

U Masipala Wakwa Nkonkobe

Umzi Wolawulo/Civic Centre
8 Somerset Street
FORT BEAUFORT
Eastern Cape – RSA



Municipality of Nkonkobe

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FORT BEAUFORT,
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29 August 2008

The Office of the Auditor General
59 Western Avenue
Vincent
East London
5200

Sir / Madam

Nkonkobe Municipality (EC127) – Submission of Annual Financial Statements

Please find enclosed signed copies of the Nkonkobe Municipalities Annual Financial Statements for the following year: -

- 30 June 2008

The municipality has a full copy of the working papers supporting the above mentioned years. Should you have any further queries please contact the Acting Chief Financial Officer, Mr. Lulamile Hanabe on 046-6457476.

Trust that you will find the above in order.

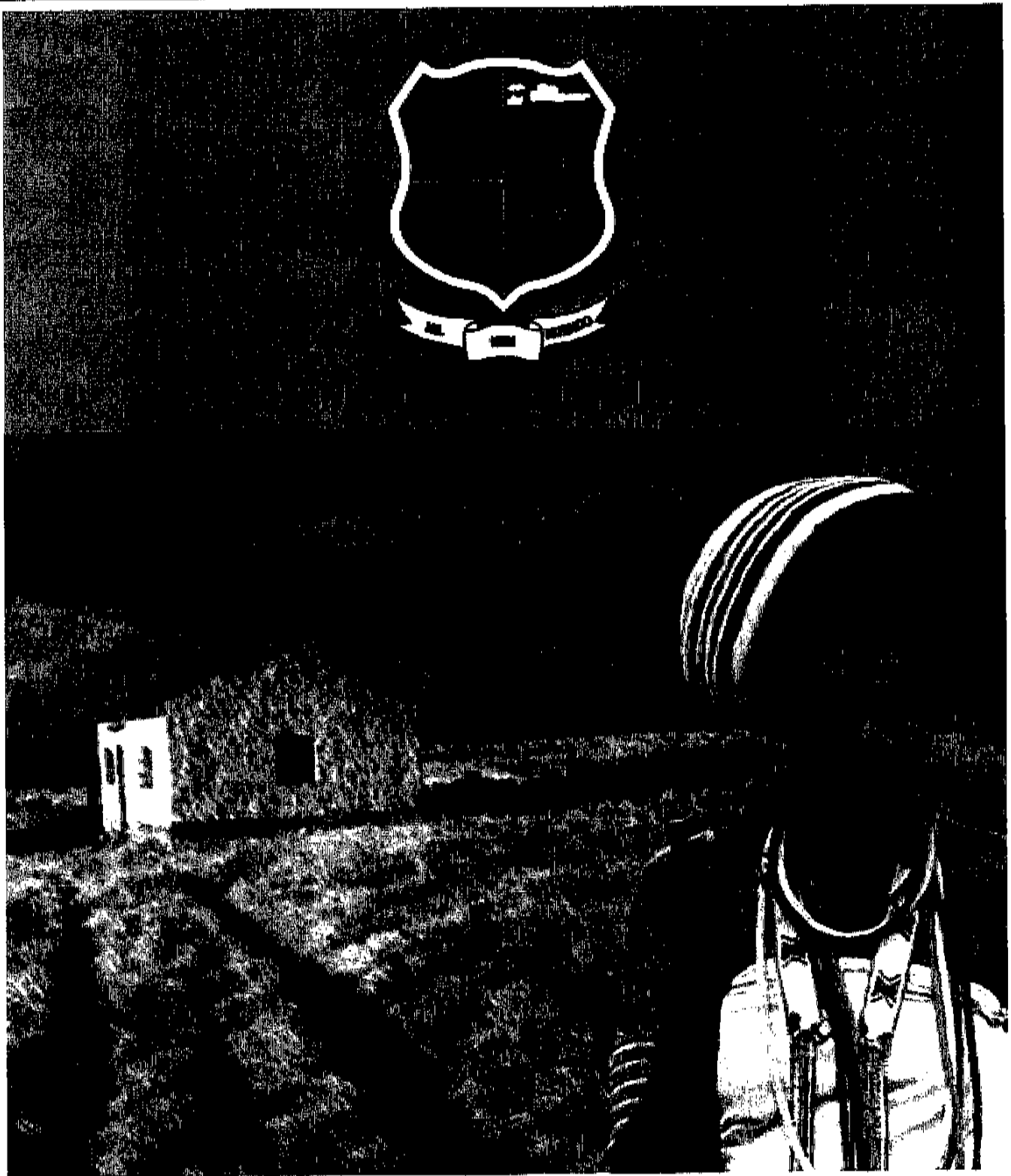
Thanking You

Yours faithfully

Mr. Andre Marx
Acting Municipal Manager

OFFICE OF THE
AUDITOR - GENERAL

2008 -08- 29



**Annual Financial Statements
2007/2008**

EC 127

NKONKOBÉ MUNICIPALITY**INDEX****30 June 2008**

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NKONKOBÉ MUNICIPALITY**GENERAL INFORMATION - 30 June 2008****MEMBERS OF THE EXECUTIVE COMMITTEE**

Rev DD Ngcuka	Mayor
M Ncume	Speaker of Council
LM Fani	Budget and Treasury - Chairperson
M Ncume	Human Resources & Admin - Chairperson
JM Zondi	Engineering Services - Chairperson
NW Nxawe	Community Services - Chairperson
N Gqokro	Sports, Arts & Culture - Chairperson
J Ndlebe	Strategic Planning & LED - Chairperson

GRADING OF LOCAL AUTHORITY

Councillors - Grade 3 (in terms of the Public Office Bearers Act)
Officials - Grade 6 (old Grading system)

AUDITORS

Auditor General - East London, Eastern Cape

BANKERS

First National Bank, Fort Beaufort

REGISTERED OFFICE

8 Somerset Street
PO Box 36, Fort Beaufort
5720

Telephone : 046 645 7400
Facsimile : 046 645 2562

ACTING MUNICIPAL MANAGER as at 30 June 2008

Mr. A Marx

Telephone : 046 645 7449

ACTING CHIEF FINANCIAL OFFICER as at 30 June 2008

Mr. L Hanabe

Telephone : 046 645 7476

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements as set out on pages 4 to 24 were approved by the Acting Municipal Manager and

