,145	122,775
Refuse	10,746	140,017
Utilities - Other	261,851	93,953
Tourism development	27,200	19,668
Ammunition	1,847,926	-
Clean-up Projects	(8,511,050)	(7,631,074)
Vending management fee	392,580	551,116
Chemicals & laboratory services	64,896	98,773
Valuation costs	1,233,566	110,507
Other expenses	5,317,405	1,216,770
	<b>49,484,301</b>	<b>39,096,076</b>

The prior year balance has been restated due to errors corrected during the year, refer to note 43 for further details.

### 34. Auditors' remuneration

Fees	4,587,499	4,515,010
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### 35. Fair value adjustments

Biological assets - (Fair value model)	3,059,780	-
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\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

2016  
2015  
Restated\*

### 36. Discontinued operations

Water and Sanitation operations were discontinued based on a decision taken by the Council of Chris Hani District Municipality to transfer the Water Services function to the District Municipality, at a Council meeting held during May 2014.

The transfer of the assets and liabilities will be effective from the 01 July 2014.

The assets were transferred to Chris Hani District Municipality for no consideration.

#### Surplus / Deficit

Inventory	-	(7,496)
Receivables from exchange transactions - Water	-	(9,318,834)
Receivables from exchange transactions - Sanitation	-	(5,663,051)
<b>Discontinued operations</b>	-	<b>(14,989,381)</b>

### 37. Disposal of significant assets and liabilities

Water and Sanitation operations were discontinued based on a decision taken by the Council of Chris Hani District Municipality to transfer the Water Services function to the District Municipality, at a Council meeting held during May 2014.

The transfer of the assets and liabilities will be effective from the 01 July 2014.

The assets were transferred to Chris Hani District Municipality for no consideration.

#### Description of the assets and liabilities

The following are all the assets and liabilities included in the above set of financial statements which will be disposed during the year with the Water and Sanitation services function.

#### Carrying values

Carrying values of the assets	-	7,496
	-	14,981,884

### 38. Financial instruments disclosure

#### Categories of financial instruments

##### 2016

#### Financial assets

	At amortised cost	Total
Other financial assets	325,515	325,515
Trade and other receivables from exchange transactions	67,864,077	67,864,077
Other receivables from non-exchange transactions	57,311,186	57,311,186
Cash and cash equivalents	107,977,283	107,977,283
	<b>233,478,061</b>	<b>233,478,061</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	12,483,999	12,483,999

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>Financial instruments disclosure (continued)</b>		
Consumer deposits	9,595,687	9,595,687
Unspent conditional grants and receipts	13,652,039	13,652,039
	<b>35,731,725</b>	<b>35,731,725</b>
<b>2015</b>		
<b>Financial assets</b>		
	<b>At amortised cost</b>	<b>Total</b>
Other financial assets	312,429	312,429
Trade and other receivables from exchange transactions	24,410,495	24,410,495
Other receivables from non-exchange transactions	38,108,792	38,108,792
Cash and cash equivalents	183,834,219	183,834,219
	<b>246,665,935</b>	<b>246,665,935</b>
<b>Financial liabilities</b>		
	<b>At amortised cost</b>	<b>Total</b>
Other financial liabilities	629,690	629,690
Trade and other payables from exchange transactions	41,187,200	41,187,200
Consumer deposits	9,230,952	9,230,952
Unspent conditional grants and receipts	14,374,907	14,374,907
	<b>65,422,749</b>	<b>65,422,749</b>
<b>39. Cash generated from operations</b>		
Surplus	792,595	42,087,282
<b>Adjustments for:</b>		
Depreciation and amortisation	52,224,730	51,105,753
Gain on sale of assets and liabilities	864,826	-
Fair value adjustments	(3,059,780)	-
Finance costs - Finance leases	338,750	403,072
Actuarial loss/(Gain)	(3,104,001)	(8,969,856)
Impairment deficit	405,836	-
Debt impairment	22,542,851	4,472,886
Movements in retirement benefit assets and liabilities	3,501,939	(129,225)
Movements in provisions	12,636,809	4,274
Discontinued operations	-	14,989,382
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(28,446,522)	(13,807,756)
Other receivables from non-exchange transactions	(11,729,775)	(15,211,052)
Payables from exchange transactions	(28,642,381)	720,092
VAT	(5,071,678)	19,179,873
Unspent conditional grants and receipts	(722,868)	4,910,050
Consumer deposits	361,435	308,638
	<b>12,892,766</b>	<b>100,063,413</b>

