

Lukhanji

LOCAL MUNICIPALITY



[These financial statements have not been audited]

FINANCIAL STATEMENTS

30 JUNE 2013

LUKHANJI LOCAL MUNICIPALITY

Index

<i>Contents</i>	<i>Page</i>
General Information	1
Approval of the Financial Statements	2
Statement of Financial Position	3
Statement of Financial Performance	4
Statement of Changes In Net Assets	5
Cash Flow Statement	6
Statement of Comparison with Budget	7 - 8
Accounting Policies	9 - 39
Notes to the Financial Statements	40 - 69
 APPENDICES - Unaudited	
A Schedule of External Loans	70
B Disclosure of Grants and Subsidies In Terms of Section 123 of MFMA, 56 of 2003	71

LUKHANJI LOCAL MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

GENERAL INFORMATION

NATURE OF BUSINESS

Lukhanji Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

GRADING OF LOCAL AUTHORITY

Category 4

JURISDICTION

The Lukhanji Local Municipality includes the following areas:

Queenstown

Whittlesea

Sada

Lesseyton

Ilinge

Other surrounding rural areas

MUNICIPAL MANAGER

Mr. G. Brown

CHIEF FINANCIAL OFFICER

Mrs. L. Ngeno

REGISTERED OFFICE

70 Cathcard Road

Queenstown

5320

AUDITORS

Auditor General South Africa

PRINCIPLE BANKERS

ABSA Bank, Queenstown

RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act

The Income Tax Act

Value Added Tax Act

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no 32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

Basic Conditions of Employment Act (Act no 75 of 1997)

Supply Chain Management Regulations, 2005

Collective Agreements

Infrastructure Grants

SALBC Leave Regulations

ATTORNEYS

Bowes, McDougall Inc.

Wesley Pretorius & Associates

LUKHANJI LOCAL MUNICIPALITY

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2013, in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2013 and is satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr. G. Brown
Municipal Manager

Date

LUKHANJI LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013

	Notes	2013 (Actual) R	2012 (Restated) R
NET ASSETS AND LIABILITIES			
Net Assets		1 034 509 625	988 917 835
Accumulated Surplus		1 034 509 625	988 917 835
Non-Current Liabilities		71 682 729	74 715 371
Long-term Liabilities	2	3 188 681	3 930 142
Employee benefits	3	55 877 714	60 622 070
Non-Current Provisions	4	12 616 335	10 163 159
Current Liabilities		66 304 012	62 887 631
Consumer Deposits	4	8 681 635	8 454 429
Current Employee benefits	6	2 326 260	1 603 423
Provisions	7	933 306	892 893
Payables from exchange transactions	8	32 790 292	26 294 909
Unspent Conditional Government Grants and Receipts	9	19 168 350	16 420 435
Taxes	10	-	4 830 402
Current Portion of Long-term Liabilities	2	2 404 169	4 391 139
Total Net Assets and Liabilities		1 172 496 366	1 126 520 837
ASSETS			
Non-Current Assets		843 128 195	815 834 094
Property Plant and equipment		751 547 695	724 325 234
Property Plant and equipment Capitalised Restoration Costs	11.1 11.2	751 547 695 0	724 325 234 -
Investment Property	12	91 283 592	91 283 592
Intangible Assets	13	0	360
Non-Current Investments	14	296 908	224 908
Current Assets		329 368 171	310 686 743
Inventory	16	75 603	72 550
Receivables from exchange transactions	17	97 623 270	126 847 418
Receivables from non-exchange transactions	17	26 720 216	5 718 936
Unpaid Conditional Government Grants and Receipts	9	340 472	305 870
Operating Lease Asset	18	-	-
Taxes	10	34 103 276	-
Cash and Cash Equivalents	18	170 505 334	177 741 969
Total Assets		1 172 496 366	1 126 520 837

LUKHANJI LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 (Actual) R	2012 (Restated) R
REVENUE			
Revenue from Non-exchange Transactions		240 797 488	220 482 585
Taxation Revenue		62 700 060	47 814 551
Property Rates	20	62 700 060	47 814 551
Transfer Revenue		167 922 638	163 384 749
Government Grants and Subsidies - Capital	21	25 999 927	25 294 007
Government Grants and Subsidies - Operating	21	119 868 200	110 975 669
Public Contributions and Donations	23	22 054 512	27 115 072
Other Revenue		10 174 790	9 283 285
Actuarial Gains	3	9 792 969	8 903 000
Fines		381 821	380 285
Revenue from Exchange Transactions		270 931 887	250 832 234
Service Charges	22	222 475 845	199 103 458
Rental of Facilities and Equipment	24	2 491 288	2 478 194
Interest Earned - external investments	25	8 326 297	8 015 762
Interest Earned - outstanding debtors	26	19 436 341	19 332 514
Licences and Permits		8 063 883	7 662 959
Other Income	27	9 618 058	12 525 799
Gain on disposal of Property, Plant & Equipment		520 175	1 713 547
Fair Value Adjustments	28	-	-
Total Revenue		511 729 376	471 314 819
EXPENDITURE			
Employee related costs	28	101 854 071	100 189 337
Remuneration of Councillors	29	18 065 144	15 797 626
Debt Impairment	30	74 110 638	49 357 585
Depreciation and Amortisation	31	24 272 166	15 764 278
Impairments	32	1 993 188	1 725 952
Repairs and Maintenance	33	14 161 263	10 573 274
Actuarial losses	3	109 067	-
Finance Charges	34	6 240 618	5 364 816
Bulk Purchases	35	145 057 346	117 979 065
Contracted services	36	3 112 895	2 282 171
Operating Grant Expenditure	37	1 660 134	6 633 491
General Expenses	38	75 501 055	87 680 565
Total Expenditure		466 137 585	413 348 160
NET SURPLUS FOR THE YEAR		45 591 790	57 966 658

LUKHANJI LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2013

	Accumulated Surplus	Total
	R	R
Balance at 1 JULY 2011 - Previously stated	926 103 867	926 103 867
2011/2012 allocations/corrections allocated to accumulated surplus incorrectly not restated on 30 June 2011 balances in prior year financial statements.	4 249 862	4 249 862
Restated Balance at 1 JULY 2011	930 353 729	930 353 729
Prior Period Adjustments - See Note 39.18	(1 095 672)	(1 095 672)
Adjustments	1 693 119	1 693 119
Net Surplus for the year	57 966 658	57 966 658
Balance at 1 July 2012	988 917 835	988 917 835
Net Surplus for the year	45 591 790	45 591 790
Balance at 30 JUNE 2013	1 034 509 625	1 034 509 625

LUKHANJI LOCAL MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	Notes	30 JUNE 2013 (Actual) R	30 JUNE 2012 (Restated) R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Ratepayers and other		214 486 012	279 970 645
Government		145 868 127	163 384 749
Interest		27 762 638	27 348 276
Payments			
Suppliers		(216 146 661)	(275 199 868)
Employees		(119 919 215)	(115 986 963)
Finance charges	34	(5 740 218)	(1 221 473)
Cash generated by operations	44	46 310 684	78 295 365
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	11.1	(51 494 267)	(30 968 234)
Purchase of Investment property	12	-	-
Proceeds on Disposal of Fixed Assets		520 175	1 809 258
Increase in Intangible Assets		-	(1 469)
Increase in Non-current Investments	14	(72 000)	-
Net Cash from Investing Activities		(51 046 092)	(29 160 445)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans repaid		(2 728 432)	3 090 581
Unspent Government Grants and Subsidies.		227 206	516 932
Net Cash from Financing Activities		(2 501 226)	3 607 513
NET INCREASE IN CASH AND CASH EQUIVALENTS		(7 236 635)	52 742 433
Cash and Cash Equivalents at the beginning of the year		177 741 969	124 999 536
Cash and Cash Equivalents at the end of the year	42	170 505 334	177 741 969
NET INCREASE IN CASH AND CASH EQUIVALENTS		(7 236 635)	52 742 433

Refer to note 42 for further detail regarding the restatement of comparative figures

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

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

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

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

Standard	Description	Effective Date
GRAP 1 (Revised – Mar 2012)	Presentation of Financial Statements	1 April 2013
GRAP 3 (Revised – Mar 2012)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9 (Revised – Mar 2012)	Revenue from Exchange Transactions	1 April 2013
GRAP 12 (Revised – Mar 2012)	Inventories	1 April 2013
GRAP 13 (Revised – Mar 2012)	Leases	1 April 2013
GRAP 16 (Revised – Mar 2012)	Investment Property	1 April 2013
GRAP 17 (Revised – Mar 2012)	Property, Plant and Equipment	1 April 2013
GRAP 25 (Original – Nov 2009)	Employee Benefits	1 April 2013
GRAP 27 (Revised – Mar 2012)	Agriculture	1 April 2013
GRAP 31 (Revised – Mar 2012)	Intangible Assets	1 April 2013
IGRAP 16 (Issued – Mar 2012)	Intangible Assets – Website Costs	1 April 2013

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.3. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

1.6. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.7. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2012 to 30 June 2013. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included the Statement of Comparison of Budget and Actual Amounts.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24. No amendments or disclosure requirements in terms of GRAP 3 (Revised – March 2012) has been made.

1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
GRAP 6 (Revised – Nov 2010)	Consolidated and Separate Financial Statements The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity. No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.	Unknown

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

<p>GRAP 7 (Revised – Mar 2012)</p>	<p>Investments in Associate</p> <p>This Standard prescribes the accounting treatment for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.</p> <p>No significant impact is expected as the Municipality does have any interest in associates.</p>	<p>1 April 2013</p>
<p>GRAP 8 (Revised – Nov 2010)</p>	<p>Interest in Joint Ventures</p> <p>The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.</p> <p>No significant impact is expected as the Municipality is not involved in any joint ventures.</p>	<p>Unknown</p>
<p>GRAP 18 (Original – Feb 2011)</p>	<p>Segment Reporting</p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.</p>	<p>Unknown</p>
<p>GRAP 20 (Original – June 2011)</p>	<p>Related Party Disclosure</p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	<p>Unknown</p>

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

<p>GRAP 105 (Original – Nov 2010)</p>	<p>Transfer of Functions Between Entities Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>Unknown</p>
<p>GRAP 106 (Original – Nov 2010)</p>	<p>Transfer of Functions Between Entities Not Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>Unknown</p>
<p>GRAP 107 (Original – Nov 2010)</p>	<p>Mergers</p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>Unknown</p>
<p>IGRAP 11</p>	<p>Consolidation - Special Purpose Entities (SPE)</p> <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<p>Unknown</p>
<p>IGRAP 12</p>	<p>Jointly Controlled Entities non-monetary contributions</p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	<p>Unknown</p>

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.9. LEASES

1.9.1. Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9.2. Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

1.12. UNSPENT PUBLIC CONTRIBUTIONS

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public. This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.13. PROVISIONS

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;
 - the location, function and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented.
- (b) The Municipality 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.

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

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.14. EMPLOYEE BENEFITS

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

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

1.14.1. *Post Retirement Medical Obligations*

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at 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 requirements. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs.

These obligations are valued periodically, unless circumstances change significantly in which case it is done annually, by independent qualified actuaries.

1.14.2. Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation. .

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs.

These obligations are valued periodically, unless circumstances change significantly in which case it is done annually, by independent qualified actuaries.

1.14.3. Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

1.14.4. Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.14.5. Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

1.14.6. Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.15. PROPERTY, PLANT AND EQUIPMENT

1.15.1. Initial Recognition

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 year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

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

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 assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.15.2. Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

1.15.3. Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<u>Infrastructure</u>		<u>Other</u>	
Roads and Paving	25	Buildings	30
Pedestrian Malls	25	Specialist vehicles	5-10
Electricity	40	Other vehicles	5-7
		Office equipment	3-7
		Furniture and fittings	7-10
		Bins and containers	5
		Specialised plant and	
		Equipment	10
<u>Community</u>		Other plant and	
Buildings	30	Equipment	3-5
Recreational Facilities	20-30	Landfill sites	10-50
Halls	50	Emergency equipment	5-15
Libraries	50	Computer equipment	3-5
Parks and gardens	20		
Other assets	15-20		
<u>Finance lease assets</u>			
Office equipment	5		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.15.4. De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.16. INTANGIBLE ASSETS

1.16.1. Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

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

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset 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 is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.16.2. Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.16.3. Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3

1.16.4. De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17. INVESTMENT PROPERTY

1.17.1. Initial Recognition

Investment property is recognised as an asset when, and only 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 includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.17.2. Subsequent Measurement – Fair Value Model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is recognised in the Statement of Financial Performance for the period in which it arises.

1.17.3. De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.18. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.18.1. Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
 - During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
 - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (b) Internal sources of information
 - Evidence is available of obsolescence or physical damage of an asset.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
 - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The re-designation 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 shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.18.2. Non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
 - Cessation, or near cessation, of the demand or need for services provided by the asset.
 - Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

(b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an 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.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, 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 usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit 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 with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an 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 an 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. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.19. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

1.19.1. Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.19.2. Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.19.2.1. Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.19.2.2. Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.19.2.3. Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three 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, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

1.19.2.4. Non-Current Investments

Investments which include fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.19.3. De-recognition of Financial Instruments

1.19.3.1. Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.19.3.2. *Financial Liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.19.4. *Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

1.20. REVENUE

1.20.1. *Revenue from Non-Exchange Transactions*

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses.

Revenue from spot fines and summonses is recognised based on an estimation of future collections of fines issued based on prior period trends and collection percentages.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by law.

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

Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a 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 present 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 will be recognised as revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.20.2. Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. . The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Interest revenue is recognised using the effective interest rate method.

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

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue is measured at the fair value of the consideration received or receivable.

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.21. RELATED PARTIES

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

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

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person's family is related to the Municipality if that person:
 - has control or joint control over the Municipality.
 - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
 - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
- both entities are joint ventures of the same third party.
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in (a).
- a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of

LUKHANJI LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.22. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23. IRREGULAR EXPENDITURE

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), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

1.26. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

1.26.1. *Post retirement medical obligations and Long service awards*

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.26.2. *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

1.26.3. *Property, Plant and Equipment*

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

1.26.4. Intangible Assets

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

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

1.26.5. Investment Property

Investment property is valued by an independent valuar with every municipal property rates valuation. In the years between valuations an index is used.