the Acting Chief Financial Officer on this the 29TH AUGUST 2008 and then presented to Council on this

the 25 SEPTEMBER 2008



.....
ACTING MUNICIPAL MANAGER: NKONKOBÉ MUNICIPALITY



.....
ACTING CHIEF FINANCIAL OFFICER: NKONKOBÉ MUNICIPALITY

NKONKOBÉ MUNICIPALITY**MAYOR'S FOREWORD**

I have pleasure in presenting the Annual Financial Statements which are subject to audit for the year ended 30 June 2008

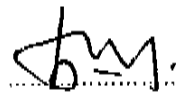
Nkonkobe municipality is endowed with a rich history and world renowned institutions of higher learning i.e. Fort Hare, Lovedale, Healdtown, Fort Cox which in their own right have produced leaders in the mode of Dr Tengo Jabavu, Robert Sobukwe, O.R Tambo, Nelson Mandela, Dr Bokwe and many others.

Recently Nkonkobe municipality has been nicknamed the "Home" of Premiers in the likes of the late Raymond Mhlaba, Rev. Makhenkesi Stofile and Nosimo Balindlela.

Nkonkobe municipality as a tourist destination boasts of the best scenic mountain range, punctuated by motels and hotels located at strategic spots of Hogsback and Katberg and trails of the ancient forts of Fort Fordyce, Fort Beaufort, Somgxanda (Dr.Stuart Memorial) and Fort Hare.

As Nkonkobe municipality we have an unflinching and unshaken mandate from the people of the valleys and hills of this municipal area to champion the cause of service delivery in order to address the backlogs of colonialism. We are called upon to explore the interactional networks of our diverse and rich cultures, spread this richness among us all. We are charged with a responsibility to enrich our communities and rid ourselves from the chains so as to be able to walk tall towards deepened democracy and sustained development.

The sadness and reality of the Nkonkobe municipality region is that we are faced with poor socio economic drivers, escalating unemployment and deaths related to HIV/AIDS! This significant increase in the bulk Eskom account is also going to seriously threaten the future existence of this impoverished rural municipality and urgent intervention by National Government is required to prevent financial collapse.