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Approved and contracted for	95,360,846	25,439,322
<b>Total capital commitments</b>		
Already contracted for but not provided for	95,360,846	25,439,322

This committed expenditure relates to property and will be financed by government grants.

### 41. Contingencies

The list of contingent liabilities is as follows:

1. Matter: Lukhanji Municipality vs. Siyahlutha developers	1,724,288	1,724,288
2. Matter: Lukhanji Municipality vs. Magqabi, AV	-	250,000
3. Matter: Lukhanji Municipality vs. Gidzana	-	800,000
4. Matter: Lukhanji Municipality vs. Boki & Linganiso	-	62,000
5. Matter: Lukhanji Municipality vs. Civil and General Contractors	-	1,379,544
6. Matter: Lukhanji Municipality vs. Suid Kaap Waardeerders CC	-	653,536
7. Matter: Lukhanji Municipality vs. Skweyiya TS/ Blekiwe M	100,000	100,000
8. Matter: Lukhanji Municipality vs. Motile, A	94,814	125,000
9. Matter: Lukhanji Municipality vs. Madywabe	300,000	-
10. Matter: Lukhanji Municipality vs. Jan Draghoender	992,926	-
11. Matter: Lukhanji Municipality vs. Nosibulele Dalasile	100,000	-
12. Matter: Lukhanji Municipality vs. Mr & Mrs Mongameli Michael Mjijima	1,408,550	-
13. Matter: Lukhanji Municipality vs. Madlavu	1,500,000	-
14. Matter: Lukhanji Municipality vs. Benkro CC	422,107	-
15. Matter: Lukhanji Municipality vs. Giyose, C	28,000	-
16. Matter: Lukhanji Municipality vs SAMWU employees	1,914,034	-
	<b>8,584,719</b>	<b>5,094,368</b>

### Contingent assets

The list of contingent assets is as follows:

1. Matter: Lukhanji Municipality vs Ariano 222 CC (1st Def) K P Mflatelwa (2nd Def) R19247.28
2. Matter: Lukhanji Municipality vs Bright Ideas Project (Mr & Mrs. Yaka) R112196.55

### 42. Related parties

Refer to note 24 and 25 for the disclosure of the remuneration of key management and members of councillors.

### Related party transactions

No councillors or staff disclosed that they were members of entities which was listed on the approved supplier database.

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

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### 43. Prior period errors

The following errors have been noted and corrected in current financial period financial statements as follows:

#### Statement of Financial Position

##### Non - Current Assets

##### Investment property

During the period a thorough exercise to rectify the assets' balances was undertaken where it was noted that Investment property in the prior period were misstated.

##### Property, plant and equipment

During the period a thorough exercise to rectify the assets' balances was undertaken where it was noted that Property, plant and equipment in the prior period were either omitted or misstated.

These errors have been adjusted for in the comparative and restatements have been performed in the note.

##### Employee benefit obligation

During the period there were adjustments made on the actuarial valuation for Post retirement benefits for medical aid. An accrual was raised for Staff bonuses which was not raised during the 2014/15 year.

##### Payables from exchange transactions

During the period there were roll-over for unspent conditional grants that were not approved by the Provincial treasury. These have led to the restatement of the Trade payables as disclose in the note.

##### Unspent conditional grants and receipts

During period there were roll-overs for unspent conditional grants that were not approved by the Provincial Treasury. Therefore the unspent conditional grants have been restated.

##### Net Assets

##### Accumulated surplus

Due to the adjustments processed in prior periods, there has been a change in the accumulated surplus.

#### Statements of Financial Performance

##### Other Income

During the prior year revenue that does not meet the revenue recognition criteria was recognised as revenue. This error has been adjusted for in the comparative and restatements have been performed in the note.

