

AUDITED



LEKWA LOCAL MUNICIPALITY
(Registration number MP305)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Lekwa Local Municipality

(Registration number MP305)

Annual Financial Statements for the year ended 30 June 2016

General Information

Nature of business and principal activities

Executive Mayor	Local Municipality
Speaker	Cllr. LBR Dhlamini
Chief Whip	Cllr. HM Khota
Member of Mayoral Committee - Technical Services and Development and Planning	Cllr. ML Molaba
Member of Mayoral Committee - Community Services, Corporate Services and Security Services	Cllr. BP Mollo
Councillors 2015/16	Cllr. VT Malinga
	Cllr. JR De Ville
	Cllr. LBR Dlamini
	Cllr. SS Gumede
	Cllr. JJ Jansen van Rensburg
	Cllr. TA Khanyile
	Cllr. HM Khota
	Cllr. MS Khumalo
	Cllr. MY Khumalo
	Cllr. MG Makhanye
	Cllr. VT Malinga
	Cllr. JP Masuku
	Cllr. MM Mnisi
	Cllr. JP Molaba
	Cllr. BP Mollo
	Cllr. CM Morajane (Resigned)
	Cllr. SS Mosia
	Cllr. JB Mothopeng
	Cllr. GS Msibi (Resigned)
	Cllr. AS Ngwenya
	Cllr. NL Nkosi
	Cllr. MD Rakitla
	Cllr. F Sarang
	Cllr. PT Schnetler
	Cllr. BG Sekonde
	Cllr. ENK Shabangu
	Cllr. BS Sibeko
	Cllr. PC Sikhakhane
	Cllr. NZE Sitshoni
	Cllr. MR Tshabalala
	Cllr. N Tshabalala
	Cllr. JJ van der Wath
	Cllr. SM Zacarias

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Councillors 2016/17

Cllr. JR De Ville
Cllr. LBR Dhlamini
Cllr. PJ Dlamini
Cllr. JJ Jansen van Rensburg
Cllr. TJ Kambule
Cllr. TA Khanyile
Cllr. HM Khota
Cllr. JQ Khumalo
Cllr. MS Khumalo
Cllr. VT Malinga
Cllr. FE Mhlapo
Cllr. MS Mngomezulu
Cllr. ML Molaba
Cllr. BP Mollo
Cllr. MB Mosikedi
Cllr. B Ndlebe
Cllr. JW Ngubeni
Cllr. NL Nkosi
Cllr. F Sarang
Cllr. IK Sedibe
Cllr. LP Selepe
Cllr. NS Selepe
Cllr. ENK Shabangu
Cllr. MM Sibanyoni
Cllr. VM Sigasa
Cllr. VM Skosana
Cllr. RV Solontsi
Cllr. XM Tshabalala
Cllr. JJ van der Wath
Cllr. SM Zacarias

Accounting Officer

MR LB Tshabalala

Chief Finance Officer (CFO)

MR RA Morris

Registered office

C/O Mbonani Mayisela and Dr Beyers Naudé Street
Standerton
2430

Business address

C/O Mbonani Mayisela and Dr Beyers Naudé Street
Standerton
2430

Postal address

PO Box 66
Standerton
2430

Bankers

First National Bank Limited

Auditor

Auditor General South Africa

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Acronyms

CMIP	Consolidated Municipal Infrastructure Programme
COID	Compensation for Occupational Injuries and Diseases
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
DWA	Department of Water Affairs
GLCCM	General Landfill Closure Costing Model
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
LSA	Long Service Awards
MEC	Member of the Executive Council
ME'S	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MLCCM	Municipal Landfill Closure Costing Model
NDP	Neighbourhood Development Programme
NDPG	Neighbourhood Development Partnership Grant
PEMA	Post-employment Medical Aid subsidy liability
SA GAAP	South African Statements of Generally Accepted Accounting Practice

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Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer 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, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 6 to 107, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016:

LB Tshabalala
Accounting Officer

Lekwa Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 233,363,200 (2015: deficit R 150,026,796).

2. Going concern

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

3. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in contracts, either direct or indirect.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Non-current assets

Refer to note 3,4 and 5 for changes to Non-Current Assets.

6. Accounting Officer

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

Name	Nationality
LB Tshabalala	South African

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

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Accounting Officer's Report

Audit Committee

The Audit Committee members for the period under review were as follows:

Position	Name	Date appointed
Chairperson:	Mr. A C Keyser	2014-04-25
Members:	Mr. D W Prenzler	2015-04-30
	Mr. N Balkrishen	2014-04-25

In terms of Section 166 of the Municipal Finance Management Act (Act 56 of 2003), the municipality must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the municipality constituted the municipal entities' Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipality onto the audit committee.

Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

First National Bank Limited is used for daily operations as well as investing of grant funding.

9. Auditor

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

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts and
- any service credits.

Lekwa Local Municipality did not enter into any Public Private Partnership for the 2015/2016 financial year, nor does it have any existing PPP's.

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Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Cash and cash equivalents	12	3,754,554	33,703,603
Consumer debtors	11	67,736,059	51,739,662
Inventories	7	2,265,978	2,858,869
Other financial assets	5	75,721	72,326
Receivables from exchange transactions	8	41,267,968	13,603,469
Receivables from non-exchange transactions	9	492,649	263,422
VAT receivable	10	8,981,491	5,095,807
Total Current Assets		124,574,420	107,337,158
Non-Current Assets			
Investment property	3	10,358,803	10,797,727
Property, plant and equipment	4	1,485,908,097	1,550,069,264
Other financial assets	5	22,990,141	20,708,077
		1,519,257,041	1,581,575,068
Total Assets		1,643,831,461	1,688,912,226
Liabilities			
Current Liabilities			
Consumer deposits	16	2,893,652	2,949,438
Employee benefit obligation	6	3,319,901	3,099,797
Payables from exchange transactions	15	472,610,241	366,662,714
Provisions	14	2,536,229	1,873,033
Unspent conditional grants and receipts	13	191,624	268
Total Current Liabilities		481,551,647	374,585,250
Non-Current Liabilities			
Employee benefit obligation	6	89,343,523	76,387,655
Provisions	14	201,270,905	132,910,744
		290,614,428	209,298,399
Total Liabilities		772,166,075	583,883,649
Net Assets		871,665,386	1,105,028,577
Accumulated surplus		871,665,386	1,105,028,577

* See Note 41

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Statement of Financial Performance for the period ended 30 June 2016

	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Actuarial gains		-	3,775,292
Agency services		18,761,427	14,496,424
Interest received		36,611,388	26,108,184
Other income	25	1,624,488	1,294,588
Rental income		2,402,230	1,720,958
Service charges	21	342,282,968	276,520,016
Total revenue from exchange transactions		401,682,501	323,915,462
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	53,169,130	51,583,133
Transfer revenue			
Fines	18	3,585,482	3,627,652
Government Grants	22	116,078,644	128,848,649
Other Government Grants	23	443,577	22,472,197
Total revenue from non-exchange transactions		173,276,833	206,531,631
Total revenue		574,959,334	530,447,093
Expenditure			
Actuarial losses		4,281,516	-
Bulk purchases	36	301,310,080	223,284,432
Contracted services	35	20,216,686	32,012,741
Debt Impairment	30	100,459,802	85,051,869
Depreciation	31	86,247,588	89,929,636
Employee related costs	28	140,325,467	128,930,970
Finance costs	33	40,949,458	27,401,008
General Expenses	26	36,863,043	43,566,405
Impairment of assets	32	2,562,823	3,456,777
Inventories losses/write-downs		41,310	71,540
Lease rentals on operating lease	27	19,835,305	224,438
Loss on disposal of asset		444,380	322,720
Remuneration of councillors	29	10,286,589	9,287,432
Repairs and maintenance	19	44,498,487	36,933,921
Total expenditure		808,322,534	680,473,889
Deficit for the year		(233,363,200)	(150,026,796)

* See Note 41

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Statement of Changes in Net Assets for the period ended 30 June 2016

	Accumulated surplus	Total net assets
Opening balance as previously reported	1,254,957,138	1,254,957,138
Adjustments		
Prior year adjustments	98,235	98,235
Balance at 01 July 2014 as restated*	1,255,055,373	1,255,055,373
Changes in net assets		
Deficit for the year	(150,026,796)	(150,026,796)
Total changes	(150,026,796)	(150,026,796)
Restated* Balance at 01 July 2015	1,105,028,586	1,105,028,586
Changes in net assets		
Deficit for the year	(233,363,200)	(233,363,200)
Total changes	(233,363,200)	(233,363,200)
Balance at 30 June 2016	871,665,386	871,665,386

Note(s)

* See Note 41

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Cash Flow Statement for the period ended 30 June 2016

	2016	2015
Note(s)		Restated*
Cash flows from operating activities		
Receipts		
Property Rates	33,832,284	33,900,399
Sale of goods and services	240,587,631	227,221,127
Grants	120,069,832	150,088,427
Interest income	36,611,388	26,108,184
	431,101,135	437,318,137
Payments		
Employee costs	(137,436,078)	(131,717,014)
Suppliers	(258,287,318)	(241,159,694)
Finance costs	(40,949,458)	(27,401,008)
	(436,672,854)	(400,277,716)
Net cash flows from operating activities	37 (5,571,719)	37,040,421
Cash flows from investing activities		
Purchase of property, plant and equipment	4 (22,228,348)	(35,619,883)
Proceeds from sale of property, plant and equipment	4 136,479	341,492
Increase in financial assets	(2,285,459)	(2,631)
Net cash flows from investing activities	(24,377,328)	(35,281,022)
Net increase/(decrease) in cash and cash equivalents	(29,949,047)	1,759,399
Cash and cash equivalents at the beginning of the year	33,703,603	31,944,204
Cash and cash equivalents at the end of the year	12 3,754,556	33,703,603

* See Note 41

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	400,558,643	(33,766,000)	366,792,643	342,282,968	(24,509,675)	Less amount billed compared to budgeted figures (Due to losses). High agency fee due to most stations for licencing within GSD were closed. More revenue received due to follow ups on other contracts. It was anticipated that Sundry revenue will increase. More interest due to a large debtors increase for non payment
Agency services	10,480,000	4,654,353	15,134,353	18,761,427	3,627,074	
Rental income	566,107	1,403,000	1,969,107	2,402,230	433,123	
Other income	6,335,000	486,507	6,821,507	1,624,488	(5,197,019)	
Interest received	26,519,005	3,681,000	30,200,005	36,611,388	6,411,383	
Total revenue from exchange transactions	444,458,755	(23,541,140)	420,917,615	401,682,501	(19,235,114)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	63,359,537	(4,168,000)	59,191,537	53,169,130	(6,022,407)	Billing for rates is less than budgeted due valuations reductions
Transfer revenue						
Government grants & subsidies	88,079,000	-	88,079,000	116,078,644	27,999,644	Includes capex grants recognised as revenue
Fines, Penalties and Forfeits	571,921	(25,981)	545,940	3,585,482	3,039,542	A result of the implementation of debt collection.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Other Government grants	-	-	-	443,577	443,577	Was not budgeted separately it was included in the Government Grants
Total revenue from non-exchange transactions	152,010,458	(4,193,981)	147,816,477	173,276,833	25,460,356	
Total revenue	596,469,213	(27,735,121)	568,734,092	574,959,334	6,225,242	
Expenditure						
Personnel	(131,667,383)	5,652,345	(126,015,038)	(140,325,467)	(14,310,429)	Increased as a result of additional appointments made during the financial period as well as increased overtime.
Remuneration of councillors	(7,640,175)	-	(7,640,175)	(10,286,589)	(2,646,414)	Overstated of council remuneration. When adjusted budget was prepared the movement occurred for the year to date was not taken into consideration
Depreciation and amortisation	(115,000,000)	115,000,000	-	(86,247,588)	(86,247,588)	The amount was left out as it was not correctly costed and awaited the final figure in order to take to Council for approval end of financial year
Impairment loss/ Reversal of impairments	-	-	-	(2,562,823)	(2,562,823)	The amount was left out as it was not correctly costed and awaited the final figure in order to take to Council for approval end of financial year