.....
Cllr D.D Ngcuka
MAYOR

NKONKOB MUNICIPALITY

ACCOUNTING OFFICER'S REPORT - 30 June 2008

1. OPERATING RESULTS

Details of the operating results per department, classification and object of expenditure are included in appendices D and E. The overall operating results for the year ended 30 June 2008 are as follows:

	Actual 2007 R	Actual 2008 R	Variance 2007/2008 %	Budget 2008 R	Variance Actual to Budget %
Income:					
Opening surplus/(deficit)	(8,994,590)	(26,733,480)			
Operating income for the year	60,324,858	71,504,356	18.5	84,600,662	15.5
	<u>51,330,268</u>	<u>44,770,877</u>		<u>84,600,662</u>	
Expenditure					
Operating expenditure for the year	63,044,428	76,436,307	21.2	84,597,911	9.6
Contributions to approved funds					
Appropriation	15,019,320	-			
Closing surplus/(deficit)	(26,733,480)	(31,665,431)		2,751	
	<u>51,330,268</u>	<u>44,770,877</u>		<u>84,600,662</u>	
Significant variances:					
Grants and Subsidies increased during the current year. Interest accrued increase due to the system now charging interest on customer overdue accounts. Expenditure was reduced to fall in-line with the reduction in budgeted income.					

1.1 Rates and General Services

	Actual 2007 R	Actual 2008 R	Variance 2007/2008 %	Budget 2008 R	Variance Actual to Budget %
Income	51,873,909	61,291,522	18.2	65,942,650	7.1
Expenditure	55,041,939	65,001,478	18.1	69,834,750	6.9
Surplus / (Deficit)	<u>(3,168,030)</u>	<u>(3,709,956)</u>	17.1	<u>(3,892,100)</u>	4.7
Surplus / (Deficit) as % of total income	(6.1)	(6.1)		(5.9)	
Significant variances:					
Grants and Subsidies increased during the current year. Interest accrued increase due to the system now charging interest on customer overdue accounts.					

1.2 The following is a summary of the operating results of the local authority's Trading Services:

Electricity Service

	Actual 2007 R	Actual 2008 R	Variance 2007/2008 %	Budget 2008 R	Variance Actual - Budget %
Income	8,274,601	10,212,829	23.4	18,658,013	45.3
Expenditure	7,408,997	11,215,170	51.4	14,443,719	22.4
Surplus / (Deficit)	865,604	(1,002,341)	(215.8)	4,214,294	123.8
Surplus / (Deficit) as % of total income	10.5	(9.8)		22.6	
Significant variances:					
The main reason for the variance in expenses in the provision for doubtful debts. The department did not achieve their income budget. This has had a major effect on spending. The grant for FBE is not sufficient to cover the beneficiaries.					

Abattoir Service

	Actual 2007 R	Actual 2008 R	Variance 2007/2008 %	Budget 2008 R	Variance Actual - Budget %
Income	25,189	4	(100.0)	-	0.0
Expenditure	195,872	219,658	12.1	319,442	31.2
Surplus / (Deficit)	(170,683)	(219,654)	28.7	(319,442)	31.2
Surplus / (Deficit) as % of total income	(677.6)	(5,003,505.9)		#DIV/0!	
Significant variances:					
The provincial departments inspectors closed the abattoir in November 2006 due to inadequate equipment and operational policies and procedures. Council is currently evaluating two proposals received according to the SCM policy.					

2. CAPITAL EXPENDITURE AND FINANCING

The expenditure on fixed assets during the year are detailed below: -

	Actual 2007 R	Budget 2008 R	Actual 2008 R
Community Services	801,455	835,053	1,703,963
Subsidised Services	-	-	28,900
Economic Services	-	66,066	199,500
Housing Services	-	-	-
Trading Services	147,372	38,311	98,682
	<u>948,827</u>	<u>939,430</u>	<u>2,031,046</u>

Resources used to finance the fixed assets were as follows:-

- Internal Sources	(2,578,614)	939,430	897,362
- External Sources	3,527,441	-	1,133,683
Other Sources	3,527,441		1,133,683
Provincial Government			
	<u>948,827</u>	<u>939,430</u>	<u>2,031,046</u>

Significant variances:

The overspend was due to grant funding received. The majority of the Community Services capital expenditure relates to the development of the Middledrift block yard and other related projects.

A complete analysis of capital expenditure (budgeted and actual) per department, classification of service is included in appendix C. More details regarding external loans and internal advances used to finance fixed assets are shown in appendix B.

3. EXTERNAL LOANS, INVESTMENTS AND CASH

External loans outstanding on 30 June 2008 amounted to R4,327,921 (including current portion). (2007 - R4,486,754)

Cash resources and short-term deposits less bank overdraft at 30 June 2008 amounted to a negative of R 2,846,226 (2007 - R1,597,499 positive). This amount excludes projects, statutory and reserve funds.