1.26.6. Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

1.26.7. Revenue Recognition

Accounting Policy 1.20.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.20.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.26.8. Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

1.26.9. Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

1.26.10. Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

1.27. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.28. CAPITAL COMMITMENTS

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.29. EVENTS AFTER REPORTING DATE

Events after the 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).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

LUKHANJI LOCAL MUNICIPALITY

STATEMENT COMPARISON OF BUDGETS TO ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2013

	Original approved budget R	Adjustments R	Adjusted budget R	Actual amounts R	Variance to original budget %	Variance to final budget %
REVENUE						
Revenue from Non-exchange Transactions						
Taxation Revenue	43 406 469	18 967 507	62 373 976	62 700 060		
Property taxes	43 406 469	18 967 507	62 373 976	62 700 060	44%	1%
Transfer Revenue	160 900 775	46 725 901	207 626 676	167 922 638		
Government Grants and Subsidies - Capital	37 740 527	5 841 473	43 582 000	25 999 927	-31%	-40%
Government Grants and Subsidies - Operating	123 160 248	-217 956	122 942 292	119 868 200	-3%	-3%
Public Contributions and Donations	-	41 102 384	41 102 384	22 054 512	100%	-46%
Other Revenue	801 100	-75 500	725 600	10 174 790		
Actuarial Gains	-	-	-	9 792 969	100%	100%
Fines	801 100	-75 500	725 600	381 821	-52%	-47%
Revenue from Exchange Transactions	319 259 088	2 268 743	321 527 831	270 931 887		
Service Charges	218 944 460	6 210 864	225 155 324	222 475 845	2%	-1%
Water services authority contribution	-	-	-	-	100%	100%
Rental of Facilities and Equipment	2 518 907	-	2 518 907	2 491 288	-1%	-1%
Interest Earned - external investments	5 200 000	-	5 200 000	8 326 297	60%	60%
Interest Earned - outstanding debtors	20 111 983	-3 690 309	16 421 674	19 436 341	-3%	18%
Licences and Permits	4 207 500	-	4 207 500	8 063 883	92%	92%
Agency Services	55 437 452	-295 743	55 141 709	-	-100%	-100%
Other Income	12 838 787	43 930	12 882 717	9 618 058	-25%	-25%
Gain on disposal of Property, Plant & Equipment	-	-	-	520 175	100%	100%
Total Revenue	524 367 432	67 886 651	592 254 083	511 729 376	-2%	-14%

STATEMENT COMPARISON OF BUDGETS TO ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2013

EXPENDITURE

Employee related costs	120 225 457	7 676 388	127 901 845	101 854 071	-15%	-20%
Remuneration of Councillors	17 918 000	-	17 918 000	18 065 144	1%	1%
Debt Impairment	79 188 178	-11 055 398	68 132 780	74 110 638	-6%	9%
Depreciation and Amortisation	-	15 763 169	15 763 169	24 272 166	100%	54%
Repairs and Maintenance	-	-	-	14 161 263	100%	100%
Actuarial losses	-	-	-	109 067	100%	100%
Finance Charges	4 791 260	0	4 791 260	6 240 618	30%	30%
Bulk Purchases	141 330 705	11 829 000	153 159 705	145 057 346	3%	-5%
Contracted services	40 063 966	-3 500 000	36 563 966	3 112 895	-92%	-91%
Operating Grant Expenditure	-	-	-	1 660 134	100%	100%
General Expenses	81 409 732	1 916 690	83 326 422	75 501 055	-7%	-9%
Total Expenditure	484 927 298	22 629 849	507 557 147	464 144 397	-4%	-9%
NET SURPLUS/(DEFICIT) FOR THE YEAR	39 440 134	45 256 802	84 696 936	47 584 978	21%	-44%

CAPITAL

Expenditure	105 151 382	-20 466 220	84 685 162	53 487 455	-49%	-37%
Total funding sources	103 170 057	-18 485 388	84 684 669	53 487 455		
Expenditure financed from:						
Transferred funds	37 099 123	6 483 162	43 582 285	25 999 927	-30%	-40%
External financing sources	26 570 934	-26 570 934	-	-	100%	100%
Internal funding	39 500 000	1 602 384	41 102 384	27 487 528	-30%	-33%

CASHFLOW

Cash flow from operating activities	1 743 000	28 595 967	30 338 967	46 310 684	2557%	53%
Cash flow from investing activities	-65 651 382	20 501 258	-45 150 124	-51 046 092	-22%	13%
Cash flow from financing activities	22 368 934	-18 166 438	4 202 496	-2 501 226	-111%	-160%
Net increase/ (decrease) in cash and cash equivalents	-41 539 448	30 930 787	-10 608 661	-7 236 635		
Cash and Cash Equivalents at the beginning of the year	-41 539 448	30 930 787	-10 608 661	177 741 969	-528%	-1775%
Cash and Cash Equivalents at the end of the year	161 978 752	-47 587 877	114 390 875	170 505 334	5%	49%
Net increase/ (decrease) in cash and cash equivalents	203 518 200	-78 518 664	124 999 536	-7 236 635	-104%	-106%

Financial position

Total current assets	321 457 928	9 653 195	331 111 123	329 368 171	2%	-1%
Total non current assets	1 044 926 382	-227 332 030	817 594 352	843 128 195	-19%	3%
Total current liabilities	157 450 234	-91 542 939	65 907 295	66 304 012	-58%	1%
Total non current liabilities	89 156 934	-10 699 852	78 457 082	71 682 729	-20%	-9%
Community wealth/Equity	1 119 777 142	-115 436 142	1 004 341 000	1 034 509 625	-8%	3%

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2

LONG-TERM LIABILITIES

	2013 R	2012 R
Annuity Loans - At amortised cost	1 729 187	3 545 788
Balance previously reported	3 545 788	3 335 222
Received	-	1 664 000
Redeemec	(1 816 601)	(1 904 059)
Adjustments	-	450 603
Prior Period Adjustment - Refer to note 39.	-	21
Hire Purchase	3 119 662	4 775 493
Balance previously reported	4 775 493	7 411 906
Received	1 800 000	-
Redeemec	(3 455 831)	(2 638 937)
Adjustments	-	2 525
Finance Lease Liability - At amortised cost	744 000	-
	5 592 849	8 321 281
Less: Current Portion transferred to Current Liabilities	2 404 169	4 391 139
Annuity Loans - At amortised cost (Current Portion)	497 285	1 754 082
Balance previously reported	-	1 792 521
Prior Period Adjustment - Refer to note 39.1	-	(38 439)
Hire Purchase (Current Portion)	1 162 884	2 637 057
Balance previously reported	-	2 639 761
Prior Period Adjustment - Refer to note 39.1	-	(2 704)
Finance Lease Liability - At amortised cost	744 000	-
	3 188 681	3 930 142

There is one annuity loan outstanding. The loans carries interest at 5% per annum and will be fully redeemed on 30 September 2029. The loan is secured by an investment and call investment deposit disclosed in notes 14 and 18

The obligations under annuity loans are scheduled below

	Minimum annuity payments	
Amounts payable under annuity loans		
Payable within one year	689 051	2 073 805
Payable within two to five year	1 396 669	2 085 720
Payable after five years	-	-
	<u>2 085 720</u>	<u>4 159 525</u>
Less: Future finance obligations	<u>(356 533)</u>	<u>(295 863)</u>
Present value of annuity obligations	<u>1 729 187</u>	<u>3 863 662</u>

The obligations under finance leases are scheduled below

	Minimum lease payments	
Amounts payable under finance leases		
Payable within one year	1 734 691	3 003 917
Payable within two to five year	2 860 778	2 425 469
	<u>4 595 469</u>	<u>5 429 386</u>
Less: Future finance obligations	<u>(710 267)</u>	<u>(702 186)</u>
Present value of lease obligations	<u>3 885 202</u>	<u>4 727 200</u>

The outstanding finance lease liability is made up of the following agreements (Copie

Institution	Interest Rate	Redemption date	Carrying value of related asset		Outstanding Balance	
			2013 R	2012 R	2013 R	2012 R
ITEC Rental	21.20%	01/11/2012	131 827	527 307	-	-
NRG Rental	16.67%	30/06/2016	1 790 365	-	-	-
			<u>1 922 192</u>	<u>527 307</u>	<u>-</u>	<u>-</u>

The obligations under hire purchase agreements are scheduled below

	Minimum hire purchase payments	
Amounts payable under hire purchase agreement		
Payable within one year	1 734 691	3 043 988
Payable within two to five year	2 860 778	2 438 826
Payable after five years	-	-
	<u>4 595 469</u>	<u>5 482 815</u>
Less: Future finance obligations	<u>(710 267)</u>	<u>(707 322)</u>
Present value of hire purchase obligations	<u>3 885 202</u>	<u>4 775 493</u>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The outstanding finance lease liability is made up of the following agreements (Copie

Institution	Interest Rate	Redemption date	Carrying value of related asset		Outstanding Balance	
			2013 R	2012 R	2013 R	2012 R
ABSA (Telephone system)	10.00%	15/05/2011	336 723	-	-	31 756
ABSA (Mercedes Refuse Truck)	9.03%	15/01/2012	727 152	930 276	-	31 756
ABSA (TATA Truck)	10.00%	05/08/2016	160 271	178 234	-	31 756
ABSA (Isuzu KB200i LWB)	10.00%	15/02/2016	108 201	122 554	-	61 348
ABSA (2011 Rear Tipping Trailer)	10.00%	15/02/2016	59 883	64 982	-	24 695
ABSA (2010 Vibrating Roller)	10.00%	15/02/2016	105 369	120 228	-	31 756
ABSA (Isuzu KB200i Fleetside)	10.00%	15/02/2016	134 680	154 067	-	31 756
ABSA (Sonalinka Tractor)	10.00%	15/02/2016	172 374	180 653	-	24 695
ABSA (Mazda CX 7)	10.00%	01/05/2016	289 219	309 743	-	31 756
			2 093 872	2 060 738	-	301 274

Refer to Appendix A for descriptions, maturity dates and effective interest rates of structured loans and finance.

Leases and hire purchases are secured by property, plant and equipment - Note 11

3

	2013 R	2012 R
EMPLOYEE BENEFITS		
Post Retirement Medical Benefits - Refer to Note 2.	51 095 813	55 706 038
Balance previously reported		55 918 461
Prior Period Adjustment - Refer to note 39.1		(212 423)
Long Service Awards - Refer to Note 2.1:	4 781 901	4 916 032
Balance previously reported		-
Prior Period Adjustment - Refer to note 39.1		4 916 032
Total Non-current Employee Benefit Liabilities	55 877 714	60 622 070
Post Retirement Medical Benefits		
Balance 1 July	57 309 461	61 274 461
Contribution for the year	2 251 000	2 630 000
Interest cost	4 539 000	3 699 000
Expenditure for the year	(1 603 423)	(1 391 000)
Actuarial Gain	(9 792 969)	(8 903 000)
Total post retirement benefits 30 June	52 703 069	57 309 461
Less: Transfer of Current Portion - Note 6	(1 607 256)	(1 603 423)
Balance 30 June	51 095 813	55 706 038
Long Service Awards		
Balance 1 July	4 916 032	-
Contribution for the year	616 582	-
Interest cost	313 436	-
Expenditure for the year	(454 212)	-
Actuarial Loss	109 067	-
Prior Period Adjustment - Refer to note 39.11		4 916 032
Total long service 30 June	5 500 905	4 916 032
Less: Transfer of Current Portion - Note 6	(719 004)	-
Balance 30 June	4 781 901	4 916 032
TOTAL NON-CURRENT EMPLOYEE BENEFITS		
Balance 1 July	62 225 493	61 274 461
Contribution for the year	2 867 582	2 630 000
Interest cost	4 852 436	3 699 000
Expenditure for the year	(2 057 635)	(1 391 000)
Actuarial Loss	(9 683 903)	(8 903 000)
Prior Period Adjustment - Refer to note 39.11		4 916 032
Total employee benefits 30 June	58 203 974	62 225 493
Less: Transfer of Current Portion - Note 6	(2 326 260)	(1 603 423)
Balance 30 June	55 877 714	60 622 070

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

3.1 Post Retirement Benefits

2013 2012

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Current Employees	566	297
Continuation members (e.g. Retirees, widows, orphan)	59	91
Total Members	625	388

2013 2012
R R

The liability in respect of past service has been estimated to be as follow

Current Employees	32 229 122	34 666 461
Continuation members	20 473 947	22 643 000
Total Liability	52 703 069	57 309 461

2011 2010 2009
R R R

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

Total Liability	61 274 461	60 311 461	69 223 276
-----------------	------------	------------	------------

Experience adjustments were calculated as follow

2013 2012
Rm Rm

Liabilities: (Gain) / (loss)	3.813	2.109
Assets: Gain / (loss)	-	-

The municipality performed their first actuarial valuation on 30 June 2010. Thus there are no experience adjustment figures available on or before 30 June 2010 to fully comply with GRAP 25

The municipality makes monthly contributions for health care arrangements to the following medical schemes:

- Bonitas;
- LA Health
- Key Health
- Hosmed
- Samwumed

2014
R

The following are estimates for the 2013/2014 financial year

Future Service Cost	483 862
Interest Cost	814 862

Key actuarial assumptions used
2013 2012
% %

i) Rate of interest

Discount rate	8.68%	8.65%
Health Care Cost Inflation Rate	7.62%	7.32%
Net Effective Discount Rate	0.98%	1.24%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

ii) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuary

iii) Normal retirement age

It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
The amounts recognised in the Statement of Financial Position are as follows		
Present value of fund obligation:	52 703 069	57 309 461
Net liability	52 703 069	57 309 461

The liability is not supported by any plan asset:

Reconciliation of present value of fund obligation

Present value of fund obligation at the beginning of the year:	57 309 461	61 274 461
Total expenses:	5 186 577	4 938 000
Current service cost	2 251 000	2 630 000
Interest Cost	4 539 000	3 699 000
Benefits Paid	(1 603 423)	(1 391 000)
Actuarial losses	(9 792 969)	(8 903 000)
Present value of fund obligation at the end of the year:	52 703 069	57 309 461
Less: Transfer of Current Portion - Note 6	(1 607 256)	(1 603 423)
Balance 30 June	51 095 813	55 706 038

Sensitivity Analysis on the Accrued Liability

Central Assumptions

The effect of movements in the assumptions are as follow

Assumption	Change	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions		32.229	20.474	52.703	
Health care inflation	1%	R 36.31900	22.587	58.906	12%
Health care inflation	-1%	R 28.76400	R 18.64100	47.405	-10%
Post-retirement mortality	-1 year	R 33.34700	21.328	54.675	4%
Average retirement age	-1 year	R 35.67200	R 20.47400	56.146	7%
Withdrawal Rate	-50%	R 33.10000	R 20.47400	53.574	2%
Current-service					
Assumption	Change	Cost (R)	Interest Cost (R)	Total (R)	% change
Central Assumption		2 442 800	4 506 400	6 949 200	
Health care inflation	1%	2 755 000	5 044 900	7 799 900	12%
Health care inflation	-1%	2 177 900	4 048 600	6 224 400	-10%
Post-retirement mortality	-1 year	2 527 600	4 677 600	7 205 200	4%
Average retirement age	-1 year	2 781 500	4 805 200	7 586 700	9%
Withdrawal Rate	-50%	2 557 400	4 582 000	7 139 400	3%

3.2 Long Service Bonuses

The Long Service Bonus plans are defined benefit plans:

The number of officials eligible for Long Service Bonus	564	-
---	-----	---

The following are estimates for the 2012/2013 financial year:

	2014 R
Future Service Cost	849 592
Interest Cost	369 004

Key actuarial assumptions used

	2013 %	2012 %
i) Rate of interest		
Discount rate	7.17%	0.00%
General Salary Inflation (long-term)	6.77%	0.00%
Net Effective Discount Rate applied to salary-related Long Service Bonus	0.37%	0.00%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligation:	5 500 905	4 916 032
Net liability	5 500 905	4 916 032

The liability is not supported by any plan asset:

	2011 R	2010 R	2009 R
The liability in respect of periods commencing prior to the comparative year has been estimated as follows:			
Total Liability,			

Experience adjustments were calculated as follow

	2013 R	2012 R
Liabilities: (Gain) / loss	-	-
Assets: Gain / (loss)	-	-

The municipality performed their first actuarial valuation on 30 June 2010. Thus there are no experience adjustment figures available on or before 30 June 2010 to fully comply with GRAP 25

Reconciliation of present value of fund obligation

Present value of fund obligation at the beginning of the year:	4 916 032	-
Total expenses:	475 806	-
Current service cost	616 582	-
Interest Cost	313 436	-
Benefits Paid	(454 212)	-
Actuarial gains	109 067	-
Present value of fund obligation at the end of the year:	5 500 905	4 916 032
Less: Transfer of Current Portion - Note 6	(719 004)	-
Balance 30 June	4 781 901	4 916 032

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	Change	Liability (Rm)	% change
Central assumptions		5,501	
General salary inflator	1%	5,857	6%
General salary inflator	-1%	5,180	-6%
Average retirement age	-2 yrs	4,918	-11%
Average retirement age	2 yrs	6,051	10%
Withdrawal rates	-50%	6,077	10%

Assumption	Change	Current-service Cost (R)	Interest Cost (R)	Total (R)	% change
Central Assumption		629 900	311 600	941 500	
General Salary Inflation	1%	681 100	332 200	1 013 300	8%
General Salary Inflation	-1%	584 500	292 900	877 400	-7%
Average retirement age	-2 years	583 700	275 000	858 700	-9%
Average retirement age	+2 years	669 900	343 600	1 013 500	8%
Withdrawal Rate	-50%	728 000	345 000	1 073 000	14%

3.3 Retirement funds

DEFINED CONTRIBUTION FUNDS

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

Contributions paid recognised in the Statement of Financial Performance:

SALA Pension Fund	-	-
Cape Joint Retirement Fund	-	-
SAMWU National Provident Fund	-	-
	<u>-</u>	<u>-</u>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
4 NON-CURRENT PROVISIONS		
Provision for Rehabilitation of Landfill-site	12 616 335	10 163 159
Total Non-current Provisions	<u><u>12 616 335</u></u>	<u><u>10 163 159</u></u>
The municipality has 3 Landfill sites		
<u>Landfill Sites</u>		
Balance 1 July	11 056 053	8 885 810
Balance previously reported		17 076 816
Prior Period Adjustment - Refer to note 39.0		(8 191 005)
Additions	1 993 188	1 725 952
Balance previously reported		1 536 913
Prior Period Adjustment - Refer to note 4		189 038
Unwinding of discounted interest	500 400	444 291
Balance previously reported		-
Prior Period Adjustment - Refer to note 4		444 291
Total provision 30 June	<u><u>13 549 641</u></u>	<u><u>11 056 053</u></u>
Less: Transfer of Current Portion to Current Provision:	<u><u>(933 306)</u></u>	<u><u>(892 893)</u></u>
Balance 30 June	<u><u>12 616 335</u></u>	<u><u>10 163 159</u></u>

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

The municipality did not measure the rehabilitation costs of the landfill-sites in the past in terms of Directive 4, issued by the Accounting Standards Board. Since the previous reporting period the municipality recognised 1 following non-current provisions:

10 163 159

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. These costs are based on 100% utilisation of the site. The assumptions used are as follows:
The discount rate used to calculate the present value of the rehabilitation costs at each reporting period based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. The following rate was used - 5% (2011 - 5.29%)

The municipality has an obligation to rehabilitate landfill-sites at the end of the expected useful life of the asset. Based on a technical opinion obtained from the Auditor General, the provision at year end was recognised based on the % of the sites utilised. Total estimated costs to rehabilitate the existing sites are as follows:

	2013 R	2012 R
5 CONSUMER DEPOSITS		
Electricity	8 681 635	8 454 429
Total Consumer Deposit:	<u><u>8 681 635</u></u>	<u><u>8 454 429</u></u>
Guarantees held in lieu of Electricity and Water Deposit	-	-

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

	2013 R	2012 R
6 CURRENT EMPLOYEE BENEFITS		
Current Portion of Post Retirement Benefits - Note	1 607 256	1 603 423
Balance previously reported		1 391 000
Prior Period Adjustment - Refer to note 39.1		212 423
Current Portion of Long-Service Provisions - Note:	719 004	-
Total Current Employee Benefits	<u><u>2 326 260</u></u>	<u><u>1 603 423</u></u>

The movement in current employee benefits are reconciled as follow

	2013 R	2012 R
7 PROVISIONS		
Provision for Rehabilitation of Landfill-site	933 306	892 893
Balance previously reported		1 536 913
Prior Period Adjustment - Refer to note 39.1		-
	<u><u>933 306</u></u>	<u><u>892 893</u></u>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

8	PAYABLES FROM EXCHANGE TRANSACTIONS	2013	2012
		R	R
	Trade Payables	3 933 694	8 513 649
	Balance previously reported		8 513 649
	Prior Period Adjustment - Refer to note 39.0		-
	Interest Accrued	76 835	38 417
	Balance previously reported		-
	Prior Period Adjustment - Refer to note 39.0		38 417
	Pre-paid electricity	1 459 653	1 459 653
	Payments received in advance	4 942 052	(2 606 216)
	Balance previously reported		8 830 202
	Prior Period Adjustment - Refer to note 39.0		(11 536 418)
	Other Payables	535 484	386 073
	Balance previously reported		386 073
	Prior Period Adjustment - Refer to note 39.0		-
	Pension Fund Shortages	1 726 219	1 735 003
	Balance previously reported		1 735 003
	Prior Period Adjustment - Refer to note 39.0		-
	Staff Leave	20 116 355	16 768 329
	Balance previously reported		11 921 852
	Prior Period Adjustment - Refer to note 39.0		4 846 477
	Total Trade Payables	32 790 291	26 294 908

Payables are being recognised net of any discounts.

Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value.

Sundry deposits include hall, housing and unidentified deposit

9	UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS	2013	2012
	Unspent Grants	19 168 350	16 420 435
	National Government Grant:	9 503 688	6 547 558
	Provincial Government Grant:	5 431 029	6 051 312
	District Municipality	823 374	823 374
	Other Grant Providers	3 410 258	2 998 190
	Less: Unpaid Grants	340 472	305 870
	National Government Grant:	34 603	-
	Provincial Government Grant:	139 263	139 263
	District Municipality	39 178	39 178
	Other Grant Providers	127 429	127 429
	Total Conditional Grants and Receipts	18 827 878	16 114 565

Refer to appendix B and note 21 for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

Not all unspent grants are cash-backed at year end - Refer to note 45

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

10	TAXES	2013	2012
	10.1 VAT Payable		
	VAT Payable	-	4 830 402
		-	4 830 402
	10.2 VAT Receivable		
	VAT Receivable (In suspense)	-	-
	VAT Receivable	34 103 276	-
		34 103 276	-
	Net VAT Payable/(Receivable)	(34 103 276)	4 830 402

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

PROPERTY PLANT AND EQUIPMENT

	2013 R	2012 R
11.2 PROPERTY PLANT AND EQUIPMENT - CAPITALISED RESTORATION COSTS		
Net Carrying amount at 1 July	-	-
Balance previously reported		1 000 202
Prior Period Adjustment - Refer to note 39.0		7 538 455
Prior Period Adjustment - Refer to note		(8 885 810)
Prior Period Adjustment - Refer to note		(8 885 810)
Acquisitions	1 993 188	1 725 952
Balance previously reported		100 202
Prior Period Adjustment - Refer to note 39.0		(100 202)
Prior Period Adjustment - Refer to note		1 725 952
Impairments	(1 993 188)	(1 725 952)
Balance previously reported		-
Prior Period Adjustment - Refer to note 39.0		(1 725 952)
Net Carrying amount at 30 June	-	-
Cost	12 604 950	10 611 762
Accumulated Impairment:	(12 604 950)	(10 611 762)

The municipality did not measure the rehabilitation costs of the landfill-sites in the past in terms of Directive 4, issued by the Accounting Standards Board.

Since the previous reporting period the municipality recognised all rehabilitation cost in line with GRAP 17. Also refer to note 4 for the related provision raised for rehabilitation of landfill-sites in the municipal area.

Landfill-sites financed by way of a provision recognised previously not recognised - Refer to note

	2013 R	2012 R
12 INVESTMENT PROPERTY		
Net Carrying amount at 1 July	91 283 592	91 283 592
Fair value	91 283 592	91 283 592
Net Carrying amount at 30 June	91 283 592	91 283 592
Cost	91 283 592	91 283 592
Accumulated Depreciation	-	-

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repair maintenance or enhancements.

	2013 R	2012 R
13 INTANGIBLE ASSETS		
Net Carrying amount at 1 July	360	8 365
Cost	51 659	50 190
Accumulated Amortisation	(51 299)	(41 825)
Acquisitions	-	1 469
Amortisation	(360)	(9 474)
Net Carrying amount at 30 June	0	360
Cost	51 659	51 659
Accumulated Amortisation	(51 659)	(51 299)

Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates vary from 3.55 % to 5.35 % per annum. (2012 - 5.39% to 6.02%)

	2013 R	2012 R
14 NON-CURRENT INVESTMENTS		
Fixed Deposits	277 454	206 408
Government Bonds	19 455	18 500
Total Non-Current Investments	296 908	224 908

	2013 R	2012 R
15 BIOLOGICAL ASSETS		
Game	8 147 900	8 147 900
Balance previously reported		2 493 300
Prior Period Adjustment - Refer to note 39.0		5 654 600
Net Carrying amount at 30 June	8 147 900	8 147 900

	Quantity (Units)	Fair Value R	2013 R	2012 R
Springbuck	R 63.00000	350	22 050	22 050
Biesbuck	R 140.00000	600	84 000	84 000
Black Wildebeest	R 93.00000	9 750	906 750	906 750
Gemsbuck	R 40.00000	2 000	80 000	80 000
Red Hartebeest	R 69.00000	22 800	1 573 200	1 573 200
Kudu	R 35.00000	2 000	70 000	70 000
Impala	R 86.00000	600	51 600	51 600
Nyala	R 28.00000	5 000	140 000	140 000
Lectwe	R 28.00000	5 000	140 000	140 000
Eland	R 32.00000	3 000	96 000	96 000
Zebra	R 62.00000	57 000	3 534 000	3 534 000
Rhino	R 6.00000	200 000	1 200 000	1 200 000
Giraffe	R 10.00000	20 000	200 000	200 000
Fallow Deer	R 50.00000	500	25 000	25 000
Mountain Reed Buck	R 40.00000	350	14 000	14 000
Duiker	R 18.00000	200	3 600	3 600
Ostrich	R 13.00000	500	6 500	6 500
Steenbuck	R 6.00000	200	1 200	1 200
Total			8 147 900	8 147 900

Fair value of biological assets is based on selling prices less costs to sell in an open active market

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
Reconciliation of fair value		
Opening Fair Value	8 147 900	8 147 900
Decrease in fair value due to disposal		
Fair value adjustments - Physical changes and death		
Fair value adjustments - Price adjustment		
Closing Fair Value	<u>8 147 900</u>	<u>8 147 900</u>

No title or other restrictions are placed on biological asset

No biological assets were pledged as security for liability

There are no commitments for the development or acquisition of biological asse

All biological assets are classified as consumable and are held for sa

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

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

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

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

16

INVENTORY

Water	75 603	72 550
Balance previously reported		-
Prior Period Adjustment - Refer to note 39.1		72 550
	<u>75 603</u>	<u>72 550</u>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

17

	2013 R	2012 R
RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Service Receivables		
Water	70 614 685	63 540 923
Balance previously reported		3 272 248
Prior Period Adjustment - Refer to note 39.1		60 268 675
Electricity	17 130 144	21 964 177
Balance previously reported		1 736 445
Prior Period Adjustment - Refer to note 39.1		20 227 732
Refuse	69 836 160	56 724 419
Sewerage	61 284 648	46 691 938
Interest on Arrears	97 641 063	86 801 656
Sundry Receivables	64 770 909	63 852 021
Total Service Receivables	381 277 611	339 575 134
Other Receivables:	11 814 603	8 087 774
Provision for bad debt:	(387 883 224)	(308 734 133)
Net Service Receivables	5 208 990	38 928 775
Other Receivables		
Chris Hani District Municipality (Water and Sanitation)	92 931 895	87 644 181
Other Debtors	(578 783)	213 293
Other Deposits	61 168	61 168
Net Other Receivables	92 414 279	87 918 642
Total Receivables from exchange transactions	97 623 270	126 847 418
Ageing of Receivables from Exchange Transactions		
(Water): Ageing		
Current (0 - 30 days)	2 460 586	2 038 430
31 - 60 Days	1 430 982	1 670 437
61 - 90 Days	1 687 384	1 209 129
+ 90 Days	65 035 733	56 492 917
Total	70 614 685	61 410 914
(Electricity): Ageing		
Current (0 - 30 days)	6 018 004	5 671 948
31 - 60 Days	1 833 152	2 233 180
61 - 90 Days	788 571	930 839
+ 90 Days	8 490 416	8 188 862
Total	17 130 144	17 024 829
(Refuse): Ageing		
Current (0 - 30 days)	2 346 800	1 506 485
31 - 60 Days	1 848 215	1 151 394
61 - 90 Days	1 699 081	970 436
+ 90 Days	63 942 064	51 332 304
Total	69 836 160	54 960 620
(Sewerage): Ageing		
Current (0 - 30 days)	1 321 453	969 263
31 - 60 Days	1 186 473	769 123
61 - 90 Days	1 085 781	692 375
+ 90 Days	57 690 941	44 399 939
Total	61 284 648	46 830 699

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
<u>(Interest on Arrears): Ageing</u>		
Current (0 - 30 days)	2 158 028	1 798 116
31 - 60 Days	1 437 353	1 765 482
61 - 90 Days	1 402 917	1 661 608
+ 90 Days	92 642 765	81 320 373
Total	97 641 063	86 545 579
<u>(Sundry Receivables): Ageing</u>		
Current (0 - 30 days)	3 375 209	7 634 978
31 - 60 Days	1 359 228	2 401 081
61 - 90 Days	506 449	1 134 769
+ 90 Days	59 530 023	66 999 738
Total	64 770 909	78 170 566
<u>(Total): Ageing</u>		
Current (0 - 30 days)	17 680 081	19 619 220
31 - 60 Days	9 095 403	9 990 698
61 - 90 Days	7 170 184	6 599 155
+ 90 Days	347 331 942	308 734 133
Total	381 277 611	344 943 206
Reconciliation of Provision for Bad Debts		
Balance at beginning of year	308 734 134	153 473 928
Debtors transferred from Chris Hani District Municipality	-	116 323 057
Contribution to provision	195 472 147	42 878 953
Bad Debts Written Off	-	(3 941 805)
Balance at end of year	504 206 281	308 734 134
The Provision for Impairment could be allocated between the different classes of receivables as follows		
Electricity	1 517 393	551 401
Water	1 547 463	1 661 193
Refuse	1 294 176	1 097 015
Sewerage	1 850 855	1 511 800
Other	553 772	722 603
Total	6 763 658	5 544 012

Refer to note 49 c) for disclosures regarding the credit risks associated with receivables.