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Finance costs	-	-	-	(40,949,458)	(40,949,458)	Eskom interest on overdue account not budgeted for.
Lease rentals on operating lease	-	-	-	(19,835,305)	(19,835,305)	Not known at the time of the budget. New contract. preparation.
Debt impairment	(102,547,188)	102,547,000	(188)	(100,459,802)	(100,459,614)	The amount was left out as it was not correctly costed and awaited the final figure in order to take to Council for approval end of financial year
Bulk purchases	(296,523,314)	(10,451,000)	(306,974,314)	(301,310,080)	5,664,234	Increase in bulk usage by the Municipality.
Contracted Services	(45,173,900)	(8,303,300)	(53,477,200)	(20,216,686)	33,260,514	The budget was reduce drastically due to cash flow challenges
Transfers and Subsidies	(3,641,513)	-	(3,641,513)	-	3,641,513	Provision for Indigent no fully spent
Actuarial Loss	-	-	-	(444,380)	(444,380)	
General Expenses	(75,335,099)	4,350,000	(70,985,099)	(81,361,530)	(10,376,431)	The adjusted budget for General Expences & repairs and maint. was grouped. When adjusted budget was prepared the movemnt occurred for the year to date was not taken into consideration
Total expenditure	(777,528,572)	208,795,045	(568,733,527)	(803,999,708)	(235,266,181)	
Operating deficit	(181,059,359)	181,059,924	565	(229,040,374)	(229,040,939)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actuarial gains/losses	-	-	-	(4,281,516)	(4,281,516)	Not known at the time of the budget preparation
Inventories losses/write-downs	-	-	-	(41,310)	(41,310)	Not known at the time of the budget preparation
	-	-	-	(4,322,826)	(4,322,826)	
Deficit before taxation	(181,059,359)	181,059,924	565	(233,363,200)	(233,363,765)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(181,059,359)	181,059,924	565	(233,363,200)	(233,363,765)	

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Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	3,052,809	-	3,052,809	2,265,978	(786,831)	Reduce amount of inventory levels and inventory kept on hand
Other financial assets	43,623,650	-	43,623,650	75,721	(43,547,929)	Other financial assets were overstated as information was not know during the compilation of the budget & incorrectly classified under current instead of non-current assets
Receivables from exchange transactions	37,127,098	-	37,127,098	41,267,968	4,140,870	Receivable from exchange transaction was overstated as it included grant already received .
Receivables from non-exchange transactions	-	-	-	492,649	492,649	Not known at the time of the budget preperation
VAT receivable	-	-	-	8,981,491	8,981,491	Not know during the compilation of the budget
Consumer debtors	181,964,000	-	181,964,000	67,736,059	(114,227,941)	Most debtors were impaired due to the increased debtors that are irrecoverable in terms of the debt impairment policy

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash and cash equivalents	(32,630,028)	-	(32,630,028)	3,754,554	36,384,582	Incorrectly indicated as an overdraft as the Municipality does not have an overdraft facility. When adjusted budget was prepared the movement occurred for the year to date was not taken into consideration
	233,137,529	-	233,137,529	124,574,420	(108,563,109)	
Non-Current Assets						
Investment property	12,246,490	-	12,246,490	10,358,803	(1,887,687)	Not known at the time of the budget preparation
Property, plant and equipment	1,668,281,159	-	1,668,281,159	1,485,908,097	(182,373,062)	Not known at the time of the budget preparation
Other financial assets	-	-	-	22,990,141	22,990,141	Other financial assets were overstated as information was not known during the compilation of the budget & incorrectly classified under current instead of non-current assets
	1,680,527,649	-	1,680,527,649	1,519,257,041	(161,270,608)	
Total Assets	1,913,665,178	-	1,913,665,178	1,643,831,461	(269,833,717)	

Liabilities

Current Liabilities

Lekwa 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 Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Payables from exchange transactions	155,863,576	2,878,000	158,741,576	472,610,234	313,868,658	Understated. The Municipality had intentions of paying the major Creditors (Eskom, MP & DWA) during the financial period
Consumer deposits	3,164,214	-	3,164,214	2,893,652	(270,562)	Overstated as the liability was reduced during the financial period as the Municipality stopped opening consumer accounts for tenants
Employee benefit obligation	-	-	-	3,319,901	3,319,901	Not known at the time of the budget preparation
Unspent conditional grants and receipts	-	-	-	191,624	191,624	The Municipality had intentions of spending all conditional grants
Provisions	4,223,816	-	4,223,816	2,536,229	(1,687,587)	Not known at the time of the budget preparation
	163,251,606	2,878,000	166,129,606	481,551,640	315,422,034	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	89,343,523	89,343,523	Not known at the time of the budget preparation
Provisions	111,519,742	-	111,519,742	201,270,905	89,751,163	Not known at the time of the budget preparation
	111,519,742	-	111,519,742	290,614,428	179,094,686	
Total Liabilities	274,771,348	2,878,000	277,649,348	772,166,068	494,516,720	
Net Assets	1,638,893,830	(2,878,000)	1,636,015,830	871,665,393	(764,350,437)	

Net Assets

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,638,893,830	(2,878,000)	1,636,015,830	871,665,393	(764,350,437)	

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Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	41,183,699	-	41,183,699	33,832,284	(7,351,415)	Reduce payment rate/collection rate from consumers
Sale of goods and services	320,185,839	-	320,185,839	271,906,400	(48,279,439)	Reduce payment rate/collection rate from consumers
Grants	116,924,000	-	116,924,000	120,108,032	3,184,032	Additional grants received not budgeted for.
Interest income	3,879,833	-	3,879,833	34,342,536	30,462,703	Understated includes interest earned on outstanding debtors
	482,173,371	-	482,173,371	460,189,252	(21,984,119)	

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Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Payments						
Employee costs	(139,307,558)	5,652,345	(133,655,213)	(136,854,286)	(3,199,073)	Overtime not budgeted for. When adjusted budget was prepared the movement occurred for the year to date was not taken into consideration
Suppliers	(422,684,660)	-	(422,684,660)	(290,572,959)	132,111,701	The budget was reduce drastically due to cash flow challenges
Finance costs	-	-	-	(40,802,080)	(40,802,080)	Interest for arrears on Eskom account due to cash flow constraints not budgeted for. When adjusted budget was prepared the movement occurred for the year to date was not taken into consideration
	(561,992,218)	5,652,345	(556,339,873)	(468,229,325)	88,110,548	
Net cash flows from operating activities	(79,818,847)	5,652,345	(74,166,502)	(8,040,073)	66,126,429	
Net increase/(decrease) in cash and cash equivalents	(79,818,847)	5,652,345	(74,166,502)	(8,040,073)	66,126,429	
Cash and cash equivalents at the end of the year	(79,818,847)	5,652,345	(74,166,502)	(8,040,073)	66,126,429	

The accounting policies on pages 22 to 53 and the notes on pages 54 to 107 form an integral part of the annual financial statements.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and 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.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note 7.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

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 goodwill and 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. In addition, goodwill is tested on an annual basis for impairment. 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 goodwill and tangible assets are inherently uncertain and could materially change over time.

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 14 of Provisions.

Useful lives of Property, Plant and Equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement 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 note 6.

Effective interest rate

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

Allowance for doubtful debts

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

Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event

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Accounting Policies

1.4 Investment property

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

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

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

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

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

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.

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 investment property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

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

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

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

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Accounting Policies

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	20 - 50 years
Plant and machinery	Straight line	2 - 15 years
Furniture and fixtures	Straight line	2 - 10 years
Motor vehicles	Straight line	2 - 10 years
Office equipment	Straight line	2 - 10 years
IT equipment	Straight line	2 - 5 years
Computer software	Straight line	1 year
Infrastructure	Straight line	1 - 65 years

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Accounting Policies

1.5 Property, plant and equipment (continued)

Community	Straight line	2 - 50 years
Other property, plant and equipment	Straight line	5 years
Workshop equipment	Straight line	5 years
Laboratory equipment	Straight line	5 years
Specialised vehicles	Straight line	10 years
Other specialised equipment	Straight line	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 municipality 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.

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

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

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Financial instruments

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

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

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

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Accounting Policies

1.7 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.

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

Derecognition is the removal of a previously recognised financial asset or financial liability from an 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, an 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).

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

- equity instruments or similar forms of unissued capital;

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Accounting Policies

1.7 Financial instruments (continued)

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

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 municipality 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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Accounting Policies

1.7 Financial instruments (continued)**Classification**Financial assets:

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Financial assets measured at fair value are financial assets that meet either of the following conditions:

- (a) derivatives;
- (b) combined instruments that are designated at fair value
- (c) instruments held for trading.
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured 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.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are shortterm

highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of six months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

Financial liabilities:

A financial liability is a contractual obligation to deliver cash or another financial asset to another municipality.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value or
- (ii) Financial liabilities measured at amortised cost
- (iii) Financial liabilities measured at cost

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

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

Class

Trade receivables from Exchange transactions
 Trade receivables from Non-Exchange transactions
 Investments
 Cash and cash equivalents
 Consumer debtors
 VAT Receivable
 Other financial assets

Category

Financial asset measured at amortised cost
 Financial asset measured at amortised cost
 Financial asset measured at amortised cost
 Financial asset measured at fair value
 Financial asset measured at amortised cost
 Financial asset measured at fair value
 Financial asset measured at fair value

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Accounting Policies

1.7 Financial instruments (continued)

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
VAT Payable	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Employee benefit provisions	Financial liability measured at amortised cost
Provisions	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 of financial assets and financial liabilities

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.

The municipality measures a financial asset and financial liability initially at its fair value.

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

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

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Accounting Policies

1.7 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.

Fair value measurement considerations

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

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

Reclassification

The 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.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The 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:

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Accounting Policies

1.7 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

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1.7 Financial instruments (continued)**Derecognition****Financial assets**

The municipality derecognises financial assets using trade date accounting.

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.

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

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

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

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

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

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

Financial liabilities

The 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.

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

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1.7 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

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1.8 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

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Accounting Policies

1.10 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 municipality.

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.

Identification

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 test 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.

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1.10 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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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Accounting Policies

1.10 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.

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

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.

1.11 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 municipality.

Non-cash-generating assets are assets other than cash-generating assets.

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

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

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

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

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

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

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

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

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 oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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1.11 Impairment of non-cash-generating assets (continued)**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

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

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

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

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

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

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

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1.12 Employee benefits (continued)

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

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

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

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 municipality during a reporting period, the municipality 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 municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality 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 municipality has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

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1.12 Employee benefits (continued)**Post-employment benefits: Defined benefit plans**

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on the straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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 municipality 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.

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1.12 Employee benefits (continued)

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

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;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the

lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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.

The municipality recognises the net total of the following amounts in surplus or deficit.

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.

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1.12 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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Accounting Policies

1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

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

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

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Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the 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 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

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

1.14 Commitments

Items are classified as commitments when an municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources. Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancelable or only cancelable at significant cost contracts should relate to something other than the business of the municipality.

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1.14 Commitments (continued)

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

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

1.15 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.

Revenue, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

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

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

Measurement

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

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.

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Accounting Policies

1.15 Revenue from exchange transactions (continued)**Interest, royalties and dividends**

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

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

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

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

1.16 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 municipality 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 municipality in exchange.

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

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

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

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

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

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

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

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

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

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1.16 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.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)**Taxes**

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

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

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

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

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

Transfers / Government Grants

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 municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

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Accounting Policies

1.18 Investment income

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

1.19 Borrowing costs

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

1.20 Accounting by principals and agents

Identification

An agent is an municipality that has been directed by another sphere of government (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an municipality that directs another sphere of government (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one municipality (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another sphere of government (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another municipality or for its own benefit.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another sphere of government, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.21 Comparative figures

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

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Accounting Policies

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

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

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25 Budget information

The 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 the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

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Accounting Policies

1.25 Budget information (continued)

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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.26 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 national 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.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Grants-in aid (Expense)

The municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the municipality does not:

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

1.29 Value added tax

The Municipality is registered with SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value- Added Tax Act no 89 of 1991.

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Notes to the Annual Financial Statements

2016

2015

2. New standards and interpretations**2.1 Standards and interpretations effective and adopted in the current year**

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	The impact of the amendment is not material.
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2017	The impact of the amendment is not material.
• GRAP 20: Related parties	01 April 2017	The impact of the amendment is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	The impact of the amendment is not material.
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

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2016 2015

3. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	21,946,177	(11,587,374)	10,358,803	21,946,177	(11,148,450)	10,797,727
Total	21,946,177	(11,587,374)	10,358,803	21,946,177	(11,148,450)	10,797,727

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	10,797,727	(438,924)	10,358,803
	10,797,727	(438,924)	10,358,803

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	11,236,651	(438,924)	10,797,727
	11,236,651	(438,924)	10,797,727

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.