Investments as at 30 June 2008 amounted to R13,860,544 (2007: R10,346,733).

Trust Fund Investments as at 30 June 2008 amounted to R 13,860,544 (2007: R10,346,733). The investments are held for specific projects.

More information regarding loans and investments are disclosed in the notes and appendix B to the financial statements.

4. MUNICIPAL ENTITY

The Nkonkobe Economic Development Agency was established during the 2006 financial year. The main objective of the agency is to act as a agent on behalf of the municipality for all economic development issues in the demarcated development zone. The agency is funded by both the Nkonkobe municipality and external donors.

5. POST BALANCE SHEET EVENTS

The Amathole District Municipality is currently reassessing the WSP function. No further post balance sheet events have been identified

6. EXPRESSION OF APPRECIATION

I am grateful to the Mayor, Councillors, the municipal staff and Sondlyazi Charteris and Barnes for their assistance and support during the past challenging financial year.


 ACTING MUNICIPAL MANAGER: NKONKOB MUNICIPALITY
 (Accounting Officer)

NKONKOBÉ MUNICIPALITY**ACCOUNTING POLICIES - 30 June 2008****1. Basis of preparation**

- 1.1 These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Treasurers and Accountants and its Code of Practice for Local Government Accounting (1997) and the Published Annual Financial Statements for Local Authorities (2nd edition - January 1996).
- 1.2 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis as stated:
 - * Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received, such as traffic fines and certain licences.
 - * Expenditure is accrued in the year it is incurred.

2. Consolidation

The balance sheet includes Rates and General Services, Trading Services and the different funds and reserves. All inter-departmental charges are set off against each other with the exception of assessment rates, refuse removal, sewerage, electricity and water which are treated as income and expenditure in the respective departments.

3. Fixed assets

- 3.1 Fixed assets are stated at historical cost or at valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated useful life as determined by the Treasurer.
- 3.2 Depreciation

The balance shown against the heading "Loans Redeemed and other Capital Receipts" in the notes to the financial statements is tantamount to a provision for depreciation, however certain structural differences do exist. By way of this "provision" assets are written down over their estimated useful life. Apart from advances from the various council funds, assets may also be acquired through:

 - * Appropriations from operating income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
 - * Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and other Capital Receipts" account.
- 3.3 All net proceeds from the sale of fixed property are credited to the Revolving Fund.
- 3.4 Fixed assets are financed from different sources, including external loans,

NKONKOBÉ MUNICIPALITY**ACCOUNTING POLICIES - 30 June 2008**

operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

3.5 A detailed GAMAP compliant assets register has been prepared.

4. Funds and reserves**4.1 Revolving fund**

The fund requires a minimum contribution of 7.5 % of the product of the assessment rates that were levied for the immediately preceding financial year. It is not required from Council to contribute an amount that is 20% more than the amount required to be contributed in the immediately preceding financial year.

Net proceeds from the sale of fixed property are invested in the Revolving Fund. Funds accumulated in the Revolving Fund are utilised for the purpose of providing advances to borrowing services and to finance the acquisition or upgrading of land or fixed property.

4.2 Other funds and reserves

Other funds and reserves, which are disclosed in the notes (1 - 3) and appendix A to the financial statements, are built up either by appropriations made on an annual basis from the operating account to the relevant funds and reserves or from contributions received from the public and the State with the objective of providing community facilities and funds to finance bad debts.

5. Provisions

Provisions are created for liabilities or contingencies that are known at the date of the balance sheet but for which the amounts involved cannot be determined with substantial accuracy.

6. Stock

Stock is reflected in the Balance Sheet at the weighted average cost.

7. Retirement benefits

The Council and its employees contribute to various pension, provident and retirement funds. The larger funds include the SAMWU National Provident Fund, The Cape Joint Pension Fund, SALA Pension Fund, VERSO Pension Fund and JEPF Pension Fund

The retirement benefits are calculated in accordance with the rules of the respective funds. Current contributions by the Council are charged against operating income at the rate of a fixed percentage of the basic salary paid to employees.

NKONKOBÉ MUNICIPALITY

ACCOUNTING POLICIES - 30 June 2008

8. Surpluses and deficits

Any surpluses and deficits arising from the operation of the Electricity Services are transferred to Rates and General Services.

9. Leased assets

Fixed assets held under finance leases are capitalised. Such assets are effectively amortised over the term of the lease agreement.

Lease finance charges are allocated to accounting periods over the duration of the leases, by the effective interest rate method, which reflects the extent and cost of lease finance utilised in each accounting period.