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

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

17

RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Service Receivables		
Rates	63 423 928	33 965 551
Balance previously reported		37 722 910
Prior Period Adjustment - Refer to note 39.		-
Other Receivables	196 014	267 064
Accrued Interest	-	-
Outstanding Deposits	196 014	267 064
Total Service Receivables	63 619 941	34 232 615
Provision for bad debt:	(36 899 725)	(28 513 679)
Total Net Receivables from Non-Exchange Transactions	26 720 216	5 718 936

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
Ageing of Receivables from Non-Exchange Transactions		
<u>(Rates): Ageing</u>		
Current (0 - 30 days)	-	7 261 793
31 - 60 Days	-	1 198 913
61 - 90 Days	-	924 086
+ 90 Days	-	28 338 119
Total	-	37 722 910

Reconciliation of Provision for Bad Debts		
Balance at beginning of yea	28 513 679	22 227 674
Contribution to provisor	8 386 046	6 478 631
Bad Debts Written Off	-	(192 627)
Balance at end of year	36 899 725	28 513 679

The Provision for Impairment could be allocated between the different classes of receivables as follo

Rates	36 672 531	28 338 119
Other	227 194	175 561
	36 899 725	28 513 679

Refer to note 49 c) for disclosures regarding the credit risks associated with receivables.

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

The fair value of trade and other receivables approximates their carrying amount

18 **CASH AND CASH EQUIVALENTS**

	2013 R	2012 R
<u>Assets</u>		
Call Investments Deposit:	108 111 057	103 035 295
Current Accounts	62 365 286	74 679 682
Cash Floats	28 992	26 992
Total Cash and Cash Equivalents - Assets	170 505 334	177 741 969

Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.

No overdraft facility exist.

The municipality has the following bank accounts:

	2013 R	2012 R
<u>Current Accounts</u>		
<i>ABSA Bank - Queenstown Branch - Account Number 405 281 9154 (Primary Account)</i>		
Cash book balance at beginning of yea	52 639 962	17 616 438
Cash book balance at end of yea	27 752 335	52 639 962
Bank statement balance at beginning of yea	2 176 571	1 339 319
Bank statement balance at end of yea	1 289 690	2 176 571
<i>ABSA Bank - Queenstown Branch - Account Number 2160 149 854 (Primary Account)</i>		
Cash book balance at beginning of yea	22 039 720	9 802 279
Cash book balance at end of yea	34 612 951	22 039 720
Bank statement balance at beginning of yea	12 887	13 618
Bank statement balance at end of yea	12 110	12 887

Call Investment Deposits

Call investment deposits consist out of the following account

Institution	Account Nr	Type	2013 R	2012 R
ABSA	909-044-9293	32 Days Notice	-	103 035 295
ABSA	206-068-1602	Call Account	108 111 057	-
			108 111 057	103 035 295

19 **DISCONTINUED OPERATIONS**

There were no discontinuing operations for 2013 and 2012

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

20	<p>PROPERTY RATES</p> <p><u>Actual</u></p> <p>Rateable Land and Buildings</p> <p>Residential, Commercial Property, Stat</p> <p>Less: Rebates</p> <p>Total Assessment Rates</p> <p><u>Valuations</u></p> <p>Rateable Land and Buildings</p> <p>Residential</p> <p>Commercial</p> <p>State</p> <p>Education</p> <p>Agricultural</p> <p>Municipal</p> <p>Total Assessment Rates</p> <p>Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2012. Rebates were granted on land with buildings used solely for dwellings purposes as follows: Residential - The first R15 000 on the valuation is exempted.</p> <p>Basic Rate:</p> <p>Residential</p> <p>Businesses, Commercial, Industrial</p> <p>Educational</p> <p>Public Service Infrastructure</p> <p>Vacant Land</p> <p>Rates are levied annually and monthly. Monthly rates are payable in equal installments over the 12 month period. Annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on overdue rates on a monthly rates.</p> <p>Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.</p>	<table border="0"> <tr> <td style="text-align: center;">2013</td> <td style="text-align: center;">2012</td> </tr> <tr> <td style="text-align: center;">R</td> <td style="text-align: center;">R</td> </tr> <tr> <td style="text-align: center;">62 700 060</td> <td style="text-align: center;">47 814 551</td> </tr> <tr> <td style="text-align: center; border: 1px solid black;">62 700 060</td> <td style="text-align: center; border: 1px solid black;">47 814 551</td> </tr> <tr> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">62 700 060</td> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">47 814 551</td> </tr> <tr> <td style="text-align: center;">6 059 389 808</td> <td style="text-align: center;">5 204 684 094</td> </tr> <tr> <td style="text-align: center;">2 204 275 792</td> <td style="text-align: center;">1 630 289 723</td> </tr> <tr> <td style="text-align: center;">269 385 426</td> <td style="text-align: center;">242 032 426</td> </tr> <tr> <td style="text-align: center;">712 348 896</td> <td style="text-align: center;">374 467 167</td> </tr> <tr> <td style="text-align: center;">670 168 931</td> <td style="text-align: center;">518 935 450</td> </tr> <tr> <td style="text-align: center;">359 872 952</td> <td style="text-align: center;">320 055 926</td> </tr> <tr> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">10 275 441 805</td> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">8 290 464 786</td> </tr> </table> <table border="0"> <tr> <td style="text-align: right;">Residential</td> <td style="text-align: right;">R 0.00624</td> </tr> <tr> <td style="text-align: right;">Businesses, Commercial, Industrial</td> <td style="text-align: right;">R 0.00780</td> </tr> <tr> <td style="text-align: right;">Educational</td> <td style="text-align: right;">R 0.00624</td> </tr> <tr> <td style="text-align: right;">Public Service Infrastructure</td> <td style="text-align: right;">R 0.00157</td> </tr> <tr> <td style="text-align: right;">Vacant Land</td> <td style="text-align: right;">R 0.02741</td> </tr> </table>	2013	2012	R	R	62 700 060	47 814 551	62 700 060	47 814 551	-	-	62 700 060	47 814 551	6 059 389 808	5 204 684 094	2 204 275 792	1 630 289 723	269 385 426	242 032 426	712 348 896	374 467 167	670 168 931	518 935 450	359 872 952	320 055 926	10 275 441 805	8 290 464 786	Residential	R 0.00624	Businesses, Commercial, Industrial	R 0.00780	Educational	R 0.00624	Public Service Infrastructure	R 0.00157	Vacant Land	R 0.02741
2013	2012																																					
R	R																																					
62 700 060	47 814 551																																					
62 700 060	47 814 551																																					
-	-																																					
62 700 060	47 814 551																																					
6 059 389 808	5 204 684 094																																					
2 204 275 792	1 630 289 723																																					
269 385 426	242 032 426																																					
712 348 896	374 467 167																																					
670 168 931	518 935 450																																					
359 872 952	320 055 926																																					
10 275 441 805	8 290 464 786																																					
Residential	R 0.00624																																					
Businesses, Commercial, Industrial	R 0.00780																																					
Educational	R 0.00624																																					
Public Service Infrastructure	R 0.00157																																					
Vacant Land	R 0.02741																																					
21	<p>GOVERNMENT GRANTS AND SUBSIDIES</p> <p>Unconditional Grants</p> <p>Equitable Share</p> <p>Conditional Grants</p> <p>Grants and Donations</p> <p>Subsidies</p> <p>Total Government Grants and Subsidies</p> <p>Government Grants and Subsidies - Capital</p> <p>Government Grants and Subsidies - Operatin</p>	<table border="0"> <tr> <td style="text-align: center;">109 210 000</td> <td style="text-align: center;">96 062 000</td> </tr> <tr> <td style="text-align: center; border: 1px solid black;">109 210 000</td> <td style="text-align: center; border: 1px solid black;">96 062 000</td> </tr> <tr> <td style="text-align: center;">36 658 127</td> <td style="text-align: center;">40 207 676</td> </tr> <tr> <td style="text-align: center; border: 1px solid black;">36 658 127</td> <td style="text-align: center; border: 1px solid black;">40 207 676</td> </tr> <tr> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">145 868 127</td> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">136 269 676</td> </tr> <tr> <td style="text-align: center;">25 999 927</td> <td style="text-align: center;">25 294 007</td> </tr> <tr> <td style="text-align: center;">119 868 200</td> <td style="text-align: center;">110 975 669</td> </tr> <tr> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">145 868 127</td> <td style="text-align: center; border-top: 1px solid black; border-bottom: 3px double black;">136 269 676</td> </tr> </table>	109 210 000	96 062 000	109 210 000	96 062 000	36 658 127	40 207 676	36 658 127	40 207 676	-	-	145 868 127	136 269 676	25 999 927	25 294 007	119 868 200	110 975 669	145 868 127	136 269 676																		
109 210 000	96 062 000																																					
109 210 000	96 062 000																																					
36 658 127	40 207 676																																					
36 658 127	40 207 676																																					
-	-																																					
145 868 127	136 269 676																																					
25 999 927	25 294 007																																					
119 868 200	110 975 669																																					
145 868 127	136 269 676																																					

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
Revenue recognised per vote as required by Section 123 (c) of the MFM		5 524 284
Equitable share	109 210 000	96 062 000
Executive & Council	477 696	1 708 534
Planning and Development	-	-
Budget and Treasury	1 804 974	2 088 070
Public Safety	138 600	(27 809)
Road Transport	19 823 722	15 976 833
Waste Management	1 044 000	1 719 670
Sport and Recreation	5 009 450	1 554 395
Community and Social Services	4 770 283	5 509 284
Health	-	2 779 509
Electricity	3 589 402	8 899 191
	<u>145 868 127</u>	<u>136 269 677</u>

The municipality does not expect any significant changes to the level of grant

21.01 Equitable share

Opening balance	-	-
Grants received	109 210 000	96 062 000
Conditions met - Operating	(109 210 000)	(96 062 000)
Conditions met - Capita	-	-
Conditions still to be met	<u>-</u>	<u>-</u>

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

21.02 Health Subsidy

Opening balance	2 609 324	164 646
Grants received	-	5 224 186
Conditions met - Operating	(620 283)	(2 779 509)
Conditions met - Capita	-	-
Conditions still to be met	<u>1 989 041</u>	<u>2 609 324</u>

Health subsidies was used fund primary health care services in the municipal area.

21.03 Finance Management Grant (FMG)

Opening balance	-	1 057 727
Grants received	1 500 000	1 500 000
Transfers	-	-
Conditions met - Operating	(1 433 603)	(1 978 206)
Conditions met - Capita	-	(44 520)
Deducted by National Treasury	(101 000)	(535 000)
Grant expenditure to be recovered	<u>(34 603)</u>	<u>0</u>

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

21.04 Municipal Systems Improvement Grant (MSIG)

Opening balance	-	971 251
Grants received	800 000	790 000
Transfers	-	-
Conditions met - Operating	(477 696)	(1 002 003)
Conditions met - Capita	-	(24 249)
Deducted by National Treasury	(148 000)	(735 000)
Grant expenditure to be recovered	<u>174 304</u>	<u>(0)</u>