##### Expenditure

##### Employee related costs

In the prior year salaries and wages that related to the MIG projects that are done in-house were included in the Municipalities salaries and wages. This error has been adjusted for in the comparative and restatements have been performed in the note. An accrual for Staff bonus was raised, which was not disclosed in the 2014/15 year.

##### Depreciation and amortisation

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\* See Note 43



# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

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### 43. Prior period errors (continued)

During the period a thorough exercise to rectify the assets' balances was undertaken where it was noted that depreciation in the prior period was either omitted or misstated. These errors have been adjusted for in the comparative and restatements have been performed in the note.

#### General Expenses

In the prior year transaction that related to MIG expenditure were recognised as revenue instead of being taken off the Municipality's expenditure. This has been corrected in the comparative and restatements have been performed in the note.

#### Disclosure

##### Irregular Expenditure

During the current period the municipality embarked on exercise to rectify and update the irregular expenditure, which led to these errors have been adjusted for in the comparative and restatements have been performed in the note.

#### Cash Flow Statement

As a result of the above adjustments, the cash flow statement has been restated.

#### Investment property

Previously reported	270,112,815	270,112,815
Correction of errors	19,380,363	(35,841,550)
	<b>289,493,178</b>	<b>234,271,265</b>

#### Property, plant and equipment

Previously reported	758,069,559	800,454,264
Correction errors	136,899,650	119,918,895
	<b>894,969,209</b>	<b>920,373,159</b>

#### Payables from exchange transactions

Previously stated	41,001,068	-
Correction of errors - Creditors	6,210,177	-
	<b>47,211,245</b>	-

#### Employee benefit obligation

Previously reported	81,264,514	-
Correction of errors - Staff bonus	2,311,604	-
Post retirement benefits: Non-current portion	(24,776,125)	-
Post retirement benefits: Current portion	8,473	-
	<b>58,808,466</b>	-

#### Unspent conditional grants and receipts

Previously reported	14,561,039	-
Correction of errors	(186,132)	-
	<b>14,374,907</b>	-

#### Net Assets

##### Accumulated surplus

Previously reported	1,134,077,171	1,109,436,479
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\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

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### 43. Prior period errors (continued)

Correction of errors	165,129,571	188,977,668
	<b>1,299,206,742</b>	<b>1,298,414,147</b>

#### Expenditure

##### Employee related costs

Previously reported	124,305,394	-
Correction of errors	2,318,587	-
	<b>126,623,981</b>	<b>-</b>

##### Depreciation and amortisation

Previously reported	70,863,949	-
Correction of errors	(19,758,196)	-
	<b>51,105,753</b>	<b>-</b>

##### General Expenses

Previously reported	45,652,002	-
Reclassification - Grant expenditure	436,079	-
Reclassification - Lease rentals on operating leases	639,069	-
Correction of errors	(7,631,074)	-
	<b>39,096,076</b>	<b>-</b>

#### Revenue

##### Other Income

Previously reported	22,027,696	-
Correction of error - Sundry revenue	(7,624,092)	-
Reclassification to agency services	(4,244,034)	-
	<b>10,159,570</b>	<b>-</b>

### 44. Comparative figures

Certain comparative figures have been reclassified.

Revenue received as a result of vehicle registration was previous included in Other income, in the current year it has been disclosed as Agency services.

Grant expenditure has been remapped to general expenditure.

The effects of the reclassification are as follows:

#### Statement of financial position - extract

#### Statement of financial performance - extract

	Comparative figures previously reported	Reclassification on	After reclassification
Other income	22,027,696	(4,244,034)	17,783,662
Agency services	-	4,244,034	4,244,034
General expenses	45,652,002	(436,079)	45,215,923
Grant expenditure	(8,142,068)	436,079	(7,705,989)
<b>Total</b>	<b>59,537,630</b>	<b>-</b>	<b>59,537,630</b>

\* See Note 43

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## Notes to the Annual Financial Statements

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### 44. Comparative figures (continued)

The amount after reclassification includes does not take into account the effect of correction of errors.