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4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	354,883,041	-	354,883,041	355,023,741	-	355,023,741
Buildings	72,178,266	(35,314,214)	36,864,052	72,178,266	(31,705,301)	40,472,965
Plant and machinery	249,431	(241,753)	7,678	249,431	(233,076)	16,355
Furniture and fixtures	6,976,724	(6,449,765)	526,959	6,964,825	(5,901,401)	1,063,424
Motor vehicles	29,558,047	(29,089,977)	468,070	30,077,011	(28,070,878)	2,006,133
Office equipment	2,066,218	(1,854,796)	211,422	2,039,000	(1,715,004)	323,996
IT equipment	4,007,514	(3,288,190)	719,324	3,832,125	(3,093,126)	738,999
Work in Progress	87,608,773	-	87,608,773	65,700,537	-	65,700,537
Road network	1,393,385,880	(767,918,379)	625,467,501	1,393,385,880	(708,217,517)	685,168,363
Community	25,297,153	(1,335,671)	23,961,482	25,297,153	(579,628)	24,717,525
Electricity network	317,253,046	(171,018,171)	146,234,875	317,253,046	(163,408,642)	153,844,404
Fire Arms	-	-	-	185,805	(135,083)	50,722
Workshop Equipment	2,270,123	(2,136,023)	134,100	2,252,460	(2,006,758)	245,702
Laboratory equipment	425,365	(383,014)	42,351	372,965	(348,407)	24,558
Medical Equipment	265,129	(265,129)	-	265,129	(259,040)	6,089
Specialised vehicles	47,117,292	(41,475,713)	5,641,579	47,117,292	(38,539,714)	8,577,578
Other Specialized Equipment	2,088,111	(2,088,111)	-	2,088,111	(2,022,820)	65,291
Wastewater network	230,048,713	(101,036,516)	129,012,197	230,048,713	(96,138,170)	133,910,543
Water network	162,057,010	(88,063,176)	73,993,834	162,057,010	(84,130,521)	77,926,489
Other property, plant and equipment	522,951	(392,092)	130,859	522,951	(337,101)	185,850
Total	2,738,258,787	(1,252,350,690)	1,485,908,097	2,716,911,451	(1,166,842,187)	1,550,069,264

Lekwa Local Municipality

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4. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment - 2016**

	Opening balance	Additions	Disposals	Depreciation	Total
Land	355,023,741	-	(140,700)	-	354,883,041
Buildings	40,472,965	-	-	(3,608,913)	36,864,052
Plant and machinery	16,355	-	-	(8,677)	7,678
Furniture and fixtures	1,063,424	11,900	-	(548,365)	526,959
Motor vehicles	2,006,133	-	(405,787)	(1,132,276)	468,070
Office equipment	323,996	27,896	(553)	(139,917)	211,422
IT equipment	738,999	210,252	(11,401)	(218,526)	719,324
Work in Progress	65,700,537	21,908,236	-	-	87,608,773
Road network	685,168,363	-	-	(59,700,862)	625,467,501
Community	24,717,525	-	-	(756,043)	23,961,482
Electricity network	153,844,404	-	-	(7,609,529)	146,234,875
Fire Arms	50,722	-	(22,418)	(28,304)	-
Workshop Equipment	245,702	17,664	-	(129,266)	134,100
Laboratory equipment	24,558	52,400	-	(34,607)	42,351
Medical Equipment	6,089	-	-	(6,089)	-
Specialised vehicles	8,577,578	-	-	(2,935,999)	5,641,579
Other Specialized Equipment	65,291	-	-	(65,291)	-
Wastewater network	133,910,543	-	-	(4,898,346)	129,012,197
Water network	77,926,489	-	-	(3,932,655)	73,993,834
Other property, plant and equipment	185,850	-	-	(54,991)	130,859
	1,550,069,264	22,228,348	(580,859)	(85,808,663)	1,485,908,097

Lekwa Local Municipality

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4. Property, plant and equipment (continued)**Reconciliation of property, plant and equipment - 2015**

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	355,163,741	-	(140,000)	-	-	-	-	355,023,741
Buildings	44,084,818	-	(2,940)	-	-	(3,608,913)	-	40,472,965
Plant and machinery	28,667	-	-	-	-	(12,312)	-	16,355
Furniture and fixtures	1,944,073	-	-	-	-	(880,649)	-	1,063,424
Motor vehicles	4,959,574	688,043	-	-	-	(3,138,575)	(502,909)	2,006,133
Office equipment	292,754	259,126	-	-	-	(227,884)	-	323,996
IT equipment	723,873	708,125	-	-	-	(692,999)	-	738,999
Work in Progress	43,393,102	33,771,457	-	-	(11,464,022)	-	-	65,700,537
Road network	745,917,736	-	-	-	-	(60,749,373)	-	685,168,363
Community	18,400,310	-	-	32,880	6,785,682	(501,347)	-	24,717,525
Electricity network	161,455,190	-	-	-	-	(7,610,786)	-	153,844,404
Fire Arms	87,883	-	-	-	-	(37,161)	-	50,722
Workshop Equipment	467,981	18,686	-	-	-	(240,965)	-	245,702
Laboratory equipment	76,406	-	-	-	-	(51,848)	-	24,558
Medical Equipment	23,346	-	-	-	-	(17,257)	-	6,089
Specialised vehicles	12,567,147	-	(521,272)	-	-	(3,056,106)	(412,191)	8,577,578
Other Specialized Equipment	210,538	-	-	-	-	(145,247)	-	65,291
Wastewater network	133,768,299	-	-	-	4,678,340	(4,536,096)	-	133,910,543
Water network	81,854,735	-	-	-	-	(3,928,246)	-	77,926,489
Other property, plant and equipment	66,342	174,446	-	-	-	(54,938)	-	185,850
	1,605,486,515	35,619,883	(664,212)	32,880	-	(89,490,711)	(915,100)	1,550,069,264

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Annual Financial Statements for the year ended 30 June 2016

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	2016	2015
4. Property, plant and equipment (continued)		
Reconciliation of Work-in-Progress 2016		
	Included within Infrastructure	Total
Opening balance	65,700,537	65,700,537
Additions/capital expenditure	21,908,235	21,908,235
	87,608,772	87,608,772
Reconciliation of Work-in-Progress 2015		
	Included within Infrastructure	Total
Opening balance	43,393,102	43,393,102
Additions/capital expenditure	33,771,457	33,771,457
Transferred to completed items	(11,464,022)	(11,464,022)
	65,700,537	65,700,537
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.		
5. Other financial assets		
Residual interest at cost		
Eskom SOC Ltd	22,990,141	20,708,077
The amount held is a deposit paid to Eskom. The deposit bears interest at a linked rate.		
At amortised cost		
Nedbank Ltd	43,812	42,345
Call account held with Nedbank Ltd. Bears interest at a rate linked to prime. The account number for the account held is 08735375		
Nedbank Ltd	31,909	29,981
Call account held with Nedbank Ltd. Bears interest at a rate linked to prime. The account number for the account held is 165731103		
	75,721	72,326
Total other financial assets	23,065,862	20,780,403
Non-current assets		
Residual interest at cost	22,990,141	20,708,077
Current assets		
At amortised cost	75,721	72,326

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6. Employee benefit obligations

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Annual Financial Statements for the year ended 30 June 2016

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6. Employee benefit obligations (continued)**Defined benefit plan**

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Components of Health Care Liabilities

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

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6. Employee benefit obligations (continued)

Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer, for example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

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6. Employee benefit obligations (continued)**Long Service Award Liability**

The Municipality offers employees LSA for every five years of service completed, from ten years of service to 45 years of service, inclusive.

<u>Completed Service (in years)</u>	<u>Long Service Bonuses (% of Annual Salary)</u>	<u>Description</u>
5	2.0%	5 / 250 x annual salary
10	4.0%	10 / 250 x annual salary
15	8.0%	20 / 250 x annual salary
20, 25, 30, 35, 40, 45	12.0%	30 / 250 x annual salary

At retirement after age 50, employees are entitled to a gift of R700, if they have less than ten years' service, and R750, if they have more than ten years' service at retirement.

The assumptions which tend to have the greatest impact on the results are:

- (i) The discount rate relative to the salary inflation assumptions;
- (ii) The average retirement age of employees; and
- (iii) Assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iii) A 50% decrease in the assumed withdrawal rates from service.

Financial Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.47% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.47% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 1.73%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

The liability-weighted average term of the total liability is 6.49 years.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

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2016 2015

6. Employee benefit obligations (continued)

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.13% was obtained from the differential between market yields on index-linked bonds (1.73%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.47%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.47\%-0.50\%)/(1+1.73\%))-1$.

Thus, a general salary inflation rate of 7.13% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.25%

It has been assumed that the next salary increase will take place on 1 July 2017.

Average Retirement Age: The Municipality has a normal retirement age of 65. It has been assumed that employees will retire at age 60, which implicitly makes an allowance for expected rates of early and ill-health retirement.

Number of eligible employees: 512 employees for 2016 financial year and 446 employees for 2015 financial year.

Average annual salary: R274,581 was the average annual salary for the 2016 financial year and R253,094 was the average annual salary for the 2015 financial year.

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

Present value of the defined benefit obligation- Post Employment Medical benefit plan.	(80,426,098)	(67,926,630)
Present value of the defined benefit obligation- Long Service Awards	(12,237,326)	(11,560,822)
	(92,663,424)	(79,487,452)
Non-current liabilities	(89,343,523)	(76,387,655)
Current liabilities	(3,319,901)	(3,099,797)
	(92,663,424)	(79,487,452)

Net expense recognised in the statement of financial performance

Current service cost - Employee Cost	4,209,711	3,984,754
Past service cost - Employee Cost	-	(287,099)
Interest cost - Finance Cost	6,919,656	6,430,059
Actuarial (gains) / losses	4,281,516	(1,887,646)
Actual benefits vested	(2,234,911)	(2,312,879)
	13,175,972	5,927,189

Calculation of actuarial gains and losses

Actuarial (gains) / losses - Long Service Awards	(396,488)	667,497
Actuarial (gains) / losses - Post Employment Benefit Plan	4,678,004	(2,555,143)
	4,281,516	(1,887,646)

Key assumptions used

Assumptions used at the reporting date:

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2016 2015

6. Employee benefit obligations (continued)

Discount rates used	9.11 %	9.03 %
Proportion of eligible current non-member employees joining the scheme by retirement	20.00 %	20.00 %
Health care cost inflation rate	8.21 %	8.12 %
Net effective discount rate	0.83 %	0.84 %
Expected pension increases	90.00 %	90.00 %
Proportion of employees opting for early retirement	90.00 %	90.00 %
Expected increase in healthcare costs		SA 85-90
Future changes in maximum state healthcare benefits		PA(90) -1
Other material actuarial assumptions		60 years

Withdrawal from service (sample annual rates)

Age	Females	Males
20	24%	16%
30	18%	12%
40	10%	8%
50	4%	4%
>55	2%	2%

Sensitivity Analysis on the Accrued Liability:

Assumption	Change	In-service	Continuation	Total	% change
Central Assumptions		56.124	24.303	80.426	
Health care inflation	+1%	68.042	26.811	94.853	18%
	-1%	46.738	22.148	68.887	-14%
Discount Rate	+1%	46.880	22.182	69.061	-14%
	-1%	68.058	26.815	94.873	18%
Post-retirement mortality	-1yr	57.983	25.308	83.290	4%
Average retirement age	-1yr	60.278	24.303	84.580	5%
Continuation of membership at retirement	-10%	46.479	24.303	70.782	-12%

The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 18% higher than that shown

History of Liabilities, Assets and Experience Adjustments

Liability History	30/06/2012	30/06/2013	30/06/2014	30/06/2015	30/06/2016
Accrued liability	50.165	55.364	63.125	67.927	80.426
Fair value of plan asset	0.000	0.000	0.000	0.000	0.000
Surplus / (Deficit)	(50.165)	(55.364)	(63.125)	(67.927)	(80.426)

History of experience adjustments: Gains and Losses (R millions):

Experience adjustments	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016
Liabilities: (Gain) / Loss	1.334	(1.185)	(1.791)	4.531
Assets: Gain / (Loss)	0.000	0.000	0.000	0.000

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2016 2015

6. Employee benefit obligations (continued)**PEMA Liability Reconciliation:**

Opening Accrued Liability	67,926,630	63,125,230
-Current-service Cost	3,237,356	3,204,359
-Interest Cost	6,062,997	5,719,089
-Contributions (benefits paid)	(1,478,889)	(1,566,905)
Total Annual Expense	7,821,464	7,356,543
-Actuarial Loss / (Gain)	4,678,004	(2,555,143)
Closing Accrued Liability	80,426,098	67,926,630

LSA Liability Reconciliation:

Opening Accrued Liability	11,560,822	9,860,835
-Current-service Cost	972,355	780,395
-Interest Cost	856,659	710,970
-Past service cost	-	287,099
-Contributions (benefits paid)	(756,022)	(745,974)
Total Annual Expense	1,072,992	745,391
-Actuarial Loss / (Gain)	(396,488)	667,497
Closing Accrued Liability	12,237,326	11,560,822

7. Inventories

Consumable stores	2,253,112	2,803,656
Water	12,866	55,213
	2,265,978	2,858,869

Carrying value of inventories carried at fair value less costs to sell 2,265,978 2,858,869

Inventories recognised as an expense during the year 41,310 71,540

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	2016	2015
8. Receivables from exchange transactions		
Sundry Receivables	17,714,189	12,983,679
Other debtors - Magadji	22,709,003	-
Other sundry receivables from exchange transactions	844,776	619,790
	41,267,968	13,603,469

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 with external credit rating (Moody's)**

Baa2	41,267,968	13,603,469
	41,267,968	13,603,469

Ageing of Sundry Receivables through exchange transactions

Current	23,635,761	4,959,148
30 Days	(10,365)	374,495
60 Days	(150,341)	352,032
90+ Days	17,792,913	7,917,794
	41,267,968	13,603,469

Fair value of trade and other receivables

Trade and other receivables	41,267,968	13,603,469
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9. Receivables from non-exchange transactions

Fines	492,649	263,422
	492,649	263,422

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 2,562,823 (2015: R 2,541,677) were impaired and provided for.