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

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
21.05 Municipal Infrastructure Grant (MIG)		
Opening balance	6 547 558	4 579 242
Grants received	32 122 000	26 480 000
Conditions met - Operating	-	(1 155 845)
Conditions met - Capita	(25 999 927)	(23 355 839)
Deducted by National Treasury	(4 579 000)	-
Grant expenditure to be recovered	<u>8 090 631</u>	<u>6 547 558</u>
The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.		
21.06 Housing Grants		
Opening balance	1 010 453	2 869 014
Grants received	-	95 104
Conditions met - Operating	-	(1 953 665)
Conditions met - Capita	-	-
Conditions still to be met	<u>1 010 453</u>	<u>1 010 453</u>
Housing grants was utilised for the development of erven and the erection of top structures.		
21.07 Library Subsidy		
Opening balance	174 700	189 325
Grants received	4 150 000	2 203 714
Conditions met - Operating	(4 150 000)	(2 203 714)
Conditions met - Capita	-	(14 625)
Conditions still to be met/(Grant expenditure to be recovered)	<u>174 700</u>	<u>174 700</u>
21.08 Expanded Public Works Program (EPWP)		
Opening balance	-	-
Grants received	2 844 000	1 862 000
Conditions met - Operating	(2 756 550)	(1 862 000)
Conditions met - Capita	-	-
Conditions still to be met	<u>87 450</u>	<u>-</u>
This program is aimed at providing poverty en income relief through the creation of temporary work opportunities.		
21.09 Skills Development Grant		
Opening balance	-	-
Grants received	2 000 000	-
Conditions met - Operating	(848 697)	-
Conditions met - Capita	-	-
Conditions still to be met	<u>1 151 303</u>	<u>-</u>
21.1 Queenstown Rhino Funds		
Opening balance	203 038	193 895
Grants received	-	10 543
Conditions met - Operating	-	(1 400)
Conditions met - Capita	-	-
Conditions still to be met	<u>203 038</u>	<u>203 038</u>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
21.11 Aids Grant		
Opening balance	6 862	8 238
Grants received	-	-
Conditions met - Operatin	-	(1 376)
Conditions met - Capita	-	-
Deducted by National Treasury	-	-
Grant expenditure to be recovere	<u>6 862</u>	<u>6 862</u>
21.12 ESKOM (Sabata Dalindyebo)		
Opening balance	139 263	139 263
Grants received	-	-
Conditions met - Operatin	-	-
Conditions met - Capita	-	-
Conditions still to be me	<u>139 263</u>	<u>139 263</u>
21.13 Independent Electoral Commission Grant		
Opening balance	288 031	303 546
Grants received	-	-
Conditions met - Operatin	-	(815)
Conditions met - Capita	-	(14 700)
Conditions still to be met/(Grant expenditure to be recovere	<u>288 031</u>	<u>288 031</u>
21.14 LED Strategies & Spatial		
Opening balance	821 689	821 689
Grants received	-	-
Conditions met - Operatin	-	-
Conditions met - Capita	-	-
Conditions still to be me	<u>821 689</u>	<u>821 689</u>
21.15 LGW SETA - Training		
Opening balance	199 036	2 430
Grants received	371 371	471 816
Conditions met - Operatin	(371 371)	(275 211)
Conditions met - Capita	-	-
Conditions still to be me	<u>199 036</u>	<u>199 036</u>
21.16 Rural Water Scheme		
Opening balance	12 390	12 390
Grants received	-	-
Conditions met - Operatin	-	-
Conditions met - Capita	-	-
Conditions still to be me	<u>12 390</u>	<u>12 390</u>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
21.17 Mendi Memorial Creche		
Opening balance	15 507	14 043
Grants received	-	1 464
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Grant expenditure to be recovered	<u>15 507</u>	<u>15 507</u>
21.18 Mlungisi Sportfields		
Opening balance	4 085	4 085
Grants received	-	-
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Conditions still to be met	<u>4 085</u>	<u>4 085</u>
21.19 Mendi Educare Centre		
Opening balance	13 610	12 908
Grants received	-	702
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Conditions still to be met/(Grant expenditure to be recovered)	<u>13 610</u>	<u>13 610</u>
21.2 MSP Funds		
Opening balance	181 955	208 741
Grants received	-	-
Conditions met - Operating	-	-
Conditions met - Capita	-	(26 785)
Conditions still to be met	<u>181 955</u>	<u>181 955</u>
21.21 Rathwick Electrification		
Opening balance	132 002	132 002
Grants received	-	-
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Conditions still to be met	<u>132 002</u>	<u>132 002</u>
21.22 Other Grants		
Opening balance	3 654 957	3 070 659
Grants received	412 069	1 994 064
Conditions met - Operating	-	(1 409 767)
Conditions met - Capita	-	-
Conditions still to be met	<u>4 067 026</u>	<u>3 654 957</u>
21.23 Rowell Old Age Home		
Opening balance	2 434	2 197
Grants received	-	237
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Conditions still to be met	<u>2 434</u>	<u>2 434</u>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
21.24 Storm Relief Fund		
Opening balance	25 329	24 493
Grants received	-	836
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Grant expenditure to be recovered	<u>25 329</u>	<u>25 329</u>
21.25 Tylden Irrigation Scheme		
Opening balance	6 167	6 167
Grants received	-	-
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Conditions still to be met	<u>6 167</u>	<u>6 167</u>
21.26 Small Micro Strategy & Hawke		
Opening balance	66 175	66 175
Grants received	-	-
Conditions met - Operating	-	-
Conditions met - Capita	-	-
Conditions still to be met/(Grant expenditure to be recovered)	<u>66 175</u>	<u>66 175</u>
21.27 Electricity Grant		
Opening balance		783 294
Grants received	-	1 029 995
Conditions met - Operating	-	-
Conditions met - Capita	-	(1 813 289)
Conditions still to be met	<u>-</u>	<u>-</u>
21.24 Total Grants		
Opening balance	16 114 565	15 637 420
Grants received	153 409 440	137 726 661
Conditions met - Operating	(119 868 200)	(110 685 510)
Conditions met - Capita	(25 999 927)	(25 294 007)
Deducted by National Treasury	(4 828 000)	(1 270 000)
Conditions still to be met	<u>18 827 878</u>	<u>16 114 565</u>
<u>Disclosed as follows</u>		
Unspent Conditional Government Grants and Receipt	19 168 350	16 420 435
Unpaid Conditional Government Grants and Receipt	(340 472)	(305 870)
	<u>18 827 878</u>	<u>16 114 565</u>
22 SERVICE CHARGES		
Electricity	148 505 115	136 410 818
Refuse Removal	26 399 378	20 959 571
Sewerage (Septic Tanks)	40 487	62 712
Sewerage	18 710 278	14 693 390
Water	28 820 587	26 976 967
Total Service Charges	<u>222 475 845</u>	<u>199 103 458</u>
23 WATER SERVICES AUTHORITY CONTRIBUTION		
Chris Hani District Municipality - Water contribution:	22 054 512	27 115 072
	<u>22 054 512</u>	<u>27 115 072</u>
24 RENTAL OF FACILITIES AND EQUIPMENT		
Rental of Halls	440 768	522 528
Rental of Grounds	150 330	99 454
Rental of Equipment	55 862	38 067
Rental of Premises	1 844 327	1 818 145
	<u>2 491 288</u>	<u>2 478 194</u>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
25 INTEREST EARNED - EXTERNAL INVESTMENTS		
Bank Accounts	3 174 095	2 908 298
Call Deposits	5 152 202	5 107 464
	<u>8 326 297</u>	<u>8 015 762</u>
26 INTEREST EARNED - OUTSTANDING DEBTORS		
Interest on Services	15 895 907	17 100 899
Interest on Rates	3 540 434	2 231 616
	<u>19 436 341</u>	<u>19 332 514</u>
27 OTHER INCOME		
Access to Info Fee	68	54
Administration Charges	2 250	7 950
Advert Costs	750	13 005
Availability Charges	536 759	569 641
Building Clause	25	-
Building Plan Fees	311 846	394 780
Burial Fees	542 116	466 121
Clean-up Projects	-	4 360
Commission on RD Cheques	1 401	1 620
Commission on Stop Orders	76 307	72 869
Community Levy	177 204	180 602
Connection Fees	335 528	1 509 901
Cutting of Grass	1 003	-
Digging of Graves	262 538	384 256
Encroachment Fees	2 963	4 013
Fire Brigade Fees	650	1 075
Gate Monies	78 279	77 742
Grazing Fees	6 300	6 000
Hunting Packages	-	112 165
Internet	365	1 063
Lost Books and Records	321	546
Parking Meter Fees	36 534	50 535
Patent Retain Cards	-	160
Photocopies	58 730	57 959
Plan Fees	23	2 527
Plot Fees	106 026	152 029
Pound Fees	648 928	510 107
Pound Sales	379 090	434 419
Project Fees	53 450	1 073 459
Rates Charges	-	(1 638)
Reconnection Fees	195 420	222 654
Rentals: Carports	5 176	5 869
Rentals: Street Signs	58 678	39 278
Rezoning Fees	9 617	6 750
Roadworthy Certificates	285 827	376 375
Sale of Newspapers and Magazine	641	32
Sale of Plants	3 426	3 343
Sale of Refuse Bags	42 691	57 951
Search Fees	2 598	5 226
Special Permits	218 761	221 676
Staff Deductions	27 982	-
Sundry Revenue	4 668 333	5 066 974
Surplus Cash	2 195	4 734
Swimming Pool Fees	2 160	8 527
Tampering Fees: Electricity	220 015	165 124
Testing: Electricity Meters	5 158	6 005
Tip Fees	50 594	64 193
User Fees	210	180
Valuation Certificates	10 717	12 725
WSSA Contribution	188 419	170 867
Total Other Income	<u>9 618 058</u>	<u>12 525 799</u>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

28	EMPLOYEE RELATED COSTS	2013 R	2012 R
	Salaries and Wages	64 253 373	54 664 906
	Overtime Payments	6 296 068	5 006 851
	Long Service Bonus	-	894 804
	Telephone Allowance	666	6 777
	Transport Allowance	3 076 164	3 098 222
	Uniform Allowance	48 401	445 139
	UIF Contributions	621 526	552 530
	Group Life Insurance	533 522	498 497
	Medical Aid Contributions	5 600 099	5 206 014
	Pension Fund Contributions	9 962 282	10 215 900
	Contract Workers	6 202 805	13 540 739
	Other Allowances	30 222	123 522
	Night Shift Services	1 036 013	824 935
	Leave bonus	4 568 571	4 846 477
	Leave encashment	-	-
	Housing Subsidies	224 361	264 026
	Total Employee Related Costs	101 854 071	100 189 337
	Contribution to leave gratuity was incorrectly allocated as general expenses in 2012 and has been reallocated to employee benefits -Refer to note 38		
	KEY MANAGEMENT PERSONNEL		
	Key management personnel are all appointed on 5-year fixed contracts. There are no post-employment or termination benefits payable to them at the end of the contract periods.		
	REMUNERATION OF KEY MANAGEMENT PERSONNEL		
	Remuneration of the Municipal Manager		
	Annual Remunerator	928 693	697 394
	Performance bonus	-	90 235
	Other Allowance	71 307	216 438
	Total	1 000 000	1 004 067
	Remuneration of the Manager - Financial Services		
	Annual Remunerator	1 393 634	763 349
	Other Allowance	8 641	56 762
	Total	1 456 518	763 349
	Remuneration of the Manager - Technical Services		
	Annual Remunerator	692 397	648 236
	Acting Allowance	-	-
	Performance bonus	62 993	72 113
	Other Allowance	61 665	67 687
	Total	817 055	788 036
	Remuneration of the Manager - Community and Social Services		
	Annual Remunerator	602 899	586 760
	Performance bonus	62 993	61 899
	Other Allowance	151 600	160 976
	Total	817 491	809 635
	Remuneration of the Manager - Corporate and Support Services		
	Annual Remunerator	493 321	512 500
	Performance bonus	48 560	45 370
	Other Allowance	85 124	83 501
	Total	627 006	641 371

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
29 REMUNERATION OF COUNCILLORS		
Executive Mayor	669 021	636 435
Deputy Executive Mayor	-	-
Speaker	539 911	512 890
Executive Committee Member	4 587 504	3 967 584
Councillors	12 268 708	10 680 717
Total Councillors' Remuneration	18 065 144	15 797 626
30 DEBT IMPAIRMENT		
Trade Receivables from exchange transactions - Note 1	195 472 147	42 878 953
Other Receivables from non-exchange transactions - Note 1	8 386 046	6 478 631
Debt Impairment - Total	(129 747 555)	-
Total Contribution to Impairment Provision	74 110 638	49 357 585
VAT included in contribution for the year	-	-
Debt impairment recognised in statement of financial performance	74 110 638	49 357 585
31 DEPRECIATION AND AMORTISATION		
Property Plant and Equipment	24 271 806	15 764 278
Investment Property	-	-
Intangible Assets	360	-
	24 272 166	15 764 278
32 IMPAIRMENTS		
Landfill Sites	1 993 188	1 725 952
	1 993 188	1 725 952
33 REPAIRS AND MAINTENANCE		
Repairs and maintenance	14 161 263	10 573 274
	14 161 263	10 573 274
34 FINANCE CHARGES		
Annuity Loans	343 482	448 408
Normal	343 482	408 033
Arrears	-	40 375
Hire Purchases	-	-
Finance leases	544 299	773 065
Overdraft Facilities	-	53
Post Retirement Medical	4 539 000	3 699 000
Long Service Awards	313 436	-
Interest on Creditors	-	-
Landfill Sites	500 400	444 291
Total finance charges	6 240 618	5 364 816
35 BULK PURCHASES		
Electricity	145 057 346	117 979 065
Total Bulk Purchases	145 057 346	117 979 065
36 CONTRACTED SERVICES		
Security services	2 724 106	2 125 461
Maintenance	388 789	156 709
Total Bulk Purchases	3 112 895	2 282 171
37 OPERATING GRANT EXPENDITURE		
Other	1 102 069	6 633 491
Poor relief	558 065	-
Total Grants and Subsidies	1 660 134	6 633 491

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

38 GENERAL EXPENSES	2013 R	2012 R
Advertising	274 199	216 337
Agency Fees	1 137 424	1 070 123
Aids Council	22 181	-
Ammunition	1 706	368
Audit fees	2 904 265	3 394 214
Bank charges	1 045 681	971 399
Blue Drop	23 400	-
Chemicals & Laboratory Service:	759 603	1 693 754
Clean-up Projects	1 111 631	-
Compost & Fertilizer	8 219	13 020
Conferences and delegation:	179 491	1 476 356
Connections water	29 389	152 166
Consulting fees	1 143 541	319 431
Credit Control	69 449	-
Delegated Management	29 957 158	40 760 126
Departmental consumption - Electricity	857 551	1 233 203
Departmental consumption - Rates	34 514	80 268
Departmental consumption - Refuse	4 638	3 494
Departmental consumption - Sewerage	108 362	94 405
Departmental consumption - Water	279 062	383 617
Digging of Graves	12 249	16 644
Drivers: Licences	2 090 949	665 835
Entertainment	514 384	778 184
Feeding	584 256	408 180
Firebreaks	4 647	6 295
Fuel and oil	7 479 166	7 203 158
Furniture & Equipment	-	149 380
Herdling Fees	98 844	54 498
Horticulture	4 946	4 099
Insurance	1 153 107	809 141
Internet	27 918	-
Laundry	152	305
Lease Rentals	1 567 027	1 719 421
Leave Gratuity Fund	-	3 623 084
Legal expenses	736 914	1 188 237
Levies paid	2 077 947	1 684 693
Licences - Radios	13 700	740
Licence fees - Vehicles	358 001	338 179
Long service - Service Cos	616 582	-
Machinery & Equipment	11 051	-
Medical Examination	20 499	3 131
Medical Requirements	830	-
Misc Fees: Roadworthy Certificate:	7 516	9 701
Motor Vehicle Expenses	165 916	145 350
Musical Rights	875	12 986
Pauper Burials	20 976	41 274
Post retirement medical aid - Service Charge	2 251 000	2 630 000
Postage	1 137 009	1 080 477
Pound Fees	24 935	17 860
Printing and stationery	762 262	835 645
Projects	4 725 379	5 256 872
Promotions	124 804	236 277
Protective Clothing	246 935	5 949
Public entertainment	8 280	-
Removal Expenses Reserve	208 679	20 845
Rentals:Other	5 128	-
Road Signs	100 282	116 511
Safety: Nosa	5 503	3 677
Sewerage Charges	11 262	10 597
Software	105 684	34 603
SPCA Contribution	137 500	137 500
Stocks and material	687 340	542 468
Streets	620 069	353 413
Subscription & publisher	143 746	68 031
Tampering Fees: Electricity	-	1 600
Telephone cost	2 750 766	2 911 729
Tools & Equipment	196 704	60 580
Tourism	46 850	-
Town Planning	21 778	16 360
Training	866 852	766 055
Transfer Fees	30 006	42 393
Travel and subsistence	1 368 700	847 347
Valuation costs	1 051 009	612 037
Water charges	8 897	4 180
Women / Youth / Disabled	291 153	332 135
World Aids Day	39 608	10 629
Other	-	-
Total General Expenses	75 051 055	87 680 565

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2012
		R
39	PRIOR PERIOD ERRORS AND CHANGES IN ACCOUNTING POLICIES IN TERMS OF GRAP 3	
39.01	Property Plant and Equipment (Excluding Capitalised Restoration Costs)	
	Balance previously reported	726 310 400
	Municipality incorrectly raised a loan against PPI	-
	Biological assets were incorrectly reported on transferred to PF	8 147 900
		<u>734 458 300</u>
39.02	Intangible Assets	
	Balance previously reported	360
	Correction of allocation between computer hardware and Software - in line with A	<u>360</u>
39.03	Investment Property	
	Balance previously reported	91 283 592
		<u>91 283 592</u>
		2012
		R
39.04	Biological Assets	
	Balance previously reported	2 493 300
	Biological assets were understated.	5 654 600
	The biological assets were incorrectly disclosed and are transferred to PPE = Refer note 42.01	<u>(8 147 900)</u>
		-
39.05	Taxes	
	Balance previously reported	2 401 979
	Adjustments made to Journals incorrectly passed in 201	2 428 423
		<u>4 830 402</u>
39.06	Non-Current Provisions	
	Balance previously reported	17 076 816
		<u>17 076 816</u>
39.07	Property, Plant and Equipment - Capitalised Restoration Cost	
	Balance previously reported	7 638 657
		<u>7 638 657</u>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