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## Notes to the Annual Financial Statements

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### 45. Risk management

#### Financial risk management

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

The Municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Municipality's financial performance. Risk management is carried out by a finance department with the assistance of operating divisions, under policies approved by the accounting officer.

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

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.

<b>At 30 June 2015</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
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#### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, trade receivables and unpaid conditional grants and subsidies. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables are disclosed net after provisions are made for impairment and bad debts. Receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to receivables are considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

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

<b>Financial instrument</b>	<b>2016</b>	<b>2015</b>
Trade and other receivables from exchange transactions	61,369,953	24,410,495
Receivables from non exchange transactions	75,377,775	38,108,792
Cash and cash equivalents	220,172,501	183,649,281
Long term investments	321,116	312,429
Long term debtors	3,211,039	3,211,039

#### Market risk

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Figures in Rand

### 45. Risk management (continued)

#### Interest rate risk

As the municipality has significant interest-bearing assets, the municipality's income and operating cash flows are substantially dependent of changes in market interest rates.

#### Price risk

The municipality is not exposed to price risk.

### 46. Events after the reporting date

There were no discloseable events after reporting date.

### 47. Unauthorised expenditure

Opening balance	104,327,640	78,861,059
Unauthorised expenditure	2,356,244	25,466,581
	<b>106,683,884</b>	<b>104,327,640</b>

#### Details of unauthorised expenditure - current year

Overspending on operating budget	2,356,244	25,466,581
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#### Details of unauthorised expenditure - prior year

(i) No expenditure has been identified as being recoverable.

(ii) No procedures have been taken in terms of criminal or disciplinary proceedings.

(iii) No material losses have been written off.

### 48. Fruitless and wasteful expenditure

Opening balance	1,662,599	1,099,211
Add: Fruitless and wasteful expenditure - current year	480,712	563,388
	<b>2,143,311</b>	<b>1,662,599</b>

#### Categories of fruitless and wasteful expenditure

Interest paid	480,712	320,261
Penalties	-	243,127
	<b>480,712</b>	<b>563,388</b>

(i) No expenditure has been identified as being recoverable.

(ii) No procedures have been taken in terms of criminal or disciplinary proceedings.

(iii) No material losses have been written off.

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## Notes to the Annual Financial Statements

	2016	2015 Restated*
<b>49. Irregular expenditure</b>		
Opening balance	242,286,323	175,490,294
Add: Irregular Expenditure - current year	28,785,778	66,796,029
	<b>271,072,101</b>	<b>242,286,323</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	28,785,778	66,796,029
Prior years	242,286,323	175,490,294
	<b>271,072,101</b>	<b>242,286,323</b>
<b>Details of irregular expenditure – current year</b>		
Irregular expenditure on Contracts	SCM processes not followed	27,405,319
Irregular expenditure on quotations	SCM processes not followed	1,380,459
		<b>28,785,778</b>
<b>Details of irregular expenditure – prior year</b>		
Irregular expenditure on Contracts	SCM processes not followed	52,555,656
Irregular expenditure on quotations	SCM processes not followed	14,240,373
		<b>66,796,029</b>

(i) No expenditure has been identified as being recoverable.

(ii) No procedures have been taken in terms of disciplinary or criminal proceedings.

(iii) No material losses have been written off.

\* See Note 43

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	2016	2015 Restated*
<b>50. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	1,638,871	1,693,160
Amount paid - current year	(1,638,871)	(1,693,160)
	-	-
<b>Material losses</b>		
Electricity losses	57,753,496	54,650,809
Electricity distribution losses as at 30 June 2016 relate to 71,627,760.60 kWh (2015; 77,527,211 kWh), due to environmental and technical factors. In addition to this, the factor of illegal connections which remains a concern for the municipality.		
<b>Audit fees</b>		
Current year subscription / fee	4,585,579	4,515,010
Amount paid - current year	(4,585,579)	(4,515,010)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	17,816,340	14,306,936
Amount paid - current year	(17,816,340)	(14,306,936)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	24,047,081	34,253,131
Amount paid - current year	(24,047,081)	(34,253,131)
	-	-
<b>VAT</b>		
VAT receivable	9,526,432	4,454,754

VAT output payables and VAT input receivables are shown in note 4.