The amount of the provision was R 2,562,823 as of 30 June 2016 (2015: R 2,541,677).

Details of the impairment:

Traffic Fines Impairment	2,562,823	2,541,677
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	3,849,927	1,308,250
Provision for impairment	2,562,823	2,541,677
	6,412,750	3,849,927

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit.

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	2016	2015
10. VAT receivable		
VAT	8,981,491	5,095,807
	8,981,491	5,095,807
11. Consumer debtors		
Gross balances		
Rates	117,918,394	98,581,548
Electricity	78,966,424	56,302,860
Water	113,738,957	90,122,134
Sewerage	58,687,531	51,037,297
Refuse	40,439,141	34,214,608
Other	190,015,141	153,351,316
	599,765,588	483,609,763
Less: Allowance for impairment		
Rates	(108,189,929)	(90,932,876)
Electricity	(54,090,207)	(34,939,139)
Water	(104,693,997)	(83,863,081)
Sewerage	(53,205,504)	(46,909,679)
Refuse	(37,360,628)	(31,822,911)
Other	(174,489,264)	(143,402,415)
	(532,029,529)	(431,870,101)
Net balance		
Rates	9,728,465	7,648,672
Electricity	24,876,217	21,363,721
Water	9,044,960	6,259,053
Sewerage	5,482,027	4,127,618
Refuse	3,078,513	2,391,697
Other	15,525,877	9,948,901
	67,736,059	51,739,662
Included in above is receivables from exchange transactions		
Electricity	24,876,217	21,363,721
Water	9,044,960	6,259,053
Sewerage	5,482,027	4,127,618
Refuse	3,078,513	2,391,697
Other	15,525,877	9,948,901
	58,007,594	44,090,990
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	9,728,465	7,648,672
Net balance	67,736,059	51,739,662

Lekwa Local Municipality

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Notes to the Annual Financial Statements

	2016	2015
11. Consumer debtors (continued)		
Rates		
Current (0 -30 days)	4,347,473	4,025,724
31 - 60 days	3,183,224	2,987,066
61 - 90 days	2,884,071	2,644,110
91 - 120 days	107,503,616	88,924,648
> 365 days	(108,189,919)	(90,932,876)
	9,728,465	7,648,672
Electricity		
Current (0 -30 days)	15,358,150	12,973,469
31 - 60 days	3,150,034	3,677,033
61 - 90 days	2,015,506	1,821,104
91 - 120 days	58,442,734	30,219,699
> 365 days	(54,090,207)	(27,327,584)
	24,876,217	21,363,721
Water		
Current (0 -30 days)	7,190,784	2,878,376
31 - 60 days	2,928,278	2,872,424
61 - 90 days	2,176,534	2,171,876
91 - 120 days	101,443,361	79,779,637
> 365 days	(104,693,997)	(81,443,260)
	9,044,960	6,259,053
Sewerage		
Current (0 -30 days)	1,782,786	2,024,412
31 - 60 days	1,562,478	1,350,709
61 - 90 days	1,416,870	1,159,487
91 - 120 days	53,925,397	46,502,689
> 365 days	(53,205,504)	(46,909,679)
	5,482,027	4,127,618
Refuse		
Current (0 -30 days)	1,219,104	1,163,717
31 - 60 days	971,133	948,276
61 - 90 days	899,284	859,683
91 - 120 days	37,349,620	31,242,931
> 365 days	(37,360,628)	(31,822,910)
	3,078,513	2,391,697
Other (specify)		
Current (0 -30 days)	7,001,882	5,186,077
31 - 60 days	4,931,886	4,001,171
61 - 90 days	4,133,829	3,262,523
91 - 120 days	173,947,544	140,901,545
> 365 days	(174,489,264)	(143,402,415)
	15,525,877	9,948,901

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Notes to the Annual Financial Statements

	2016	2015
11. Consumer debtors (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(431,870,101)	(347,219,826)
Contributions to allowance	(100,159,428)	(84,650,275)
	(532,029,529)	(431,870,101)

Consumer debtors pledged as security

There are no Consumer debtors pledged as security for overdraft facilities.

Fair value of consumer debtors

Consumer debtors	67,736,059	51,739,662
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Consumer debtors impaired

As of 30 June 2016, consumer debtors of R 532,029,529 (2015: R 431,870,102) were impaired and provided for.

The amount of the provision was R 100,159,428 as of 30 June 2016 (2015: R 84,650,276).

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Notes to the Annual Financial Statements

2016 2015

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	13,005	12,010
Bank balances	3,741,549	33,691,593
	3,754,554	33,703,603

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

Baa2	3,741,549	33,691,593
	3,741,549	33,691,593

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
First National Bank - Current Account - 62027040740	2,525,586	13,834,305	2,499,627	2,525,586	13,502,845	2,225,535
First National Bank - Call Account - 62055246922	28,533	1,369,057	12,168,625	28,533	1,369,057	12,168,625
First National Bank - Call Account - 62177556598	1,154,502	15,683,481	17,542,230	1,154,502	15,683,481	17,542,230
First National Bank - Call Account - 62510563035	32,928	3,053,339	-	32,928	3,053,339	-
Total	3,741,549	33,940,182	32,210,482	3,741,549	33,608,722	31,936,390

Lekwa Local Municipality

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Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
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13. Unspent conditional grants and receipts

The municipality complied with the conditions attached to the grants received to the extend of revenue recognised. Unspent portions of conditional grants are cash backed.

Unspent conditional grants and receipts comprises of:**Unspent conditional grants and receipts**

Municipal Systems Improvement Grant	191,261	-
Expanded Public Works Grant	267	268
Intergrated National Electrification Programme	96	-
	191,624	268

Movement during the year

Balance at the beginning of the year	268	4,596,917
Additions during the year	33,381,000	39,218,000
Income recognition during the year	(33,189,644)	(43,814,649)
	191,624	268

See note 22 for reconciliation of grants from National/Provincial Government.

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Notes to the Annual Financial Statements

2016 2015

14. Provisions**Reconciliation of provisions - 2016**

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation provision	29,605,172	-	7,612,857	37,218,029
DWAF Provision	105,178,605	61,410,500	-	166,589,105
	134,783,777	61,410,500	7,612,857	203,807,134

Reconciliation of provisions - 2015

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation provision	33,984,209	-	(4,379,037)	29,605,172
DWAF Provision	89,405,638	15,772,967	-	105,178,605
	123,389,847	15,772,967	(4,379,037)	134,783,777

Non-current liabilities	201,270,905	132,910,744
Current liabilities	2,536,229	1,873,033
	203,807,134	134,783,777

The municipality is charged by the Department of Water Affairs for water usage. However the municipality is charged for clean water. This is disputed as the municipality abstracts and purifies its own water. Therefore the amount is under dispute as the tariff the municipality is being charged is for clean and not raw water. The municipality is unable to determine the correct tariff for raw water as the Department is unable to provide or assist with the information.

Environmental rehabilitation provision

The municipality has a present obligation to ensure rehabilitation of the land fill sites used after the economic life of the land fill site has been fully utilised.

Financial assumptions used:Unit Costs:

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation.

Details of this are provided separately in the Audit files.

CPI

The CPI2 is used for determining the future value of current costs in the year when the cost is projected to be incurred.

The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 6.2064%.

Discount rate:

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government municipality (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the municipality than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used. For Morgenzon the rate associated with the maximum period of 3 years was used, i.e. 1.75% rate above CPI and for Standerton the rate associated with the maximum period of 10 years was used, i.e. 2.25% above CPI.

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Notes to the Annual Financial Statements

	2016	2015
14. Provisions (continued)		
15. Payables from exchange transactions		
Accrued leave pay	10,829,216	9,536,430
Creditors accrual	275,745,476	232,171,610
Hall deposits held	82,337	61,588
Income received in Advance	2,032,403	2,048,224
Other accrual	163,407,648	103,601,254
Payments received in advanced	8,490,610	10,394,149
Retentions and Guarentees held	6,450,351	6,113,141
Third party accruals	2,184,346	19,044
13th Cheque Provision	3,387,854	2,717,274
	472,610,241	366,662,714
Fair value of trade and other payables		
Trade payables	472,610,473	366,662,714
	472,610,473	366,662,714
16. Consumer deposits		
Deposits held from Consumer Debtors	2,893,652	2,949,438
	2,893,652	2,949,438

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Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

2016 2015

17. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	75,721	-	75,721
Trade and other receivables from exchange transactions	-	41,267,968	41,267,968
Other receivables from non-exchange transactions	-	492,648	492,648
Consumer debtors	-	67,736,049	67,736,049
Cash and cash equivalents	3,754,554	-	3,754,554
VAT	8,981,491	-	8,981,491
	12,811,766	109,496,665	122,308,431

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	(472,686,826)	(472,686,826)
Consumer Deposits	(2,893,652)	(2,893,652)
Unspent conditional grants	(191,624)	(191,624)
	(475,772,102)	(475,772,102)

2015

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	72,326	-	72,326
Trade and other receivables from exchange transactions	-	13,603,469	13,603,469
Other receivables from non-exchange transactions	-	263,422	263,422
Consumer debtors	-	51,739,662	51,739,662
Cash and cash equivalents	33,703,603	-	33,703,603
VAT	5,095,807	-	5,095,807
	38,871,736	65,606,553	104,478,289

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	(366,662,715)	(366,662,715)
Consumer Deposits	(2,949,438)	(2,949,438)
Unspent conditional grants	(268)	(268)
	(369,612,421)	(369,612,421)

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	2016	2015
18. Revenue		
Agency services	18,761,427	14,496,424
Fines	3,585,482	3,627,652
Government grants & subsidies	116,078,644	128,848,649
Interest on accounts in arrears	36,611,388	26,108,184
Other Government grants	443,577	22,472,197
Other income	1,624,488	1,294,588
Property rates	53,169,130	51,583,133
Rental income	2,402,230	1,720,958
Service charges	342,282,968	276,520,016
	574,959,334	526,671,801
The amount included in revenue arising from exchanges of goods or services are as follows:		
Agency services	18,761,427	14,496,424
Interest received - investment	36,611,388	26,108,184
Other income	1,624,488	1,294,588
Rental income	2,402,230	1,720,958
Service charges	342,282,968	276,520,016
	401,682,501	320,140,170
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	53,169,130	51,583,133
Transfer revenue		
Fines	3,585,482	3,627,652
Government grants & subsidies	116,078,644	128,848,649
Other Government grants	443,577	22,472,197
	173,276,833	206,531,631
19. Repairs and maintenance		
Sale of goods		
Water Network	9,859,224	15,085,168
Sanitation Network	2,172,614	5,464,035
Road Network	487,520	1,643,987
Electricity Network	31,916,086	14,090,178
Other	63,043	650,553
	44,498,487	36,933,921

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Notes to the Annual Financial Statements

	2016	2015
20. Property rates		
Rates received		
Property rates	58,207,775	58,343,934
Income foregone/rebates given	(5,038,645)	(6,760,801)
	53,169,130	51,583,133

Valuations

Business & Commercial Properties	852,899,409	852,899,409
Farms	3,818,836,050	3,818,836,050
Municipal Properties	518,293,022	518,293,022
Residential Properties	4,079,194,485	4,079,194,485
State Owned Properties	3,152,277,260	3,152,277,260
	12,421,500,226	12,421,500,226

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation was implemented on 01 July 2014.