39.08 Payables from exchange transactions	
Balance Previously reported	32 946 433
Correction of accrued interest on DBSA annuity loan	38 417
Effect on 30 June 2011 - Refer to note 39.1f	71 751
Effect during 2011/2012 - Refer to note 4f	(33 333)
<p>During the review of the DBSA loan account, it was identified that the municipality did not accrue for interest on each respective reporting period.</p>	
Reallocation of arrear portion of long term liabilities (DBSA Loan) - Refer to 39.	40 294
<p>During the review of the DBSA loan account, it was identified that the arrear portion of the DBSA loan account was incorrectly allocated to the annuity loan balance. This amount is payable immediately and does not represent an amount payable within 1 year of the reporting date.</p>	
Correction of balances between debtor votes	(11 536 418)
Correction of contribution to leave gratification for allocations not allocated in 2012	4 846 477
<p>Correction of contribution to leave gratification</p>	
Effect on leave gratification	(4 846 477)
Effect on the salary suspense account	4 846 477
<p>Contributions to leave allocation were credited to the Salary suspense accounts with the salary runs but was not adjusted to the leave gratuity creditors account</p>	
	26 294 909
39.09 Unspent conditional grants and receipts	
Balance Previously reported	16 281 172
Reversal of unsupported journal to transfer grant expenditure to general expenses - Refer to	(166 607)
Effect on the Finance Management Grant	
Effect on the Municipal Systems Improvement Grant	
Effect on the IDP Grant	(127 429)
Effect on the Disaster Fund	(39 178)
<p>During the review of unspent grants, the municipality identified a journal entry that incorrectly transferred grant balances to general expenses where over and under expenditure of specific grants occurred.</p>	
	16 114 565
39.1 Long-Term Liabilities	
Balance previously reported	8 357 174
Reversal of incorrect entry to recognise accrued interest - Refer to 4	(38 417)
Correction of incorrect allocation between finance charges and long term liabilities - Refer to note	2 525
<p>During the review of hire purchases, an immaterial difference was identified between finance charges and the hire purchases capital balance outstanding. This difference was subsequently corrected.</p>	
	8 321 281
39.11 Current Portion of Long-Term Liabilities	
Balance previously reported	4 432 282
Correction of allocation between long and short term portion of annuity loans on 30 June 20	(38 439)
<p>During the review of the DBSA and other annuity loan accounts, a difference was noted between the long and short term portion of the loans. The required reallocation was made on 30 June 2012.</p>	
Correction of allocation between long and short term portion of hire purchases on 30 June 20	(2 704)
<p>During the review of hire purchases accounts, a difference was noted between the long and short term portion of the loans. The required reallocation was made on 30 June 2012.</p>	
	4 391 139
39.12 Inventory	
Balance previously reported	-
Correction of error: Water Inventory not recognise	72 550
	72 550

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2012 R
39.13 Cash and Cash Equivalents	
Balance previously reported	<u>731 684</u>
	<u>731 684</u>
39.14 Receivables from exchange transactions	
Balance previously reported	<u>140 946 986</u>
	<u>140 946 986</u>
39.15 Employee Benefits	
Balance previously reported	55 918 461
Correction of current portion of Post Retirement Benefit Obligations - Refer to note 39.	(212 423)
The municipality incorrectly did not disclose the current portion of the post retirement benefit obligation in line with the figures obtained from the external actuaries utilised to calculate their obligation on 30 June 2012.	
	<u>55 706 038</u>
39.16 Current Employee Benefits	
Balance previously reported	1 391 000
Correction of current portion of Post Retirement Benefit Obligations - Refer to note 39.	212 423
The municipality incorrectly did not disclose the current portion of the post retirement benefit obligation in line with the figures obtained from the external actuaries utilised to calculate their obligation on 30 June 2012.	
	<u>1 603 423</u>
39.17 Provisions	
Balance previously reported	<u>1 536 913</u>
	<u>1 536 913</u>
39.18 Accumulated Surplus	
Correction of accrued interest on DBSA annuity loans - Refer to note 39.0	(71 751)
During the review of the DBSA loan account, it was identified that the municipality did not accrue for interest on each respective reporting period.	
Correction of the treatment of unused electricity at each reporting period - Refer to note	(1 621 370)
Management identified in the current year that the unused balance for pre-paid electricity on 30 June 2011 was incorrectly reversed to accumulated surplus. The reversal of the prior year balance should have been allocated to the electricity sales account in 2011/2012 to ensure that the movement on the unused electricity balance is recognised as revenue and ensure accurate cut-of of revenue.	
Correction of the fair value of Biological assets - Refer to note 39.04	5 654 600
The fair value of Biological assets should be R8,147,900 and was understated.	
Correction of Restoration Cost and Rehabilitation Provision	(100 202)
Correction of allocation made in 2012/13 iro a 2010/11 transactio	
Correction of the salary suspense accounts iro salaries and allowances incorrectly paid or not claim	(40 918)
Correction of provision for long service awards not provided for on 30 June 20	(4 916 032)
Adjustment of assets to balance the General Ledger and Fixed asset Register	-
	<u>(1 095 672)</u>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2012
40	RECONCILIATION PRIOR YEAR SURPLUS FOR THE YEAR	R
	Balance previously reported	72 946 800
	Incorrect allocation of interest receive	(176 517)
	Interest on Bank account - Interest for Desember 2011	162 583
	Interest on Bank account - Interest for September 2011 to February 2012	(339 099)
	During the review of income and expenditure it was identified that interest levied on outstanding rates receivables were not allocated alongside other interest levied on consumer debtors. To ensure consistent allocation of similar income and expenditure items, the interest line items was reclassified to interest received on outstanding debtors.	
	Correction of accrued interest on DBSA annuity loans (net effect of accrued interest not raised on 30 June 2012)	71 751
	Effect due to reversal of incorrect entry raised - Refer to 39.	38 417
	Effect due to movement of accrued interest during 2011/2012 - Refer to note 39.	33 333
	Allocation error between finance charges and employee related costs	-
	Effect on Finance Charges	78 468
	Effect on Employee Related Costs (Other Allowances)	(78 468)
	During the review of the GRAP classification of the prior year financial statements, it was identified that other allowances paid to officials were incorrectly allocated to finance charges.	
	Operating grant expenditure incorrectly disclosed as grants and subsidies paid	-
	Effect on Grants and Subsidies Paid	7 279 845
	Effect on Operating Grant Expenditure	(7 279 845)
	During the review of the prior year financial statements it was identified that expenditure relating to grants were incorrectly classified as "grants and subsidies paid".	
	Reversal of unsupported journal to transfer grant expenditure to general expenses - Refer to 39.	166 607
	During the review of unspent grants, the municipality identified a journal entry that incorrectly transferred grant balances to general expenses where over and under expenditure of specific grants occurred. The correction was made on general expenses (projects).	
	Correction of incorrect allocation between finance charges and long term liabilities - Refer to note 3	(2 525)
	During the review of hire purchases, an immaterial difference was identified between finance charges and the hire purchases capital balance outstanding. This difference was subsequently corrected.	
	Correction of grant revenue and expenditure	-
	Effect on Government Grants and subsidie	(646 354)
	Effect on Operating Grant Expenditure	646 354
	During the review of grant revenue and expenditure, it was identified that the municipality incorrectly recognised revenue and expenditure relating to grants. In cases where revenue was recognised that was not supported by valid expenditure items (which is a measure of conditions met), the revenue and expenditure items previously recognised, was reversed.	
	Correction of the treatment of unused electricity at each reporting period - Refer to note 39.	1 621 370
	Management identified in the current year that the unused balance for pre-paid electricity on 30 June 2011 was incorrectly reversed to accumulated surplus. The reversal of the prior year balance should have been allocated to the electricity sales account in 2011/2012 to ensure that the movement on the unused electricity balance is recognised as revenue and ensure accurate cut-of of revenue.	
	Correction of depreciation allocation of depreciation on intangible assets - Refer to note 39.02	
	Interest on bank account	(1 109)
	Depreciation on intangible assets allocated as interest on bank account	
	Correction of finance charges relating to Rehabilitation Provision restatement - Refer to note 4	(633 329)
	Correction of employee related costs	
	Reversal of acting allowances for employees and councillors 2011/12 incorrectly paid	(2 071 707)
	Correction of the CHDM operating income and expenditure for 2011/12	(13 954 683)
	Effect on Interest earned outstanding debtors	8 869 410
	Effect on consumption charges sewerage	14 693 390
	Effect on Septic tanks	8 148
	Effect on Sale of water	26 976 967
	Effect on Water services authority contribution	27 115 072
	Effect on Repairs and maintenance	(4 284 777)
	Effect on General Expenses	(46 596 825)
	Effect on Debt Impairment	(20 550 964)
	Effect on Administration Costs	(12 907 520)
	Effect on Employee Related Costs	(7 817 045)
	Effect on Bulk Purchases	(86 201)
	Effect on Other Revenue	625 664
	Operational transactions on the water and sanitation services were allocated as Chris Hani transactions and was allocated in the Chris Hani suspense account. It was subsequently indicated that these service income and expenditure is for the account of Lukhanji.	
		57 966 658
41	RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS	
	Surplus/(Deficit) for the year from continued operations	45 591 790
	Adjustments for:	
	Depreciation and Amortisation	24 272 166
	Gain on disposal of property, plant and equipment	(520 175)
	Impairments	1 993 188
	Movements in retirement benefit:	(4 021 519)
	Movements in Provisions:	-2 493 588
	Movements in Biological Asset	(2 397 589)
	Bad debts	74 110 638
	Bad debt provision transferred from Chris Hani District Municipality	13 424 499
	Prior year adjustment:	2 993 988
	Changes in Working Capital	(109 040 304)
	Increase/(Decrease) in Payables from exchange transaction	6 495 383
	Increase in Taxes	(38 933 678)
	Increase in Inventory	(3 053)
	Increase / (decrease) in Unspent Government Grants and Subsidie	2 747 916
	Increase / (decrease) in Unpaid Government Grants and Subsidie	(34 603)
	Decrease in Receivables from exchange and non-exchange transaction	(79 312 269)
	Cash generated by operations	46 310 684
		75 897 776

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

42	CASH AND CASH EQUIVALENTS	2013 R	2012 R
	Cash and cash equivalents included in the cash flow statement comprise the followir		
	Call Investments Deposits - Note 11	108 111 057	103 035 295
	Cash Floats - Note 1E	28 992	26 992
	Bank - Note 1E	62 365 286	74 679 682
	Bank overdraft - Note 1E	-	-
	Total cash and cash equivalents	170 505 334	177 741 969
		<hr/>	<hr/>
43	RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES		
	Cash and Cash Equivalents - Note 42	170 505 334	177 741 969
	Investments - Note 14	296 908	224 908
		<hr/>	<hr/>
		170 802 242	177 966 877
	Less:	19 168 350	21 250 837
	Unspent Committed Conditional Grants - Note	19 168 350	16 420 435
	VAT - Note 10	-	4 830 402
	Secured Investments and cas)	-	-
	Resources available for working capital requirements	151 633 892	156 716 041
		<hr/>	<hr/>
44	UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
	Long-term Liabilities - Note 7	5 592 849	8 321 281
	Used to finance property, plant and equipment - at co	(5 592 849)	(8 321 281)
		<hr/>	<hr/>
	Cash invested for repayment of long-term liabilities	-	-
		<hr/>	<hr/>
	Long-term liabilities have been utilized in accordance with the Municipal Financial Management Act. The Annuity Loans carry interest of 5% and will be fully redeemed on 30 September 2027.		
45	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		
45.1	Unauthorised expenditure		
	Reconciliation of unauthorised expenditure		
	Opening balance	15 763 169	-
	Loan taken up not budgeted fo	-	1 664 000
	Depreciation not budgeted fo	-	15 763 169
	Unauthorised expenditure current year - operatin	60 190 390	-
	Approved by Council or condoner	-	(1 664 000)
		<hr/>	<hr/>
	Unauthorised expenditure awaiting authorisatic	75 953 559	15 763 169
		<hr/>	<hr/>
45.4	Fruitless and wasteful expenditure		
	Reconciliation of fruitless and wasteful expenditure		
	Opening balance	788 042	8 940
	Fruitless and wasteful expenditure current ye	121 264	788 042
	Condoned or written off by Council	-	(8 940)
		<hr/>	<hr/>
	Fruitless and wasteful expenditure awaiting condoneme	909 306	788 042
		<hr/>	<hr/>
45.5	Irregular expenditure		
	Reconciliation of irregular expenditure		
	Opening balance	40 059 637	36 538 226
	Irregular expenditure current ye	520 611	3 521 411
	Condoned or written off by Council	-	-
		<hr/>	<hr/>
	Irregular expenditure awaiting condoneme	40 580 248	40 059 637
		<hr/>	<hr/>

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
46	ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT	
46.1	<u>Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA CONTRIBUTIONS</u>	
	226 462	627 590
Council subscriptions	(226 462)	(627 590)
Amount paid - current year		
Balance unpaid (included in creditors)	-	-
46.2	<u>Audit fees - [MFMA 125 (1)(c)]</u>	
Opening balance	-	-
Current year audit fee	2 904 265	3 394 214
Amount paid - current year	(2 904 265)	(3 394 214)
Balance unpaid (included in creditors)	-	-
46.3	<u>VAT - [MFMA 125 (1)(c)]</u>	
Opening balance	776 686	116 416
Amounts received - current year	(2 313 081)	(3 285 056)
Amounts received - previous year	(776 686)	(244 241)
Amounts claimed - current year	2 372 828	4 061 743
Amounts paid - previous year	-	127 826
Amounts payable - current year	(54 084)	(391 993)
Amounts paid - current year	54 084	391 993
Closing balance	59 747	776 686
Vat in suspense due to cash basis of accountin	-	(4 830 402)
VAT is payable/receivable on the cash basis. VAT is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.		
All VAT returns have been submitted by the due date throughout the year		
Refer to note 10 for further disclosure regarding the balances receivable from and payable to SAI		
46.4	<u>PAYE, SDL and UIF - [MFMA 125 (1)(c)]</u>	
Current year payroll deductions and Council Contribution	13 447 057	12 909 738
Amount paid - current year	(13 447 057)	(12 909 738)
Balance unpaid (included in creditors)	-	-
46.5	<u>Pension and Medical Aid Deductions - [MFMA 125 (1)(c)]</u>	
Current year payroll deductions and Council Contribution	28 784 185	26 651 852
Amount paid - current year	(28 784 185)	(26 651 852)
Balance unpaid (included in creditors)	-	-

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

46.6 Councillor's arrear consumer accounts - [MFMA 124 (1)(b)]

The following Councillors had arrear accounts for more than 90 days as at 30 JUNE 201