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

### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016.

The following councillors had arrear accounts outstanding at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Mandile JT/NE	6,965	-	6,965

\* See Note 43

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	2016	2015 Restated*
<b>50. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
Councillor Hokolo MS	520	- 520
Councillor Gaju SL	2,574	- 2,574
	<b>10,059</b>	<b>- 10,059</b>

During the year no Councillors' had arrear accounts outstanding for more than 90 days.

During the 2015 year the following councillors had arrear accounts more than 90 days:

### 30 June 2015

	Highest outstanding amount	Aging (in days)
Councillor Dyan M.L	515	120
Councillor Nquma	900	180
Councillor Jaska M	7,210	120
Councillor Mnyaka M	10,634	1,800
	<b>19,259</b>	<b>2,220</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Manager and noted by Council. The expenses incurred as mentioned is R8,038,659.

All departures in terms of section 36 have been approved by the Municipal Manager and noted by Council unless noted in note 49

\* See Note 43



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## Notes to the Annual Financial Statements

2016

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### 51. Budget differences

#### Material differences between budget and actual amounts

#### Explanation of variances between budget and actual

#### Statement of Financial Performance

1. The difference is due to under collection of service charges particularly refuse removal tariff.
2. The small increase in the rental collection is due to more hall hires in the fourth quarter than anticipated
3. Interest received on debtors is raised on the outstanding debtors in our books. With more than expected debtors figure in our books, the interest portion has increased.
4. The big difference in the other income budgeted and actual is due to the own fund which was not completely allocated to the other income since it is not income received from third parties.
5. There was a small increase over the budgeted figure because during the second half of the year, the municipality was transferring excess funds in the current account to its investment account and that has yielded extra interest.
6. The negative variance was due to some sections of the community not paying for the property rates approved by council.
7. The positive variance is due to the inclusion of Capital Grant (MIG & INEP ) in the actual outcome as compared to the Budgeted amount which was only Operational Grants and Subsidies.
8. Fines show under collections because most of the fines in particular the traffic fines are not being paid by the public. Collection of this depends on the magistrate court.
9. The difference between the budgeted figure and the actual outcome is around 9%. This is due to a fall in the number applying for vehicle registrations particularly in the last month of the 2015/16 financial year.
10. The lower actual employee related cost as compared to the budget was due to the vacant positions in that budget that were not filled due to the moratorium placed on the municipality by COGTA
11. The small negative variance was due to the inclusion of councillors' subsistence and travelling which was not in the councillors remuneration budget.
12. The increase in the depreciation was due to the increased in assets identified by the Service Provider (PwC) during their verification. The take on values have to take into account the associated depreciation hence the more than expected depreciation figure.
13. The increase in the finance cost was due to the reclassification of Finance cost to include capital redemption so as to achieve balance of the final budget.
14. This line item was not budgeted because rentals were classified under general expenses. But now it has become necessary to reclassify them separately as operational leases.
15. The decrease in debt impairment
16. Included in the repairs and maintenance are the roads maintenance vote which shows little movement and the repairs to plants and vehicles which also shows under -expenditure. The reason was due to the new fleet that the municipality has which requires less maintenance. The less actual expenditure was also due to the delay in the planned maintenance of the town hall and the Budget & Treasury Office extensions.
17. Bulk Purchases under expenditure is less than 2% (1.9%). And can be considered to be almost fully spent

\* See Note 43

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## Notes to the Annual Financial Statements

2016

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### 51. Budget differences (continued)

18. The high actual expenditure in contractual services was due to new security contracts that were added to the existing contract during the course of the year. These were unforeseen and therefore were not included in the budget.

19. The small positive variance on grants and subsidies paid was due to the unspent conditional grants for all the conditional grants received by the municipality.