21. Service charges

Sale of electricity	257,500,533	204,444,702
Sale of water	49,895,994	37,839,986
Sewerage and sanitation charges	21,061,524	20,448,283
Refuse removal	13,824,917	13,787,045
	342,282,968	276,520,016

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Notes to the Annual Financial Statements

	2016	2015
22. Government Grants		
Operating grants		
Equitable share	82,889,000	85,034,000
	82,889,000	85,034,000
Capital grants		
Municipal Infrastructure Grant	27,978,000	38,590,917
Municipal Systems Improvement Grant	738,739	934,000
Financial Management Grant	1,600,000	1,600,000
Expanded Public Works Grant	1,173,001	1,189,732
Intergrated National Electrification Programme	1,699,904	1,500,000
	33,189,644	43,814,649
	116,078,644	128,848,649

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	33,381,000	39,218,000
Unconditional grants received	82,889,000	85,034,000
	116,270,000	124,252,000

Equitable Share

The grant is unconditional and is utilised to fund operational and capital programs of the municipality. In terms of the Constitution, this grant is used to subsidise the provision for based and free services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	4,596,917
Current-year receipts	27,978,000	33,994,000
Conditions met - transferred to revenue	(27,978,000)	(38,590,917)
	-	-

All conditions have been met.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service by the year 2016 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

Municipal Systems Improvement Grant

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(738,739)	(934,000)
	191,261	-

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

Financial Management Grant

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Notes to the Annual Financial Statements

	2016	2015
22. Government Grants (continued)		
Current-year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,600,000)
	-	-

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

Expanded Public Works Grant

Balance unspent at beginning of year	268	-
Current-year receipts	1,173,000	1,190,000
Conditions met - transferred to revenue	(1,173,001)	(1,189,732)
	267	268

Conditions still to be met - remain liabilities (see note 13).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

Integrated National Electrification Programme

Current-year receipts	1,700,000	1,500,000
Conditions met - transferred to revenue	(1,699,904)	(1,500,000)
	96	-

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Integrated National Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

23. Other Government Grants

Department of Human Settlements	-	20,000,000
LG Seta	443,577	230,919
Gert Sibande District Municipality	-	2,241,278
	443,577	22,472,197

24. Other revenue

Rental income	2,402,230	1,720,958
	2,402,230	1,720,958

The amount included in other revenue arising from exchanges of goods or services are as follows:

Rental income	2,402,230	1,720,958
	2,402,230	1,720,958

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Notes to the Annual Financial Statements

	2016	2015
25. Other income		
Building plan charges	19,504	20,502
Cementary fees	121,848	96,272
Clearance certificates	99,864	103,959
Commission received	106,469	71,933
Connection and reconnection fees	617,865	790,747
Miscellaneous income	536,611	138,098
Rebates received	1,567	46,137
Rezoning fees	160	2,640
Tender Deposits received	120,600	24,300
	1,624,488	1,294,588
26. General expenses		
Advertising	2,346,290	2,084,627
Auditors remuneration	5,170,702	3,758,759
Bank charges	1,444,494	1,207,965
Bursaries	40,320	149,999
Commission paid	-	1,197,383
Community development and training	1,159,056	1,963,691
Conferences and seminars	3,124,039	4,146,395
Consumables	3,696,220	5,903,861
Discount allowed - Traffic fines	340,630	397,500
Donations	-	3,488
General Grant Expenditure	900,307	-
Fuel and oil	3,436,800	3,403,029
Integrated Development Planning and Local Economic Development	295,202	311,306
IT expenses	590,229	474,481
Insurance	1,169,064	964,843
Legal Fees	3,120,301	4,160,408
Meter Reading Services	797,760	998,425
Motor vehicle expenses	1,512,930	2,665,369
Other expenses	2,970,616	4,663,352
Project maintenance costs	1,224,157	1,500,856
Protective clothing	361,950	308,085
Staff welfare	28,205	99,653
Telephone and fax	2,467,462	2,574,413
Travel	666,309	628,517
	36,863,043	43,566,405

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Notes to the Annual Financial Statements

	2016	2015
27. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	19,835,305	78,947
Equipment		
• Contractual amounts	-	145,491
	19,835,305	224,438
Loss on sale of property, plant and equipment	(444,380)	(322,720)
Impairment on property, plant and equipment	-	915,099
Impairment of other receivables from non-exchange transactions	2,562,823	2,541,678
Depreciation on property, plant and equipment	85,808,664	89,490,712
Depreciation on investment property	438,924	438,924
Employee costs	150,612,056	138,218,402

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	2016	2015
28. Employee related costs		
Acting allowances	1,553,902	1,865,924
Basic	83,880,984	73,839,325
Current service cost	1,974,800	3,846,620
Defined contribution plans	15,508,069	14,311,556
Leave pay provision charge	1,951,825	1,795,191
Long-service awards	756,022	745,973
Medical aid - company contributions	7,916,536	7,391,654
Supplementary pension	1,478,889	-
Other payroll levies	3,422,159	2,889,939
Overtime payments	14,635,885	16,889,855
SDL	1,071,986	1,014,358
Travel, motor car, accommodation, subsistence and other allowances	5,361,877	3,596,692
UIF	812,533	743,883
	140,325,467	128,930,970

Remuneration of Municipal Manager

Annual Remuneration	1,217,820	903,654
Car Allowance	107,539	129,995
Contributions to UIF, Medical and Pension Funds	285,573	274,946
	1,610,931	1,308,595

Remuneration of Chief Financial Officer

Annual Remuneration	879,646	-
Car Allowance	217,546	-
Contributions to UIF, Medical and Pension Funds	13,907	-
	1,111,099	-

Mr. RA Morris was appointed 1 July 2015.

Remuneration of Acting Chief Financial Officer

Annual Remuneration	-	387,304
Car Allowance	-	82,620
Performance Bonuses	-	314,690
Contributions to UIF, Medical and Pension Funds	-	80,552
	-	865,166

Mr. K Duba was acting from 18 November 2014 till 30 June 2015.

Remuneration of Executive Manager: Development & Planning

Annual Remuneration	775,489	639,683
Car Allowance	36,891	-
Contributions to UIF, Medical and Pension Funds	210,149	196,552
	1,022,530	836,235

Remuneration of Executive Manager: Technical Services

Annual Remuneration	847,875	351,187
Contributions to UIF, Medical and Pension Funds	121,156	150,538

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Notes to the Annual Financial Statements

	2016	2015
28. Employee related costs (continued)		
	969,031	501,725
Mr. TD Gogwane has resigned in Desember 2014 as Executive Manager: Technical Services.		
Remuneration of Executive Manager: Corporate Services		
Annual Remuneration	849,785	695,588
Car Allowance	2,495	-
Contributions to UIF, Medical and Pension Funds	331,070	278,034
	1,183,350	973,622
Remuneration of Senior Manager: Legal Services		
Annual Remuneration	-	151,608
Car Allowance	-	70,467
Contributions to UIF, Medical and Pension Funds	-	44,724
	-	266,799
Mr. ZY Marongo was suspended in 2014 and subsequently passed away.		
Remuneration of Community Services & Security		
Annual Remuneration	932,656	280,526
Car Allowance	67,187	6,032
Contributions to UIF, Medical and Pension Funds	215,753	49,235
	1,215,596	335,793
29. Remuneration of councillors		
Councillors	40	10,286,589
		9,287,432
		10,286,589
30. Debt impairment		
Contributions to debt impairment provision	100,159,426	84,650,276
Debts impaired	300,376	401,593
	100,459,802	85,051,869
31. Depreciation		
Property, plant and equipment	85,808,664	89,490,712
Investment property	438,924	438,924
	86,247,588	89,929,636

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Notes to the Annual Financial Statements

	2016	2015
32. Impairment of assets		
Impairments		
Property, plant and equipment	-	915,099
Other receivables from non-exchange revenue	2,562,823	2,541,678
The receivable stated as impaired is due to the implementation of the amended IGRAP 1, which changed the probability measurement criteria from initial measurement to subsequent measurement. Therefore all traffic fine income are accounted for on the accrual basis, i.e. time when offence occurred, but then the asset is considered for impairment at year end to GRAP 26. At year end the likelihood of receiving traffic income was assessed to be less than 90% for the year when the fine is issued, therefore the fines' receivable was impaired to state a more accurate recoverable amount to enhance the comparability principal to the framework of the financial statements.		
	2,562,823	3,456,777
The main classes of assets affected by impairment losses are:		
Other receivables through non-exchange transactions - Traffic fine receivables.		
Impairment loss recognised or reversed (cash-generating assets and cash-generating units)		
The amount of the impairment loss recognised, is as follows:		
Property, plant and equipment	-	915,099
Other receivables from non-exchange revenue - Traffic fine Receivables	2,562,823	2,541,678
33. Finance costs		
Trade and other payables	147,378	3,901
Interest Cost - LSA, PEMA and Landfill site provision	14,532,513	2,051,022
Interest on bulk purchases	26,269,567	25,346,085
	40,949,458	27,401,008
34. Auditor's remuneration		
Fees	5,170,702	3,758,759
	5,170,702	3,758,759
35. Contracted services		
Fleet Services	-	3,040,882
Specialist Services	20,216,686	28,971,859
	20,216,686	32,012,741
36. Bulk purchases		
Electricity	247,334,320	209,395,142
Water	53,975,760	13,889,290
	301,310,080	223,284,432

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	2016	2015
37. Cash generated from operations		
Deficit	(233,363,200)	(150,026,796)
Adjustments for:		
Depreciation and amortisation	86,247,588	89,929,636
(Loss)/gain on sale of assets and liabilities	444,380	322,720
Impairment deficit	2,562,823	3,456,777
Debt impairment	100,459,802	85,051,869
Movements in retirement benefit assets and liabilities	13,175,972	6,501,387
Movements in provisions	69,023,357	11,393,930
Changes in working capital:		
Inventories	592,891	(241,312)
Receivables from exchange transactions	(27,664,499)	(3,775,278)
Consumer debtors	(116,456,199)	(81,119,914)
Other receivables from non-exchange transactions	(2,792,050)	(2,805,100)
Payables from exchange transactions	105,947,530	89,769,985
VAT	(3,885,684)	(6,957,578)
Unspent conditional grants and receipts	191,356	(4,596,649)
Consumer deposits	(55,786)	136,744
	(5,571,719)	37,040,421

38. Commitments**Authorised capital expenditure****Already contracted for but not provided for**

• Property, plant and equipment	12,222,525	22,694,365
	12,222,525	22,694,365

Total capital commitments

Already contracted for but not provided for	12,222,525	22,694,365
	12,222,525	22,694,365

Total commitments**Total commitments**

Authorised capital expenditure	12,222,525	22,694,365
--------------------------------	------------	------------

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)**Minimum lease payments due**

- within one year	18,524,845	10,773,044
- in second to fifth year inclusive	3,379,573	22,582,279
	21,904,418	33,355,323

The total future minimum sublease payment expected to be received under non-cancellable sublease	21,904,418	33,355,323
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Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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39. Contingencies

The Municipality has the following Legal cases pending which could result in possible outflow of economic resources.

No.	Description/ Citation of parties	Nature of details of Case	Citation @ Court	Amount of Dispute	Current Status
1.	Lekwa Local Municipality // SALGBC, J Mashika N.O & M.X Nkonyane Case: JR 1069/14	Application by Municipality for an order reviewing and setting a settlement agreement entered into between the Municipality (represented by Marongo) and Nkonyane. The settlement was not authorised.	Lekwa Local Municipality // SALGBC, J Mashika N.O & M.X Nkonyane Case: JR 1069/14	R 1 694 149.49	We confirm that the matter has become opposed, Nkonyane has filed her answering affidavit and we have also filed our replying affidavit. We are now preparing your heads of argument which will be filed in court soon in order to enable the Registrar to allocate this matter for hearing.
2.	Hayes Matkovich Development (Pty) Ltd // Lekwa Local Municipality. Case no. 34401/12	Claim for damages arising from breach of the 2011 land sale and development agreement, being alleged proceeds of the sale of stands, alternatively an amount already incurred by Hayes under the 2008 agreement (before cancelation thereof) and the wasted costs incurred under the 2011 agreement.	Hayes Matkovich Development (Pty) Ltd // Lekwa Local Municipality. Case no. 34401/12	R 65 756 794	The matter was set-down for trial for the week of the 25th of May 2015. Judgment was reserved. Judgment was handed down on 17 September 2015 in terms of which Lekwa was held to be liable to Hayes Matkovich for damages arising from termination of the agreement. We have filed an application for leave to appeal.
3.	Lekwa Local Municipality // Lindiwe Cindi & Sonnyboy Motaung	Review of outcome of internal disciplinary case		R 650 000.00	Waiting for settlement agreement.
4.	Roadspan Surface (Pty) Ltd // Lekwa Local Municipality	Allegation of non-payment of amount in terms of a cession	164/2013 @ Standerton High Court	R 4 104 575.00	Pending
5.	Telkom SA // Lekwa Local Municipality	Damages to telecommunication lines	Standerton	R 45 000.00	Unable to secure documents from file plea.
6.	Pheela Abraham Motaung & others // Lekwa Local Municipality.	Damage to plaintiff's property due to high fluctuation of electricity	Pretoria High Court	R 810 000.00	Notice of rule 37(1) & 35(1)(8)(10) was served to plaintiff's attorney.