	Total	Outstanding less than 90 days	Outstanding more than 90 days
	R	R	R
Councillor Van Heerden BD/	584	584	-
Councillor Ndaliso MR	(391)	(391)	-
Councillor Jocki TM/S	-	(2 924)	2 924
Councillor Njizela DC	187	187	-
Councillor Mandile JT/NE	935	935	-
Councillor Snyders MB	359	359	-
Councillor Shaw JM	1 438	1 438	-
Councillor Simama N	267	267	-
Councillor Hokolo MS	5 429	547	4 881
Councillor Tsotetsi EN	354	354	-
Councillor Rani BG	1 898	1 003	895
Councillor Gaju SL	1 036	1 002	34
Councillor Mbasana XP	1 455	1 323	131
Councillor Ndabambi E	1 923	286	1 637
Councillor Dyan M	2 448	(66)	2 534
Councillor Xulubana NT	1 669	979	690
Councillor Pambo NC	2 127	999	1 129
Councillor Dyantyi SR	2 400	849	1 550
Councillor Gwantshu MZ	333	333	-
Councillor Matiwane MM	355	355	-
Councillor Ngesi M	20 777	(25)	20 802
Councillor Xhelisilo M	1 840	623	1 217
Councillor Nquma NP	7 570	581	6 989
Councillor Mngese BE	2 230	422	1 807
Councillor Siyo MN	33 702	963	32 740
Councillor Ndumise ME	5 248	482	4 767
Councillor Blekiwe M	31 630	754	30 876
Councillor Mnyaka M	13 087	661	12 426
Councillor Bokuva AV	5 856	329	5 527
	146 746	13 191	133 556

The following Councillors had arrear accounts for more than 90 days as at 30 JUNE 201

Councillor Van Heerden BD/	94	94	-
Councillor Jocki TM/S	3 220	770	2 450
Councillor Njizela DC	8	8	-
Councillor Mandile JT/NE	565	565	-
Councillor Snyders MB	134	134	-
Councillor Hokolo MS	2 749	144	2 605
Councillor Rani BG	216	216	-
Councillor Ndabambi E	1 183	104	1 079
Councillor Dyan M	198	198	-
Councillor Xulubana NT	230	230	-
Councillor Pambo NC	4 220	1 686	2 535
Councillor Matiwane MM	253	253	-
Councillor Xhelisilo M	14 923	214	14 709
Councillor Sokupe LC	3 872	106	3 767
Councillor Nquma NP	10 422	253	10 169
Councillor Mngese BE	536	401	135
Councillor Siyo MN	29 287	1 057	28 231
Councillor Ndumise ME	3 256	136	3 120
Councillor Blekiwe M	28 104	908	27 195
Councillor Mnyaka M	10 679	245	10 434
Councillor Bokuva AV	4 435	355	4 080
	118 585	8 077	110 507

47	CAPITAL COMMITMENTS	2013 R	2012 R
	Represents commitments on MIG funded projects	<u>8 090 631</u>	<u>16 047 558</u>

48 TRANSITIONAL PROVISION TAKEN ACCORDING TO THOSE IN DIRECTIVE 4 - TRANSITIONAL PROVISIONS FOR MEDIUM AND LOW CAPACITY MUNICIPALITIES

GRAP 103 - Heritage Assets

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in May 2010. The municipality did not measure all Heritage Assets in line with the requirements of GRAP 103.

All Heritage assets have been identified on 30 June 2013. However, the municipality is currently in a process of measuring all Heritage Assets which must be measured in terms of GRAP 103 and it is expected that this process will be completed for inclusion in the 2016 financial statements.

49 FINANCIAL RISK MANAGEMENT

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transaction

(b) Price risk

The municipality is not exposed to price risk

(c) Interest Rate Risk

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

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follows:

0.5% (2011 - 0.5%) Increase in interest rate:
 0.5% (2011 - 0.5%) Decrease in interest rate:

(d) Credit Risk

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

Credit risk consists mainly of cash deposits, cash equivalents, receivables and unpaid conditional grants and subsidies.

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

All services are payable within 30 days from invoice date. Refer to note 17 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Balances past due not impaired are as follows:

Rates	-	2 122 999
Electricity	9 594 747	10 801 480
Water	66 606 636	57 711 291
Refuse	66 195 185	52 357 120
Sewerage	58 112 340	44 349 636
Other	94 929 263	84 024 860
	295 438 171	251 367 386

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables, the carrying value disclosed in note 17 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The entity only deposits cash with major banks with high quality credit standing. The banks utilised by the municipality are all listed on the JSE. The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

No restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents is considered to be low, the maximum exposure are disclosed below.

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Financial assets exposed to credit risk at year end are as follow	2013 R	2012 R
Receivables (Exchange and Non-Exchange)	97 819 283	127 114 482
Cash and Cash Equivalents	170 505 334	177 741 969
Non-Current Investments	296 908	224 908
Unpaid conditional grants and subsidie	340 472	305 870
	<u>268 961 998</u>	<u>305 387 229</u>

(e) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2013				
Long Term liabilities - Annuity Loan:	689 051	1 396 669	-	-
Capital repayment	535 646	1 256 060	-	-
Interest	153 405	140 609	-	-
Long Term liabilities - Finance Lease	744 000	1 426 000	-	-
Capital repayment	521 869	1 237 954	-	-
Interest	222 131	188 046	-	-
Long Term liabilities - Hire Purchase	1 163 604	1 434 778	-	-
Capital repayment	982 457	1 315 835	-	-
Interest	181 147	118 943	-	-
Trade and Other Payables	24 662 367	-	-	-
Cash and Cash Equivalents	-	-	-	-
	<u>27 259 022</u>	<u>4 257 447</u>	<u>-</u>	<u>-</u>
2012				
Long Term liabilities - Annuity Loan:	2 073 805	2 085 720	-	-
Capital repayments	1 754 082	1 791 706	-	-
Interest	319 723	294 014	-	-
Long Term liabilities - Finance Lease	670 200	223 400	-	-
Capital repayments	558 663	213 873	-	-
Interest	111 537	9 527	-	-
Long Term liabilities - Hire Purchase	3 003 917	2 425 469	-	-
Capital repayment	2 601 820	2 125 380	-	-
Interest	402 097	300 090	-	-
Trade and Other Payable:	25 706 469	-	-	-
Cash and Cash Equivalents	-	-	-	-
	<u>47 874 826</u>	<u>4 734 589</u>	<u>-</u>	<u>-</u>

50	FINANCIAL INSTRUMENTS	2013 R	2012 R
	In accordance with the principles of GRAP 104 the financial instruments of the municipality are classified as follows:		
50.1	Financial Assets		
	Investments		
	Fixed Deposits	296 908	224 908
	Classification: At Amortised cost		
	Consumer Debtors		
	Receivables from exchange transaction	97 623 270	126 847 418
	Receivables from non-exchange transaction	196 014	267 064
	Classification: At Amortised cost		
	Unpaid Conditional Grants and Receipts		
	Other Spheres of Government	340 472	305 870
	Classification: At Amortised cost		
	Short-term Investment Deposits		
	Call Deposits	108 111 057	103 035 295
	Classification: At Amortised cost		
	Bank Balances and Cash		
	Bank Balances	62 365 286	74 679 682
	Cash Floats and Advances	28 992	26 992
	Classification: At Amortised cost		
		<u>268 961 998</u>	<u>305 387 229</u>
	SUMMARY OF FINANCIAL ASSETS		
	At Amortised cost	<u>268 961 998</u>	<u>305 387 229</u>
50.2	Financial Liability		
	Classification		
	Long-term Liabilities and provisions		
	Annuity Loans	1 729 187	3 545 788
	Hire Purchase	3 119 662	4 775 493
	Capitalised Lease Liability	744 000	-
	Non-Current Provisions - Landfill Site	12 616 335	10 163 159
	Classification: At amortised cost		
	Payables from Exchange transactions		
	Trade creditors	3 933 694	8 513 649
	Accrued Interest	78 835	38 417
	Other Creditors	535 484	386 073
	Deposits: Other	20 116 355	16 768 329
	Classification: At amortised cost		
	Unspent Conditional Grants and Receipts		
	Other Spheres of Government	19 168 350	16 420 435
	Classification: At amortised cost		
	Cash and Cash Equivalents		
	Bank Overdraft	-	-
	Classification: At amortised cost		
	Current Portion of Long-term Liabilities		
	Annuity Loans	497 285	2 073 805
	Hire Purchase	1 162 884	3 003 917
	Finance Leases	744 000	-
	Classification: At amortised cost		
		<u>64 444 070</u>	<u>65 689 066</u>
	SUMMARY OF FINANCIAL LIABILITY		
	At amortised cost	<u>64 444 070</u>	<u>65 689 066</u>

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

51	EVENTS AFTER THE REPORTING DATE	2013 R	2012 R
	None		
52	IN-KIND DONATIONS AND ASSISTANCE		
	The municipality did not receive any in-kind donations or assistance during the year under review		
53	PRIVATE PUBLIC PARTNERSHIPS		
	Council has not entered into any private public partnerships during the financial year.		
54	CONTINGENT LIABILITY		
	Total contingent liabilities		
	1. Matter: Lukhanji Municipality vs. Achuma Construction: This claim against the Municipality for construction work, which should be successfully defended. The Municipality has paid this amount claimed to a Cessionary in full and final (including costs and disbursements) : R134 817.62 (Status of case: Current)	134 818	
	2. Matter: Lukhanji Municipality vs. Magqabi, A V : This is an Application for the transfer of immovable property, which is being opposed by client. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R250 000.00 (Status of case: Pending)	250 000	
	3. Matter: Lukhanji Municipality vs. Mekile & 7 Others: This is a Summons which was issued against the Municipality for a damages claim relating to the impounding of stock. Legal Counsel's estimate of the financial exposure (including costs and disbursements) : R30 000.00 (Status of case: Pending)	30 000	
	4. Matter: Lukhanji Municipality vs. Motile A : This is an action which the Municipality is defending and which the Plaintiff has failed to set down for trial. The Plaintiff appears to have lost interest in the claim and the matter is currently being monitored only. Legal Counsel's estimate of the financial exposure (including cost and disbursements) : R125 000.00 (Status of case: Pending)	125 000	
	5. Matter: Lukhanji Municipality vs. SAMWU obo Cata and 45 Others : In this matter Cata and 45 others are claiming salaries backdated to a decision by the Whittlesea Transitional Local Council to upgrade the Municipality and accordingly upgrade their own salaries. This matter has been opposed in the Labour Court, Port Elizabeth and we are reasonably satisfied that the Municipality have good	75 000	
	6. Matter: Lukhanji Municipality vs. SAMWU obo Mjobo, V W : In this matter in the entity Mjobo was dismissed and on Arbitration was re-instated. We were instructed to launch an Application to have the decision of the Arbitrator reviewed and set aside and this matter is currently awaiting a date for hearing in the Labour Court, Port Elizabeth. We are lead by Counsel and are reasonably satisfied of our	75 000	
	7. Matter: Lukhanji Municipality vs. Siyahlutha Developers : This is a High Court Summons issued against the Municipality and the Department of Public Works for payment of monies due to an alleged bridge of contract. This matter is pending and a trial date is awaited. We are satisfied that there are reasonable prospects of successfully defending this action. Legal Counsel's estimate of the financial	1 724 288	
	8. Matter: Lukhanji Municipality vs. Skweyiya, B : In this matter the Plaintiff has sued a Councillor of the Municipality for damages. This matter is being defended and we are currently awaiting a trial date. Legal Counsel's estimate of the financial exposure (including cost and disbursements) : R100 000.00 (Status of case: Pending)	100 000	
	9. Matter: Lukhanji Municipality vs. Tyalithi Family Trust : This is an Application in terms of the Building Regulations and will be heard in the High Court in due course. We are reasonably satisfied of our prospects of success. Legal Counsel's estimate of the financial exposure (including cost and disbursements) : R50 000.00 (Status of case: Pending)	50 000	
	10. Matter: Lukhanji Municipality / SALGBC vs. Nosindwa & another : This is an claim against the Municipality for dismissal of an employee for cable theft. Amount: R250 000 (Status of case: Pending)	250 000	
	11. Matter: Lukhanji Municipality / SALGBC vs. Mxoliso Oliphant & another : This is an claim against the Municipality for a secondment without adequate qualifications. Amount: R200 000 (Status of case: Pending)	200 000	
	12. Bank Guarantee for R10 000 in favour of Dept of Mineral and Energy Affairs	10 000	
55	Possible exposure due to litigation claims instituted against the municipality	3 024 106	3 600 000
55.1	Compensation of key management personnel		
	The compensation of key management personnel is set out in note 28 to the Annual Financial Statement		

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

11.1 PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2013

Reconciliation of Carrying Value

	Opening Balance	Additions	Cost Transfers	Disposals	Closing Balance	Opening Balance	Accumulated Depreciation			Closing Balance	Carrying Value
	R	R	R	R	R	R	Depr for year.	Adjustments	Disposals	R	R
Land and Buildings	502 816 120	8 312 700	-	-	511 128 820	26 027 288	7 131 697			33 158 985	477 969 834
Land	331 573 305	-	-	-	331 573 305	-	-	-	-	-	331 573 305
Landfill Sites	10 611 762	1 993 188	-	-	12 604 950	10 611 762	1 993 188	-	-	12 604 950	-
Buildings	160 631 053	6 319 512	-	-	166 950 564	15 415 526	5 138 509	-	-	20 554 035	146 396 529
Infrastructure	247 068 874	14 443 807	-	-	261 512 681	24 666 685	15 628 650	-	-	40 295 336	221 217 345
Roads and Stormwater	144 487 389	13 276 036	-	-	157 763 424	15 852 242	7 163 349	-	-	23 015 591	134 747 833
Electricity	102 491 881	206 851	-	-	102 698 733	8 745 201	8 464 338	-	-	17 209 540	85 489 193
Security	89 604	960 920	-	-	1 050 524	69 242	963	-	-	70 205	980 319
Community Assets	1 462 663	4 455 841	-	-	5 918 504	73 864	123 920			197 784	5 720 720
Recreation Grounds and Facilities	1 462 663	4 455 841	-	-	5 918 504	73 864	123 920	-	-	197 784	5 720 720
Cemetery	-	-	-	-	-	-	-	-	-	-	-
Lease Assets	14 823 618	1 800 000	-	-	16 623 618	4 845 210				4 845 210	11 778 409
Office Equipment	-	1 800 000	-	-	1 800 000	-	-	-	-	-	1 800 000
Motor Vehicles	14 823 618	-	-	-	14 823 618	4 845 210	-	-	-	4 845 210	9 978 409
Other Assets	23 396 293	24 475 108	-	-	47 871 401	9 629 287	3 380 727			13 010 014	34 861 387
Office Equipment	2 156 358	-	-	-	2 156 358	1 401 942	145 200	-	-	1 547 141	609 216
Furniture & Fittings	2 574 621	1 126 352	-	-	3 700 974	1 472 766	464 238	-	-	1 937 004	1 763 970
Bins and Containers	911 548	-	-	-	911 548	91 155	-	-	-	91 155	820 393
Other Equipment	29 932	51 588	-	-	81 520	15 981	1 820	-	-	17 801	63 719
Motor vehicles	211 691	8 156 021	-	-	8 367 712	100 750	1 723 085	-	-	1 823 835	6 543 877
Computer Equipment	9 364 244	15 141 146	-	-	24 505 390	6 546 694	1 046 384	-	-	7 593 078	16 912 313
Game	8 147 900	-	-	-	8 147 900	-	-	-	-	-	8 147 900
	789 567 569	53 487 455	-	-	843 055 024	65 242 335	26 264 994			91 507 329	751 547 695