20. The variance is due to reduction in some components of this category of expenditure such as fuel expenditure which was due to the lower fuel cost in the pump. Other expenses contributing to the small actual expenditure include non – expenditure on valuation expenses and land audit.1. The difference is due to under collection of service charges particularly refuse revenue.

### Statement of financial position

1. Receivables from exchange transactions have increased partly because the municipality has not recovered more debts this year particularly in the second half of the year

2. The increase in Receivables from non – exchange transactions was due to the large portion of property rates that remain uncollected at the end of the financial year as a result of some sections of the community not paying property rate.

3. VAT receivable was not anticipated and was not budgeted for.

4. Cash and cash equivalent at the end of the year showed a negative variance due to more funds used during the year than anticipated.

5. Biological assets was not previously budgeted as it was included as part of PPE.

6. Investment Property was undervalued in the last financial year. This year there were additions from ECDC properties and that has led to the increase in the value of Investment property.

7. The decrease in PPE over the budgeted figure was due to the de- recognition of some assets which cannot be found or are deemed to be obsolete and have been taken out of the Asset register.

8. This is the first time that heritage assets have been valued and included in the asset register in line with GRAP 103 and hence no budget.

9. Other 'financial assets' was previously not disclosed under Non – current assets and was therefore not separately budgeted for.

10. Long term debtors were not anticipated and therefore not budgeted.

11. Other financial liabilities budgeted was 1 392 588 and includes term loans and finance leases. The actual figure shown ( 523 924) is term loans paid as at 30<sup>th</sup> of June 2015. The variance shown is due to the exclusion of finance lease paid in the actual amount. These are redemption capital.

12. Finance lease budgeted was included in the other financial liabilities shown above.

13. The big negative variance was partly due to the settlement of the R12.0 million compensation fund to the compensation commission.

14. Consumer deposits showed a 3.5% positive variance over the budgeted figure. This was due to increase accounts and hence new deposits held by the municipality over the past year.

15. This was budgeted under provisions. The provisions made under current liabilities in the final budget was R66 255 000.

\* See Note 43

# Lukhanji Local Municipality

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## Notes to the Annual Financial Statements

2016

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Restated\*

### 51. Budget differences (continued)

16. The municipality did not anticipate any unspent conditional grant at the end of the financial year hence there was no budget for un-spent grant and receipts.

17. Provisions budgeted under current provisions have been reclassified under non – current provisions with a variance of only 6%

18. The variance is due to re estimation of the municipality's portion of long term loans and finance leases which was not correctly budgeted.

19. The positive variance was due to a higher valuation placed on the land fill site than was previously calculated.

20. The negative variance recorded in the accumulated surplus was due to the less than anticipated assets that could not be realise in the non – current assets.1. Current Assets were less than the budgeted amount in part due to an improvement in debt collection in comparison to prior year and water services being transferred to Chris Hani District Municipality.

### Changes from the approved budget to the final budget

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Interest received - debtors: Increase due to debtors who were not paying.

Agency fees: Revenue increased unexpectedly.

Other income: .

Interest received - investment: More money was invested than expected.

Government grants and subsidies: The municipality spent more than anticipated.

Fines: The offences committed were lower than expected.

Motor vehicle registrations: The were less registrations done than anticipated.

Employee related costs: Vacancies were not filled in the year due to moratorium.

Remuneration of councillors:

Finance costs: Lease finance costs increase our expectation.

Transfers and subsidies: More projects were undertaken resulting in the need to increase.

Debt impairment: The increase was to poor payments by the debtors.

Contracted services: There was due to escalations in the prices.

Receivables from exchange transactions: The decrease was due to poor payments by debtors.

Receivables from non-exchange transactions: The decrease was due to reduction in the tariff.

Cash and cash equivalents: The increase was due to more grant funding received.

Investment property: The increase was due to revaluations done as well as the land and buildings received from ECDC.

Property, plant and equipment: The increase was due to more grants funding

Payables from exchange transactions: The increase was due to delays in creditor payments.

Provisions - Current: The decrease was due to possible reduction in landfill site valuation.

Provision - non-current portion: The decrease was due to the move to the current portion.

\* See Note 43