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39. Contingencies (continued)

7.	Phumi Trading JV Masallo Zwane Construction // Lekwa Local Municipality	The Municipality is being sued by the Plaintiff (contractor) who was appointed to upgrade roads claiming that it was not paid complete price for work done, however the Municipality alleges that it paid total amount.	Phumi Trading JV Masallo Zwane Construction // Lekwa Local Municipality	R 2 430 00.00	Pending
8.	Lekwa Municipality // Ndluwakho Zwamavy JV	Opinion on whether the Municipality will be required to make certain payments to service provider	Lekwa Municipality // Ndluwakho Zwamavy JV	Deductions of monthly payments that should have been R225 600.00	Opinion sent to client during April 2015
9.	Lekwa Municipality // SAWMU OBO Nkonde DE	Nkonde was dismissed owing to the disciplinary hearing (charges of misconduct having been preferred against him). He referred a dispute of unfair dismissal to the Bargaining Council and the commissioner ordered that he be reinstated. Lekwa is challenging the award.	Lekwa Municipality // Nkonde & Others	R204 000.00	Review application has been filed and we await record from SALGBC and thereafter allocation for hearing date
10.	Gert Koch // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Gert Koch // Lekwa Local Municipality 46527/2009	R206 717.72	Pending.
11.	Chris Lombaard // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Chris Lombaard // Lekwa Local Municipality 46533/2009	R3 010 171.99	Pending.

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39. Contingencies (continued)

12.	Lekwa Bricks // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Lekwa Bricks // Lekwa Local Municipality 46531/2009	R813 201.12	Pending.
13.	Gert Koch Eiendomme // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Gert Koch Eiendomme // Lekwa Local Municipality 46528/2009	R580 535.08	Pending.
14.	Douw Steyn // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Douw Steyn // Lekwa Local Municipality 45911/2009	R220 650.30	Pending.
15.	Henning Buitendag // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Henning Buitendag // Lekwa Local Municipality 45909/2009	R 363 514.36	Pending.
16.	Henning Buitendag & Others // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Henning Buitendag & Others // Lekwa Local Municipality 46530/2009	R 222 103.12	Pending.

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39. Contingencies (continued)

17.	Henning Buitendag & Others // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Henning Buitendag & Others // Lekwa Local Municipality 46529/2009	R 555 750.00	Pending.
18.	Jacobus Venter // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Jacobus Venter // Lekwa Local Municipality 46534/2009	R 1 384 166.35	Pending.
19.	Two Ships trading // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Two Ships trading // Lekwa Local Municipality 46532/2009	R 2 355 021.50	Pending.
20.	Dirk Viljoen // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	Dirk Viljoen // Lekwa Local Municipality 45907/2009	R 321 641.40	Pending.
21.	DE Ritzel Gastenhuis // Lekwa Local Municipality	The plaintiff are suing the municipality for a fire that started on their farms. They alledge that the fire was caused by an electrical conductor belonging to the municipality.	DE Ritzel Gastenhuis // Lekwa Local Municipality 45908/2009	R 428 163.00	Pending.
22.	Lekwa Local Municipality // Agavelle Bester	Claim for loss of support, emotional shock and truama sustained.	Lekwa Local Municipality // Agavelle Bester	R 1 757 629.90	Matter set down in respect of quantum on 6 August 2016.

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39. Contingencies (continued)

23.	TBA	The Plaintiffs are suing the municipality for a fire that started on their farm. They allege that the fire was caused by an electrical conductor belonging to the municipality.		R 1 600 000.00	Pending
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Legal Firms, Advocates & Attorneys that assisted Lekwa Local Municipality in the current financial year.

Gildenhuis Malatji Attorneys
Makiseha Attorneys
TMN Kgomo & Associates
Ngeno & Mteto Inc.

Lekwa Local Municipality

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40. Related parties

Relationships

Accounting Officer

Members of key management

MR LB Tshabalala
 Cllr. JR De Ville
 Cllr. LBR Dhlamini
 Cllr. PJ Dlamini
 Cllr. JJ Jansen van Rensburg
 Cllr. TJ Kambule
 Cllr. TA Khanyile
 Cllr. HM Khota
 Cllr. JQ Khumalo
 Cllr. MS Khumalo
 Cllr. VT Malinga
 Cllr. FE Mhlapo
 Cllr. MS Mngomezulu
 Cllr. ML Molaba
 Cllr. BP Mollo
 Cllr. MB Mosikedi
 Cllr. B Ndlebe
 Cllr. JW Ngubeni
 Cllr. NL Nkosi
 Cllr. F Sarang
 Cllr. IK Sedibe
 Cllr. LP Selepe
 Cllr. NS Selepe
 Cllr. ENK Shabangu
 Cllr. MM Sibanyoni
 Cllr. VM Sigasa
 Cllr. VM Skosana
 Cllr. RV Solontsi
 Cllr. XM Tshabalala
 Cllr. JJ van der Wath
 Cllr. SM Zacarias
 Cllr. SS Gumede
 Cllr. MY Khumalo
 Cllr. MG Makhanye
 Cllr. JP Masuku
 Cllr. MM Mnisi
 Cllr. CM Morajane (Resigned)
 Cllr. SS Mosia
 Cllr. JB Mothopeng
 Cllr. GS Msibi (Resigned)
 Cllr. AS Ngwenya
 Cllr. MD Rakitla
 Cllr. PT Schnetler
 Cllr. BG Sekonde
 Cllr. BS Sibeko
 Cllr. PC Sikhakhane
 Cllr. MR Tshabalala
 Cllr. N Tshabalala

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40. Related parties (continued)**Remuneration of management****Councillors/Mayoral committee members****2016**

Name	Basic salary	Car Allowance	Cellphone Allowance	Contributions to Medical and Pension Funds	Other benefits	Total
Executive Mayor - Cllr. LBR Dlamini	465,490	193,958	24,468	113,556	6,169	803,641
Speaker - Cllr. HM Khota	366,983	151,512	24,468	85,151	4,870	632,984
Chief Whip - Cllr. VT Malinga	311,755	117,599	19,806	57,691	3,883	510,734
Member of Mayoral Committee - Technical Services and Development and Planning - Cllr. MM Mnisi	337,409	147,574	24,468	103,294	5,040	617,785
Member of Mayoral Committee - Community Services, Corporate Services and Security Services - Cllr. BG Sekonde	350,621	147,574	24,468	90,082	4,754	617,499
Cllr. JR De Ville	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. SS Gumede	150,107	59,310	24,468	26,939	2,169	262,993
Cllr. JJ Jansen van Rensburg	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. TA Khanyile	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. MS Khumalo	175,880	76,113	24,468	51,330	2,570	330,361
Cllr. MY Khumalo	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. MG Makhanye	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. JP Masuku	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. JP Molaba	330,615	5,984	24,468	44,394	3,319	408,780
Cllr. BP Mollo	100,182	40,014	16,508	19,918	1,363	177,985
Cllr. CM Morajane (Resigned)	43,395	20,283	4,078	13,224	657	81,637
Cllr. SS Mosia	192,958	76,113	24,468	34,251	2,570	330,360
Cllr. JB Mothopeng	175,482	76,113	24,468	51,728	2,570	330,361
Cllr. GS Msibi (Resigned)	55,148	23,313	4,078	14,792	769	98,100
Cllr. AS Ngwenya	109,247	57,351	24,468	62,805	2,000	255,871
Cllr. NL Nkosi	129,015	59,309	24,468	48,031	2,054	262,877
Cllr. MD Rakitla	123,762	59,309	24,468	53,284	2,054	262,877
Cllr. F Sarang	150,107	59,309	24,468	26,939	2,054	262,877

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40. Related parties (continued)

Cllr. PT Schnetler	103,655	59,309	24,468	73,391	2,054	262,877
Cllr. ENK Shabangu	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. BS Sibeko	150,110	59,306	24,468	26,939	2,054	262,877
Cllr. PC Sikhakhane	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. NZE Sitshoni	167,902	66,315	24,468	30,159	2,262	291,106
Cllr. MR Tshabalala	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. N Tshabalala	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. JJ van der Wath	150,107	59,309	24,468	26,939	2,054	262,877
Cllr. SM Zacarias	192,958	76,113	24,468	34,251	2,570	330,360
	5,833,958	2,284,180	729,574	1,358,478	80,399	10,286,589

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40. Related parties (continued)**2015**

Name	Basic salary	Car Allowance	Cellphone Allowance	Contributions to Medical and Pension Funds	Other benefits	Total
Executive Mayor - Cllr. CM Morajane	427,969	178,589	24,468	107,800	6,428	745,254
Cllr. JF Buthelezi	8,432	4,399	2,039	4,765	158	19,793
Cllr. JR De Ville	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. LBR Dlamini	336,556	164,939	24,468	92,058	4,893	622,914
Cllr. SS Gumede	135,552	53,577	24,468	25,178	2,095	240,870
Cllr. JJ Jansen van Rensburg	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. TA Khanyile	124,335	49,178	22,527	23,199	1,839	221,078
Cllr. HM Khota	146,377	60,033	24,468	33,721	2,200	266,799
Cllr. MS Khumalo	158,150	81,780	24,468	48,121	2,482	315,001
Cllr. MY Khumalo	135,552	54,763	24,468	25,178	1,988	241,949
Cllr. MG Makhanye	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. JP Masuku	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. MM Mnisi	305,119	133,942	24,468	96,707	4,870	565,106
Cllr. SS Mosia	173,959	68,757	24,468	32,312	2,482	301,978
Cllr. JB Mothopeng	156,584	87,309	24,468	49,687	2,482	320,530
Cllr. GS Msibi	314,739	154,029	24,468	87,088	4,603	584,927
Cllr. AS Ngwenya	100,560	53,577	24,468	60,170	1,988	240,763
Cllr. NL Nkosi	115,604	53,577	24,468	45,126	1,988	240,763
Cllr. MD Rakitla	110,636	54,680	24,468	50,094	1,988	241,866
Cllr. F Sarang	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. PT Schnetler	92,135	53,577	24,468	68,595	1,988	240,763
Cllr. BG Sekonde	316,368	139,960	24,468	85,459	4,603	570,858
Cllr. ENK Shabangu	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. BS Sibeko	135,553	53,576	24,468	25,179	1,988	240,764
Cllr. PC Sikhakhane	124,335	49,178	22,527	23,199	1,839	221,078
Cllr. NZE Sitsthoni	135,552	57,453	24,468	25,178	1,988	244,639
Cllr. MR Tshabalala	135,552	67,378	24,468	25,178	1,988	254,564
Cllr. N Tshabalala	135,552	53,577	24,468	25,178	1,988	240,763

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40. Related parties (continued)

Cllr. JJ van der Wath	135,552	53,577	24,468	25,178	1,988	240,763
Cllr. SM Zacarias	173,959	69,831	24,468	32,312	2,482	303,052
	4,947,991	2,172,696	707,729	1,267,733	75,264	9,287,432

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41. Prior period errors**The following errors have occurred during the financial year:****Statement of Financial Position:**

1. VAT Receivable - Correction of VAT on Retention withheld for 2015.
2. Property, plant and equipment - Reversal of Repairs & Maintenance capitalised and transferred to PPE.
3. Unspent conditional grants and receipts - Correction of Unspent conditional grants that was spent in 2015.
4. Cash & Cash equivalents - Correction of reconciliation items from cash and cash equivalents.
5. Property, plant and equipment - Correction of assets disposed and removed during the audit.
6. Property, plant and equipment - Correction of work in progress expensed to repairs and maintenance.

Statement of Financial Performance:

1. Government Grants & subsidies - Correction of Unspent conditional grants that was spent in 2015.
2. Repairs and maintenance - Correction of Work in progress. Projects were capitalised instead of being expensed.
3. General Expenses - Expense of accruals in 2015.
4. Depreciation - Correction of depreciation on assets disposed and removed during the audit.
5. Repairs and Maintenance - Correction of work in progress expensed to repairs and maintenance.

The correction of the error(s) results in adjustments as follows:

Statement of financial position**Current Assets**

VAT Receivable	(341,980)
Cash & Cash equivalents	82,871
Receivable from exchange transactions	(9,789,989)

Non Current Assets

Property, plant and equipment	(254,403,219)
Investment property	(80,360)

Current Liabilities

Unspent conditional grants and receipts	1,236,204
Payables from exchange transactions	(3,870,749)

Opening Accumulated Surplus or Deficit**(267,167,219)****Statement of Financial Performance****Revenue from Non Exchange transactions**

Government grants & subsidies	(1,236,204)
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Expenditure

Repairs and maintenance	19,039,726
Depreciation	(20,974,217)
General expenses	279,080

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42. Comparative figures

Certain comparative figures have been reclassified.