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30 JUNE 2012

Reconciliation of Carrying Value

	Opening Balance R	Additions R	Cost Transfers R	Disposals R	Closing Balance R	Opening Balance R	Accumulated Depreciation Depr for year. R	Adjustments R	Disposals R	Closing Balance R	Carrying Value R
Land and Buildings	499 752 887	3 063 232	-	-	502 816 120	19 162 828	6 864 460	-	-	26 027 288	476 788 831
Land	331 573 305	-	-	-	331 573 305	-	-	-	-	-	331 573 305
Landfill Sites	8 885 810	1 725 952	-	-	10 611 762	8 885 810	1 725 952	-	-	10 611 762	-
Buildings	159 293 772	1 337 281	-	-	160 631 053	10 277 018	5 138 509	-	-	15 415 526	145 215 526
Infrastructure	221 177 163	25 891 711	-	-	247 068 874	17 848 628	6 818 057	-	-	24 666 685	222 402 189
Roads and Stormwater	130 420 602	14 066 787	-	-	144 487 389	11 324 504	4 527 738	-	-	15 852 242	128 635 146
Electricity	90 666 957	11 824 924	-	-	102 491 881	6 454 882	2 290 319	-	-	8 745 201	93 746 680
Security	89 604	-	-	-	89 604	69 242	-	-	-	69 242	20 362
Community Assets	738 641	724 022	-	-	1 462 663	73 864	-	-	-	73 864	1 388 799
Recreation Grounds	738 641	724 022	-	-	1 462 663	73 864	-	-	-	73 864	1 388 799
Lease Assets and Hire Purchases	14 823 618	-	-	-	14 823 618	4 845 210	-	-	-	4 845 210	9 978 409
Office Equipment	-	-	-	-	-	-	-	-	-	-	-
Motor Vehicles	14 823 618	-	-	-	14 823 618	4 845 210	-	-	-	4 845 210	9 978 409
Other Assets	14 441 825	3 395 579	5 654 600	(95 711)	23 396 293	5 831 049	3 798 238	-	-	9 629 287	13 767 006
Office Equipment	1 986 240	170 118	-	-	2 156 358	1 401 942	-	-	-	1 401 942	754 416
Furniture & Fittings	2 498 841	75 780	-	-	2 574 621	1 472 766	-	-	-	1 472 766	1 101 855
Bins and Containers	911 548	-	-	-	911 548	91 155	-	-	-	91 155	820 393
Other Equipment	29 932	-	-	-	29 932	15 981	-	-	-	15 981	13 950
Motor vehicles	211 691	-	-	-	211 691	100 750	-	-	-	100 750	110 941
Computer Equipment	8 803 573	656 381	-	(95 711)	9 364 244	2 748 456	3 798 238	-	-	6 546 694	2 817 550
Game	-	2 493 300	5 654 600	-	8 147 900	-	-	-	-	-	8 147 900
	750 934 134	33 074 545	5 654 600	(95 711)	789 567 569	47 761 579	17 480 756	-	-	65 242 335	724 325 234
Balance previously reported	749 586 779	31 448 795	-	(95 711)	780 939 863	38 875 768	15 753 695	-	-	54 629 464	726 310 400
Prior Period Adjustment - Refer to note 39.01	-	-	5 654 600	-	5 654 600	-	1 109	-	-	1 109	5 653 491
	749 586 779	31 448 795	5 654 600	(95 711)	786 594 463	38 875 768	15 754 804	-	-	54 630 573	731 963 891

LUKHANJI LOCAL MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

No property, plant and equipment is used as security for long term liabilities, except assets acquired in terms of a finance lease- or hire purchase agreement as disclosed in Appendix A to the financial statements

**APPENDIX A - Unaudited
LUKHANJI LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2013**

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2012	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2013
ANNUITY LOANS							
DBSA	12.00%		01/03/2013	1 307 292	23 300	(1 307 292)	23 300
TERM LOAN	9.89%	ABSA	01/01/2016	763 240		(191 955)	955 195
ELECTRICITY SPARES	9.89%	ABSA	01/01/2016	1 513 674		(293 274)	1 220 400
Total Annuity Loans				3 584 206	23 300	(1 792 521)	2 198 896
FINANCE LEASES - VEHICLES							
ISUZU KB200	12.84%	48519940001	01/04/2013	31 756	-	(31 756)	-
ISUZU KB200	12.84%	48519940002	01/04/2013	31 756	-	(31 756)	-
ISUZU KB200	12.84%	48519940003	05/08/2016	31 756	-	(31 756)	-
LPT 709 TON TATA DROPSIDE	12.84%	48519940004	01/04/2013	61 348	-	(61 348)	-
CHEVEROLET AVEO 1,5 HATCH BACK	12.84%	48519940005	01/04/2013	24 695	-	(24 695)	-
ISUZU KB200	12.84%	48519940006	01/04/2013	31 756	-	(31 756)	-
ISUZU KB200	12.84%	48519940007	01/04/2013	31 756	-	(31 756)	-
CHEVEROLET AVEO 1,5 HATCH BACK	12.84%	48519940008	01/04/2013	24 695	-	(24 695)	-
ISUZU KB200	12.84%	48519940009	01/04/2013	31 756	-	(31 756)	-
MASSEY FURGUSON 275	12.84%	48519940010	01/04/2013	47 222	-	(47 222)	-
ISUZU KB200	12.84%	48519940011	01/04/2013	33 453	-	(33 453)	-
ISUZU KB200	12.84%	48519940012	01/04/2013	35 115	-	(35 115)	-
ISUZU KB200	12.84%	48519940013	01/04/2013	35 115	-	(35 115)	-
NISSAN CABSTAR UD 40	12.84%	48519940014	01/04/2013	108 302	-	(108 302)	-
ISUZU FVZ 1400 TIPPER	12.84%	48519940015	01/06/2013	211 222	-	(211 222)	-
JCB JS200 EXCAVATOR	12.84%	48519940016	01/06/2013	334 022	-	(334 022)	-
TATA TIPPER	12.84%	48519940017	01/07/2013	119 213	-	(109 444)	9 769
TATA TIPPER	12.84%	48519940018	01/07/2013	119 213	-	(109 444)	9 769
LANDFILL COMPACTOR	14.90%	48519940019	01/07/2013	554 283	-	(508 405)	45 878
TOYOTA HILUX 3.0	12.84%	48519940021	01/08/2013	70 727	-	(59 965)	10 762
15 TON FOUR WHEEL TRACTOR	12.84%	48519940022	01/09/2013	59 038	-	(46 464)	12 574
20-25 TON FOUR AXLE LOW BED	12.84%	48519940023	01/09/2013	61 393	-	(48 318)	13 075
10 ISUZU FVZ 1600 COMPACROR C/C	10.50%	4052819154	01/06/2016	1 475 023	-	(896 964)	578 059
10 ISUZU FSR 750 CREW CAB F/C C/C	10.50%	4052819154	01/06/2016	897 014	-	(217 537)	679 477
11 TOYOTA FORTUNER 3.0 D-D4 R/B C/C	10.50%	4052819154	01/06/2016	311 337	-	(76 746)	234 591
KYOCERA COPIERS	14.55%		01/06/2016		1 800 000	-	1 800 000
Total Hire Purchases				4 772 966	1 800 000	(3 179 015)	3 393 954
TOTAL EXTERNAL LOANS				8 357 172	1 823 300	(4 971 536)	5 592 850

APPENDIX B - Unaudited
LUKHANJI LOCAL MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 1 JULY 2012	Correction of error	Restated balance 1 JULY 2012	Grants Received	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Deductions from National Treasury	Balance 30 JUNE 2013
	R	R	R	R	R	R	R	R
UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS								
National Government Grants								
Skills Development Grant	-	-	-	2 000 000	848 697	-	-	1 151 303
Finance Management Act.	-	-	-	1 500 000	1 433 603	-	101 000	(34 603)
MSIG Funds	-	-	-	800 000	477 696	-	148 000	174 304
MIG Funds	6 547 558	-	6 547 558	32 122 000	-	25 999 927	4 579 000	8 090 631
Expanded Public Works Program	-	-	-	2 844 000	2 756 550	-	-	87 450
	6 547 558	-	6 547 558	39 266 000	5 516 546	25 999 927	4 828 000	9 469 086
Provincial Government Grants								
Library Subsidy	174 700	-	174 700	4 150 000	4 150 000	-	-	174 700
LGW SETA - Training	199 036	-	199 036	371 371	371 371	-	-	199 036
IEC	288 031	-	288 031	-	-	-	-	288 031
STORM RELIEF FUND	25 329	-	25 329	-	-	-	-	25 329
SHILOH GREENFIELDS - SURVEY	89 635	-	89 635	-	-	-	-	89 635
FORMULATION EZIBELENI SITES	38 659	-	38 659	-	-	-	-	38 659
AIDS GRANT	6 862	-	6 862	-	-	-	-	6 862
DEPT OF NATIONAL HEALTH - (Attic)	2 609 324	-	2 609 324	-	620 283	-	-	1 989 041
MENDI EDUCARE CENTRE	13 610	-	13 610	-	-	-	-	13 610
RATHWICK ELECTRIFICATION	188 743	-	188 743	-	-	-	-	188 743
LED STRATEGIES & SPATIAL	821 689	-	821 689	-	-	-	-	821 689
COMPLETION OF ZONING SCHEME	6 264	-	6 264	-	-	-	-	6 264
SMALL MICRO STRATEGY & HAWKE	66 175	-	66 175	-	-	-	-	66 175
LAURIE DASHWOOD PARK SETTLEM	22 552	-	22 552	-	-	-	-	22 552
PREPARATION OF STRUCTURE PLA	90 900	-	90 900	-	-	-	-	90 900
MSP FUNDS	181 955	-	181 955	-	-	-	-	181 955
SERVICE: INFORMAL SETTLEMENT	82 487	-	82 487	-	-	-	-	82 487
SURVEY & PLANNING: EXT 2 WHI	44 148	-	44 148	-	-	-	-	44 148
SURVEY OF LAURIE DASHWOOD PA	2 394	-	2 394	-	-	-	-	2 394
TOWNSHIP REGISTER 1	41 601	-	41 601	-	-	-	-	41 601
TYLDEN IRRIGATION SCHEME	6 167	-	6 167	-	-	-	-	6 167
TOWNSHIP REGISTER 2	46 471	-	46 471	-	-	-	-	46 471
MENDI MEMORIAL CRECHE	15 507	-	15 507	-	-	-	-	15 507
ROWELL OLD AGE HOME	2 434	-	2 434	-	-	-	-	2 434
ESTATE LATE: MACRAE	1 351	-	1 351	-	-	-	-	1 351
QUEENSTOWN RHINO FUNDS	203 038	-	203 038	-	-	-	-	203 038
PLANNING OF SHILOH GREENFIEL	2 684	-	2 684	-	-	-	-	2 684
CMIP: SABATA DALINDYEBO SERV	17 156	-	17 156	-	-	-	-	17 156
BCIG PROJECTS: EZIBELENI SEW	52 016	-	52 016	-	-	-	-	52 016
CMIP PROJECT: EZIBELENI BULK	14 745	-	14 745	-	-	-	-	14 745
CMIP PROJECT: ENKULULEKWENI	36 270	-	36 270	-	-	-	-	36 270
CMIP PROJECT: SHILOH BEDE FR	51 110	-	51 110	-	-	-	-	51 110
RURAL WATER SCHEME	12 390	-	12 390	-	-	-	-	12 390
MLUNGISI SPORTFIELDS	4 085	-	4 085	-	-	-	-	4 085
NER: EZIBELENI INFRA UPGRADE	(82 521)	-	(82 521)	-	-	-	-	(82 521)
RATHWICK ELECTRIFICATION	(56 741)	-	(56 741)	-	-	-	-	(56 741)
ESKOM (SABATA DALINDYEBO)	139 263	-	139 263	-	-	-	-	139 263
BRAKLOOF SETTLEMENT PLANNIN	1 318	-	1 318	-	-	-	-	1 318
BCIG PROJECTS: MLUNGISI BULK	67 805	-	67 805	-	-	-	-	67 805
WHITTLESEA EXT 4 ROADS & ST	383 408	-	383 408	-	-	-	-	383 408
	5 912 049	-	5 912 049	4 521 371	5 141 654	-	-	5 291 767
District Municipality Grants								
HYDRAULIC ANALYSIS SEWERAGE	4 348	-	4 348	-	-	-	-	4 348
FIRE SERVICES	313 281	-	313 281	-	-	-	-	313 281
VARIOUS PROJECTS - CHDM WATE	410 062	-	410 062	-	-	-	-	410 062
FREE BASIC SERVICES	63 512	-	63 512	-	-	-	-	63 512
RAGS TO RICHES	32 171	-	32 171	-	-	-	-	32 171
DISASTER FUND	-	(39 178)	(39 178)	-	-	-	-	(39 178)
	823 374	(39 178)	784 196	-	-	-	-	784 196
Other Grant Providers								
Integrated Development Plan	-	(127 429)	(127 429)	-	-	-	-	(127 429)
MIG COUNTERFUNDING	612 309	-	612 309	-	-	-	-	612 309
UNKNOWN ALLOCATION	226 535	-	226 535	-	-	-	-	226 535
INFRASTRUCTURE UPGRADE LEVY	1 194 879	-	1 194 879	412 069	-	-	-	1 606 947
LED PROJECT - RESOURCE GROU	813 370	-	813 370	-	-	-	-	813 370
CEMETARY MAINTENANCE PERPU	18 161	-	18 161	-	-	-	-	18 161
VEHICLE FLEET STUDY	15 000	-	15 000	-	-	-	-	15 000
VALUATION FUND	27 475	-	27 475	-	-	-	-	27 475
GEORGE HARTLEY BEQUEST	67 271	-	67 271	-	-	-	-	67 271
OLIVER BARNES BEQUEST	4 450	-	4 450	-	-	-	-	4 450
P B ARNOLD BEQUEST	12 960	-	12 960	-	-	-	-	12 960
W TREGARTEN BEQUEST	5 780	-	5 780	-	-	-	-	5 780
	2 998 190	(127 429)	2 870 761	412 069	-	-	-	3 282 829
Total	16 281 172	(166 607)	16 114 565	44 199 440	10 658 200	25 999 927	4 828 000	18 827 877