All other leases are treated as operating leases and the relevant rentals are charged to the operating account in a systematic manner related to the period of use of the assets concerned.

10. Investments

Investments are disclosed at the lower of cost or market value if a permanent decline in value has occurred and are invested on such conditions as the Minister may approve.

11. Income recognition

12.1 Electricity billings

All meters are read and billed monthly. Income is recognised when meters are read and the monthly levies debited to the respective consumer account.

Where meters cannot be read during a particular month, they are provisionally billed with the necessary adjustments made in the month they are indeed read. With regard to prepayment electricity purchases, income is recognised at the date of purchase.

12.2 Assessment rates

The local authority applies a uniform system of rating. In terms of this system the assessment rates are levied on the land value of property and improvements, at the same rate. Rebates of 20% are granted on state owned properties and 40% rebates are granted to pensioners pending a successful application. Income is recognised when such levies are raised and debited to the respective ratepayer account.

12.3 Other income

Income from services such as refuse removal, recovered by way of debtors is, recognised when such levies are raised and debited against the respective consumer account. Income from other sources is recognised when paid.

NKONKOBÉ MUNICIPALITY

BALANCE SHEET AT 30 JUNE 2008

	Note	2008 R	2007 R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		16,582,295	15,836,865
Statutory funds	1	14,030,537	13,285,107
Reserves	2	2,551,758	2,551,758
ACCUMULATED DEFICIT		(31,665,431)	(26,733,480)
		(15,083,135)	(10,896,615)
TRUST FUNDS	3	13,860,544	10,346,733
LONG TERM LIABILITIES	4	476,150	1,222,116
CONSUMER DEPOSITS: SERVICES	5	788,797	529,504
		42,356	1,201,738
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	6	1,407,110	2,053,517
INVESTMENTS	7	13,860,543	10,346,733
		15,267,653	12,400,250
NET CURRENT ASSETS		(15,225,297)	(11,198,512)
CURRENT ASSETS		13,543,702	11,578,779
Stock	8	376,337	297,718
Accounts Receivable	9	11,393,037	9,683,562
Cash and Cash Equivalents	10	11,083	900,337
Short-term Investments	7	1,763,245	697,162
CURRENT LIABILITIES		28,768,999	22,777,292
Creditors	12	17,519,675	16,668,822
Bank overdraft	13	4,620,553	-
Provisions	11	2,777,000	2,843,832
Short-term portion of long-term liabilities	4	3,851,771	3,264,638
		42,356	1,201,738

NKONKOBÉ MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	2008 R	2007 R
CASH RETAINED FROM OPERATING ACTIVITIES		1,269,965	6,973,094
Cash utilised in operations	19	(40,174,526)	(65,169,707)
Investment income		5,994,594	1,084,383
(Increase) / Decrease in working capital	20	(13,825,232)	10,670,412
Less: External interest paid		(48,005,164)	(53,404,912)
Cash available from operations		(639,922)	(544,769)
Net Proceeds on disposal of fixed assets		(48,645,086)	(53,949,681)
Cash contributions from the public and the State		-	8,681,828
		49,905,051	52,240,947
CASH UTILISED IN INVESTING ACTIVITIES		(2,031,045)	(948,827)
Investment in fixed assets		(2,031,045)	(948,827)
NETT CASH FLOW		(771,081)	6,024,267
CASH EFFECTS OF FINANCING ACTIVITIES			
Increase / (Decrease) in long-term liabilities	21	(158,833)	(10,127,803)
Decrease / (Increase) in cash on hand	23	5,509,808	(1,456,992)
Decrease / (Increase) in external cash investments	22	(4,579,894)	5,560,528
NETT CASH UTILISED		771,081	(6,024,267)