1. Reclassification of Agency fees accrual from Provisions to Trade payables accruals, Correction of VAT on Retention withheld 2015.
2. Reclassification of General expenditure that was incorrectly classified under Council remuneration.
3. Reclassification of DWAF from Accrual to Non-Current Liabilities - Provisions during the audit.

The effects of the reclassification are as follows:

Statement of financial position

	Comparative figures previously reported	Reclassification	After reclassification
Current Liabilities	-	-	-
Payables from exchange transactions	364,369,318	(1,577,351)	362,791,967
Provisions	105,474,287	(103,601,254)	1,873,033
Provisions	-	105,178,605	105,178,605
Total	469,843,605	-	469,843,605

Statement of financial performance

	Comparative figures previously reported	Reclassification	After reclassification
Expenditure	-	-	-
Remuneration of councillors	9,496,039	(208,607)	9,287,432
General Expenses	43,078,718	208,607	43,287,325
Total	52,574,757	-	52,574,757

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43. Risk management**Capital risk management**

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of cash and cash equivalents and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Gearing ratio:

The gearing ratios at 2016 and 2015 respectively were as follows:

Less: Cash and cash equivalents	12	-3,754,554	-33,620,732
Net debt		-772,166,075	-583,883,650
Total equity		871,665,386	1,105,028,577
Total capital		99,499,311	521,144,927
Gearing ratio		11.414%	47.161%

The gearing ratio of the municipality decreased due to DWARF and ESKOM liabilities respectively increasing. Management has entered into a settlement agreement with ESKOM to repay its debt, and are in continuous communication with DWARF regarding the outstanding debt.

Financial risk management

The municipality's is expose to a variety of financial risks: market risk, fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

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43. Risk management (continued)**Liquidity risk**

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

As at 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	472,610,241	0	0	0
At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	366,662,715	0	0	0

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	Tiered	2,525,586	0	0	0	0
Call investment deposits	1.43%	1,215,963	0	0	0	0
Other financial assets	5.0%	75,721	0	0	0	0

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43. Risk management (continued)**Credit risk**

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

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

Financial instrument	2016	2015
Investments	75,721	72,326
Receivables from non-exchange transactions	492,648	263,422
Receivables from exchange transactions	41,267,968	13,603,469
Bank balances and cash	3,754,554	33,703,603

The maximum credit and interest risk exposure in respect of the relevant financial instruments amounts to as indicated above.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.

There has been no change to the municipality's exposure to market risk on the manner in which managed.

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

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44. Going concern

We draw attention to the fact that at the end of the reporting period, the municipality had a deficit of R 233,363,200 and that the municipality's current liabilities exceed its current assets by R 356,977,227. The annual financial statements have been prepared on the basis applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Events after the reporting date

New Council elected on 3rd of August 2016.

Cllr. JR De Ville
Cllr. LBR Dhlamini
Cllr. PJ Dlamini
Cllr. JJ Jansen van Rensburg
Cllr. TJ Kambule
Cllr. TA Khanyile
Cllr. HM Khota
Cllr. JQ Khumalo
Cllr. MS Khumalo
Cllr. VT Malinga
Cllr. FE Mhlapo
Cllr. MS Mngomezulu
Cllr. ML Molaba
Cllr. BP Mollo
Cllr. MB Mosikedi
Cllr. B Ndlebe
Cllr. JW Ngubeni
Cllr. NL Nkosi
Cllr. F Sarang
Cllr. IK Sedibe
Cllr. LP Selepe
Cllr. NS Selepe
Cllr. ENK Shabangu
Cllr. MM Sibanyoni
Cllr. VM Sigasa
Cllr. VM Skosana
Cllr. RV Solontsi
Cllr. XM Tshabalala
Cllr. JJ van der Wath
Cllr. SM Zacarias

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46. Unauthorised expenditure

Opening Balance	503,132,326	434,782,580
Unauthorised expenditure for the year	225,400,371	68,349,746
	728,532,697	503,132,326

47. Fruitless and wasteful expenditure

Opening Balance	63,516,805	38,167,069
Interest on Arrear Eskom accounts	26,269,567	25,345,835
Interest on Arrear Telkom & AGSA accounts	512,293	3,901
	90,298,665	63,516,805

48. Irregular expenditure

Opening balance	117,472,119	45,276,325
Irregular Expenditure - current year audit	1,166,691	-
Irregular expenditure identified in the current year relating to prior year - Rand Water	16,207,850	-
Meter reading Services - No Contract	-	2,676,248
Other	3,056,961	57,196,053
Appointment of Financial Consultants	8,418,138	9,244,059
SCM process not followed	642,958	3,079,434
Closing balance	146,964,717	117,472,119

Analysis of expenditure awaiting condonation per age classification

Current year	29,492,598	72,195,794
Prior years	117,472,119	45,276,325
	146,964,717	117,472,119

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings		
SCM process not followed	All matters where deviation occurred and the SCM policy were not followed.	642,958	3,079,434

The municipality is in the process of reviewing and indentifying all transactions and contracts to ascertain the disclosed amount of irregular expenditure. Once the process is completed management will ensure that the disclosure is updated and reported.

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49. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities

Actual amount as presented in the budget statement	74,166,502	47,898,473
Basis differences	(79,738,221)	(7,191,413)
Net cash flows from operating activities	(5,571,719)	40,707,060

Investing activities

Basis differences	(24,377,328)	163,399
Net cash generated from operating, investing and financing activities	(29,949,047)	40,870,459

50. Additional disclosure in terms of Municipal Finance Management Act**Material losses**

Electricity	72,113,118	89,020,932
Water	57,639,875	6,803,933
	129,752,993	95,824,865

Electricity losses for the current year amounted to 26% i.e R 72,113,118.25 (2015: 30% i.e. R 89,020,931,.52). These losses comprise of technical and non-technical losses.

Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc., account for 9.9%. Attempts are currently being made to reduce these non-technical losses, data cleansing process will be initiated to address losses and the installation of smart meters.

Non revenue water i.e. non billed water amounted to 94% i.e. R 57,639,875.23 (2015: 61% i.e. R 6,803,933.48). 10% of these losses can be accounted for it in terms of the National Guidelines for non revenue water.4% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

Audit fees

Current year subscription / fee	5,628,797	4,504,343
Amount paid - current year	(4,174,873)	(4,504,343)
	1,453,924	-

PAYE and UIF

Opening balance	-	1,192,288
Current year subscription / fee	16,621,834	16,530,056
Amount paid - current year	(13,175,622)	(16,530,056)
Amount paid - previous years	-	(1,192,288)
	3,446,212	-

Pension and Medical Aid Deductions

Opening balance	-	2,642,164
Current year subscription / fee	36,285,327	34,653,893
Amount paid - current year	(32,037,938)	(34,653,893)
Amount paid - previous years	-	(2,642,164)
	4,247,389	-

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

VAT

VAT receivable	8,981,491	5,095,807
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VAT output payables and VAT input receivables are shown in note .

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

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50. Additional disclosure in terms of Municipal Finance Management Act (continued)**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr. M.S. Khumalo (Acc. Holder: T.T. Radebe)	907	-	907
Cllr. L.B.R. Dhlamini (Acc. Holder: S.Z. Dhlamini)	762	-	762
Cllr. M.M. Ntuli (Acc. Holder: M.M. Mnisi)	(464)	-	(464)
Cllr. J.B. Mothopeng (Acc. Holder: J.B. Mothopeng)	1,265	-	1,265
Cllr. J.P. Masuku (Acc. Holder: L.M. Motaung)	(751)	(1,698)	(2,449)
Cllr. P.T. Schnetler (Acc. Holder: P.T. Schnetler)	4,635	-	4,635
Cllr. M.G. Makhanye (Acc. Holder: M.G. Makhanye)	(429)	-	(429)
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	288	-	288
Cllr. F. Sarang (Acc. Holder: R.A. Sarang)	880	-	880
Cllr. S.M. Zacarias (Acc. Holder: R.A. Hlatshwayo)	713	448	1,161
Cllr. M.Y. Mahlangu (Acc. Holder: S.P. Khumalo)	874	-	874
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	191	-	191
Cllr. J.F. Buthelezi (Acc. Holder: E.S. Buthelezi)	1,598	20,527	22,125
Cllr. P. Mphuthi (Acc. Holder: T.A. Mphuti)	1,283	6,675	7,958
Cllr. S.S. Gumede (Acc. Holder: B.J. Gumede)	4,421	3,999	8,420
Cllr. M.R. Tshabalala (Acc. Holder: M.R. Tshabalala)	1,140	6,297	7,437
Cllr. A.S. Ngwenya (Acc. Holder: A.S. Ngwenya)	1,251	1,422	2,673
Cllr. S.S. Mosia (Acc. Holder:)	720	9,038	9,758
Cllr. N.Z.E. Sitshoni (Acc. Holder: N.Z.E. Sitshoni)	52	-	52
Cllr. N. Tshabalala (Acc. Holder: N. Tshabalala)	501	-	501
Cllr. B.G. Sekhonde (Acc. Holder: B.G. Sekhonde)	887	-	887
Cllr. L.N. Nkosi (Acc. Holder:)	2,089	26,535	28,624
Cllr. A. Khanyile (Acc. Holder: IL Khanyile)	955	2,983	3,938
Cllr. C.M. Morajane (Acc. Holder:)	(350)	-	(350)
Cllr. M.D. Rakitla (Acc. Holder: M.D. Rakitla)	748	-	748
Cllr. E.N.K. Shabangu (Acc. Holder: CK MZIZI)	2,044	9,994	12,038
	26,210	86,220	112,430

30 June 2015	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr. M.S. Khumalo (Acc. Holder: T.T. Radebe)	(2)	-	(2)
Cllr. L.B.R. Dhlamini (Acc. Holder: S.Z. Dhlamini)	(627)	-	(627)
Cllr. M.M. Ntuli (Acc. Holder: M.M. Mnisi)	(1,426)	-	(1,426)
Cllr. J.B. Mothopeng (Acc. Holder: J.B. Mothopeng)	370	-	370
Cllr. J.P. Masuku (Acc. Holder: L.M. Motaung)	(1,102)	-	(1,102)
Cllr. J.J. Van der Wath (Acc. Holder: J.J. Van der Wath)	2,656	-	2,656
Cllr. P.T. Schnetler (Acc. Holder: P.T. Schnetler)	7,401	-	7,401
Cllr. M.G. Makhanye (Acc. Holder: M.G. Makhanye)	(337)	-	(337)
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	293	-	293
Cllr. F. Sarang (Acc. Holder: R.A. Sarang)	864	-	864
Cllr. S.M. Zacarias (Acc. Holder: R.A. Hlatshwayo)	194	-	194
Cllr. M.Y. Mahlangu (Acc. Holder: S.P. Khumalo)	781	-	781
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	992	2,236	3,228
Cllr. J.F. Buthelezi (Acc. Holder: E.S. Buthelezi)	1,912	14,098	16,010
Cllr. P. Mphuthi (Acc. Holder: T.A. Mphuti)	1,963	4,692	6,655
Cllr. S.S. Gumede (Acc. Holder: B.J. Gumede)	4,650	156	4,806
Cllr. M.R. Tshabalala (Acc. Holder: M.R. Tshabalala)	1,308	1,699	3,007

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

Cllr. A.S. Ngwenya (Acc. Holder: A.S. Ngwenya)	1,887	1,658	3,545
Cllr. S.S. Mosia (Acc. Holder:)	823	6,173	6,996
Cllr. N.Z.E. Sitshoni (Acc. Holder: N.Z.E. Sitshoni)	499	-	499
Cllr. N. Tshabalala (Acc. Holder: N. Tshabalala)	1,513	1,616	3,129
Cllr. B.G. Sekhonde (Acc. Holder: B.G. Sekhonde)	838	-	838
Cllr. L.N. Nkosi (Acc. Holder:)	1,568	33,473	35,041
Cllr. A. Khanyile (Acc. Holder: IL Khanyile)	1,178	3,135	4,313
Cllr. C.M. Morajane (Acc. Holder:)	63	-	63
Cllr. M.D. Rakitla (Acc. Holder: M.D. Rakitla)	1,994	1,116	3,110
Cllr. E.N.K. Shabangu (Acc. Holder: CK MZIZI)	2,205	2,925	5,130
	32,458	72,977	105,435

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The following deviations occurred during the financial year:

ORDER NUMBER	DATE:	SERVICE PROVIDER:	AMOUNT:	DESCRIPTION	REASON:
37202	2015/07/28	Minoah Supplier Solutions PTY	R 5,013.72	Hire of flow meter	Test of water flow to assist with fault finding.
37429	2015/09/03	TSS Transformers	R 109,440.00	Repair 20 MVA Transformer	Additional repair to 20 MVA transformer, tap switch on mono board
37430	2015/09/03	TSS Transformers	R 415,188.00	Repair 20 MVA Transformer	Urgent repair of 20 MVA transformer. Hand order issued in June 2015.
37635	2015/10/16	Zest Weg Electrical PTY LTD	R 7,752.00	Test 20 MVA Transformer	Urgent tests required to assess problem on 20 MVA transformer
VARIOUS	2015/11/16	Sonlig filling station	R 9,127.50	Diesel for council vehicles	Pump at stores was faulty, to ensure service delivery is not disrupted supplier was contracted to assist over the weekend
38409	2016/06/15	K-QIP CC	R 34,710.32	Repair chlorination equipment	Equipment used in the water purification process
38376	2016/06/08	Kantech	R 61,726.44	Manufacture, supply and install baseplates on pumps	Repair of pumps used in extraction of raw water for Morgenzon
			R 642,957.98		

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52. Budget differences

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to the annual report.

Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	355,023,741	-	(140,700)	-	-	-	354,883,041	-	-	-	-	-	-	354,883,041
Buildings	72,178,266	-	-	-	-	-	72,178,266	(31,705,301)	-	-	(3,608,913)	-	(35,314,214)	36,864,052
	427,202,007	-	(140,700)	-	-	-	427,061,307	(31,705,301)	-	-	(3,608,913)	-	(35,314,214)	391,747,093
Infrastructure														
Road Network	1,393,385,880	-	-	-	-	-	1,393,385,880	(708,217,517)	-	-	(59,700,862)	-	(767,918,379)	625,467,501
Wastewater network	230,048,713	-	-	-	-	-	230,048,713	(96,138,170)	-	-	(4,898,346)	-	(101,036,516)	129,012,197
Electricity Network	317,253,046	-	-	-	-	-	317,253,046	(163,408,642)	-	-	(7,609,529)	-	(171,018,171)	146,234,875
Water network	162,057,010	-	-	-	-	-	162,057,010	(84,130,521)	-	-	(3,932,655)	-	(88,063,176)	73,993,834
	2,102,744,649	-	-	-	-	-	2,102,744,649	1,051,894,850	-	-	(76,141,392)	-	1,128,036,242	974,708,407
Community Assets														
Community Assets	25,297,153	-	-	-	-	-	25,297,153	(579,628)	-	-	(756,043)	-	(1,335,671)	23,961,482
	25,297,153	-	-	-	-	-	25,297,153	(579,628)	-	-	(756,043)	-	(1,335,671)	23,961,482

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Appendix B

June 2016

Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Specialised vehicles	47,117,292	-	-	-	-	-	47,117,292	(38,539,714)	-	-	(2,935,999)	-	(41,475,713)	5,641,579
Other Specialised equipment	2,088,111	-	-	-	-	-	2,088,111	(2,022,820)	-	-	(65,291)	-	(2,088,111)	-
	49,205,403	-	-	-	-	-	49,205,403	(40,562,534)	-	-	(3,001,290)	-	(43,563,824)	5,641,579
Other assets														
Plant & equipment	249,431	-	-	-	-	-	249,431	(233,076)	-	-	(8,677)	-	(241,753)	7,678
Computer Equipment	3,832,125	210,252	(11,401)	-	-	-	4,030,976	(3,093,126)	-	-	(218,526)	-	(3,311,652)	719,324
Motor Vehicles	30,077,011	-	(405,787)	-	-	-	29,671,224	(28,070,878)	-	-	(1,132,276)	-	(29,203,154)	468,070
Furniture & Fittings	6,964,825	11,900	-	-	-	-	6,976,725	(5,901,401)	-	-	(548,365)	-	(6,449,766)	526,959
Office Equipment	2,039,000	27,896	(553)	-	-	-	2,066,343	(1,715,004)	-	-	(139,917)	-	(1,854,921)	211,422
Workshop equipment	2,252,460	17,664	-	-	-	-	2,270,124	(2,006,758)	-	-	(129,266)	-	(2,136,024)	134,100
Laboratory equipment	372,965	52,400	-	-	-	-	425,365	(348,407)	-	-	(34,607)	-	(383,014)	42,351
Medical equipment	265,129	-	-	-	-	-	265,129	(259,040)	-	-	(6,089)	-	(265,129)	-
Other property, plant and equipment	522,951	-	-	-	-	-	522,951	(337,101)	-	-	(54,991)	-	(392,092)	130,859
Work in progress	67,349,988	21,908,235	-	-	-	-	89,258,223	-	-	-	-	-	-	89,258,223
Fire Arms	185,805	-	(22,418)	-	-	-	163,387	(135,083)	-	-	(28,304)	-	(163,387)	-
	114,111,690	22,228,347	(440,159)	-	-	-	135,899,878	(42,099,874)	-	-	(2,301,018)	-	(44,400,892)	91,498,986

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	355,163,741	-	(140,000)	-	-	-	355,023,741	-	-	-	-	-	-	355,023,741
Buildings (Separate for AFS purposes)	72,178,266	-	(2,940)	(32,880)	-	-	72,142,446	(28,060,568)	-	-	(3,608,913)	-	(31,669,481)	40,472,965
	427,342,007	-	(142,940)	(32,880)	-	-	427,166,187	(28,060,568)	-	-	(3,608,913)	-	(31,669,481)	395,496,706
Infrastructure														
Roads, Pavements & Bridges	1,393,385,880	-	-	-	-	-	1,393,385,880	(647,468,144)	-	-	(60,749,373)	-	(708,217,517)	685,168,363
Storm water	225,370,373	-	-	4,678,340	-	-	230,048,713	(91,602,074)	-	-	(4,536,096)	-	(96,138,170)	133,910,543
Electricity Network	317,253,046	-	-	-	-	-	317,253,046	(155,797,856)	-	-	(7,610,786)	-	(163,408,642)	153,844,404
Water purification	162,057,010	-	-	-	-	-	162,057,010	(80,202,275)	-	-	(3,928,246)	-	(84,130,521)	77,926,489
	2,098,066,309	-	-	4,678,340	-	-	2,102,744,649	(975,070,349)	-	-	(76,824,501)	-	1,051,894,850	1,050,849,799
Community Assets														
Community Assets	18,456,401	-	-	6,818,562	-	-	25,274,963	(56,091)	-	-	(501,347)	-	(557,438)	24,717,525
	18,456,401	-	-	6,818,562	-	-	25,274,963	(56,091)	-	-	(501,347)	-	(557,438)	24,717,525

Lekwa Local Municipality
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Appendix B

June 2016

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Specialised vehicles	49,217,292	-	(521,272)	-	-	-	48,696,020	(36,650,145)	-	-	(3,056,106)	(412,191)	(40,118,442)	8,577,578
Other specialised equipment	2,088,111	-	-	-	-	-	2,088,111	(1,877,573)	-	-	(145,247)	-	(2,022,820)	65,291
	51,305,403	-	(521,272)	-	-	-	50,784,131	(38,527,718)	-	-	(3,201,353)	(412,191)	(42,141,262)	8,642,869
Other assets														
Plant & equipment	249,431	-	-	-	-	-	249,431	(220,764)	-	-	(12,312)	-	(233,076)	16,355
Computer Equipment	3,124,000	708,125	-	-	-	-	3,832,125	(2,400,127)	-	-	(692,999)	-	(3,093,126)	738,999
Motor Vehicles	29,596,344	688,043	-	-	-	-	30,284,387	(24,636,770)	-	-	(3,138,575)	(502,908)	(28,278,253)	2,006,134
Furniture & Fittings	6,964,825	-	-	-	-	-	6,964,825	(5,020,752)	-	-	(880,649)	-	(5,901,401)	1,063,424
Office Equipment	1,779,874	259,126	-	-	-	-	2,039,000	(1,487,120)	-	-	(227,884)	-	(1,715,004)	323,996
Workshop equipment	2,233,774	18,686	-	-	-	-	2,252,460	(1,765,793)	-	-	(240,965)	-	(2,006,758)	245,702
Laboratory equipment	372,965	-	-	-	-	-	372,965	(296,559)	-	-	(51,848)	-	(348,407)	24,558
Medical Equipment	265,129	-	-	-	-	-	265,129	(241,783)	-	-	(17,257)	-	(259,040)	6,089
Other property, plant and equipment	348,505	174,446	-	-	-	-	522,951	(282,163)	-	-	(54,938)	-	(337,101)	185,850
Work in progress	45,042,553	33,771,457	-	(11,464,022)	-	-	67,349,988	-	-	-	-	-	-	67,349,988
Fire Arms	185,805	-	-	-	-	-	185,805	(97,922)	-	-	(37,161)	-	(135,083)	50,722
	90,163,205	35,619,883	-	(11,464,022)	-	-	114,319,066	(36,449,753)	-	-	(5,354,588)	(502,908)	(42,307,249)	72,011,817

Lekwa Local Municipality
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Appendix B

June 2016

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	427,342,007	-	(142,940)	(32,880)	-	-	427,166,187	(28,060,568)	-	-	(3,608,913)	-	(31,669,481)	395,496,706
Infrastructure	2,098,066,309	-	-	4,678,340	-	-	2,102,744,649	(975,070,349)	-	-	(76,824,501)	-	(1,051,894,850)	1,050,849,799
Community Assets	18,456,401	-	-	6,818,562	-	-	25,274,963	(56,091)	-	-	(501,347)	-	(557,438)	24,717,525
Specialised vehicles	51,305,403	-	(521,272)	-	-	-	50,784,131	(38,527,718)	-	-	(3,201,353)	(412,191)	(42,141,262)	8,642,869
Other assets	90,163,205	35,619,883	-	(11,464,022)	-	-	114,319,066	(36,449,753)	-	-	(5,354,588)	(502,908)	(42,307,249)	72,011,817
	2,685,333,325	35,619,883	(664,212)	-	-	-	2,720,288,996	1,078,164,479	-	-	(89,490,702)	(915,099)	1,168,570,280	1,551,718,716
Investment properties														
Investment property	11,236,651	-	-	-	-	-	11,236,651	-	-	-	(438,924)	-	(438,924)	10,797,727
	11,236,651	-	-	-	-	-	11,236,651	-	-	-	(438,924)	-	(438,924)	10,797,727
Total														
Land and buildings	427,342,007	-	(142,940)	(32,880)	-	-	427,166,187	(28,060,568)	-	-	(3,608,913)	-	(31,669,481)	395,496,706
Infrastructure	2,098,066,309	-	-	4,678,340	-	-	2,102,744,649	(975,070,349)	-	-	(76,824,501)	-	(1,051,894,850)	1,050,849,799
Community Assets	18,456,401	-	-	6,818,562	-	-	25,274,963	(56,091)	-	-	(501,347)	-	(557,438)	24,717,525
Specialised vehicles	51,305,403	-	(521,272)	-	-	-	50,784,131	(38,527,718)	-	-	(3,201,353)	(412,191)	(42,141,262)	8,642,869
Other assets	90,163,205	35,619,883	-	(11,464,022)	-	-	114,319,066	(36,449,753)	-	-	(5,354,588)	(502,908)	(42,307,249)	72,011,817
Investment properties	11,236,651	-	-	-	-	-	11,236,651	-	-	-	(438,924)	-	(438,924)	10,797,727
	2,696,569,976	35,619,883	(664,212)	-	-	-	2,731,525,647	1,078,164,479	-	-	(89,929,626)	(915,099)	1,169,009,204	1,562,516,443

Lekwa Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2016

Name of Grants	Quarterly Receipts					Quarterly Expenditure				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Equitable Share	34,594,000	25,264,000	23,031,000	-	82,889,000	34,594,000	25,264,000	23,031,000	-	82,889,000
Municipal Infrastructure Grant	10,632,000	9,792,000	7,554,000	-	27,978,000	1,997,685	10,349,907	9,761,446	7,214,358	29,323,396
Municipal System Improvement Grant	930,000	-	-	-	930,000	48,646	-	1,665	688,428	738,739
Local Government Financial Management Grant	1,600,000	-	-	-	1,600,000	961,040	81,417	350,896	236,019	1,629,372
Intergrated National Electrification Programme (Municipal)	-	1,700,000	-	-	1,700,000	-	-	-	1,699,904	1,699,904
Expanded Public Works Programme Intergrated Grant for Municipalities)	469,000	352,000	352,000	-	1,173,000	-	-	-	1,173,001	1,173,001
	48,225,000	37,108,000	30,937,000	-	116,270,000	37,601,371	35,695,324	33,145,007	11,011,710	117,453,412

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.