NKONKOBE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
1. STATUTORY FUNDS		
Revolving Fund	13,268,456	12,523,026
Dog Tax Fund	84,735	84,735
Loans Redemption Fund	643,453	643,453
Community Facilities	27,896	27,896
Other	5,997	5,997
	<u>14,030,537</u>	<u>13,285,107</u>
<i>(Refer to Appendix A for more details)</i>		
2. RESERVES	<u>2,551,758</u>	<u>2,551,758</u>
<i>(Refer to Appendix A for more details)</i>		
3. TRUST FUNDS		
As detailed in Appendix A	<u>13,860,544</u>	<u>10,346,733</u>
All trust funds are back by investments held with various bank. <i>(Refer to Appendix A for more details)</i>		
4. LONG-TERM LIABILITIES		
DBSA - Capital	-	-
DBSA - Capital Arrears Interest	3,098,598	2,655,470
Wesbank	1,229,323	1,831,284
Less: Short Term portion transferred to Current Liabilities	(3,851,771)	(3,264,638)
	<u>476,150</u>	<u>1,222,116</u>
<i>(Refer to Appendix B for more detail)</i>		
5. CONSUMER DEPOSITS: SERVICES		
Service Deposits	<u>788,797</u>	<u>529,504</u>
6. FIXED ASSETS		
Fixed assets at the beginning of the year	87,017,780	86,068,953
Capital expenditure during the year	2,031,045	948,827
Total fixed assets	<u>89,048,825</u>	<u>87,017,780</u>
Less: Loans redeemed and other capital receipts	87,641,715	84,964,262
	<u>1,407,110</u>	<u>2,053,517</u>
<i>(Refer to Appendix C for more details)</i>		
7. INVESTMENTS		
Project Investments	<u>13,860,543</u>	<u>10,346,733</u>
Funds are invested according to Circular No C/46/1994 issued by the Provincial Administration Community Services Branch with approved Banking Institution.		
Short-term Investments	<u>1,763,245</u>	<u>697,162</u>
Numerous First National Bank Accounts are being held as security to cover the municipalities bank overdraft.		

NKONKOBÉ MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
8. STOCK		
Rate & General	124,060	238,802
Electricity Services	248,346	58,916
Fuel	3,930	-
	<u>376,337</u>	<u>297,718</u>
<p>During the current year fuel distributor was requested to replace the fuel pumps. This was turned down as the municipality has insufficient volumes to warrant this expenditure.</p>		
9. ACCOUNTS RECEIVABLE		
Current Debtors	54,867,568	45,880,208
Sundry Debtors	8,609,397	2,739,997
Less Provision for Bad debts	52,083,928	38,936,643
	<u>11,393,037</u>	<u>9,683,562</u>
<p>Consumer Debtors amounting to R 21,745,394 were taken over by the Amathole District Municipality on 1 July 2006. The Amathole District Municipality has subsequently handed the Consumer Debtors back over to the municipality pending a section 78 of the MSA Act 32 of 2000 analysis.</p>		
10. CASH AND CASH EQUIVALENT		
Floats	11,083	11,083
Bank Balances	-	889,255
	<u>11,083</u>	<u>900,337</u>
11. PROVISIONS		
Leave reserve	2,549,265	2,743,832
Performance Bonuses	227,735	100,000
	<u>2,777,000</u>	<u>2,843,832</u>
12. CREDITORS		
Trade Creditors	2,608,876	2,134,114
VAT Provision	10,592,709	10,921,378
VAT Control	1,112,288	505,770
Sundry Creditors	3,205,802	3,107,560
	<u>17,519,675</u>	<u>16,668,822</u>
13. BANK OVERDRAFT		
Nkonkobe Municipality	4,620,553	-
	<u>4,620,553</u>	<u>-</u>
<p>All Securities have been detailed in Note 7</p>		

NKONKOBÉ MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
14. ASSESSMENT RATES		
Valuations on land and improvements are performed every four years. The last general valuation came into effect on 1 July 1994. The basic rate on land and improvements varied from area to area.		
	<u>Rates - LAND</u>	<u>Rates- buildings</u>
Residential		
Seymour	0.0250425	0.0220374
Fort Beaufort	0.0250425	0.0220374
Alice	0.0250425	0.0220374
Hogsback	0.0250425	0.0220374
Middledrift	0.0250425	0.0220374
Government Properties, Schools, colleges, universities		
Seymour	0.0236250	0.0246750
Fort Beaufort	0.0236250	0.0246750
Alice	0.0236250	0.0246750
Hogsback	0.0236250	0.0246750
Middledrift	0.0236250	0.0246750
<i>The following rebates were granted:</i>		
- State	20.00%	
- Pensioners	40.00%	
Actual Rateable Income	<u>9,069,039</u>	<u>9,596,736</u>
15. MANAGERS AND OFFICIALS REMUNERATION		
Mayor's allowance:	475,860	488,192
Speakers Allowance	387,476	391,260
Councillor's allowances:	<u>6,922,858</u>	<u>6,912,823</u>
	<u>7,786,194</u>	<u>7,792,275</u>
Municipal Manager	502,166	121,213
Total Earnings	<u>441,381</u>	<u>121,213</u>
Company Contributions	60,785	-
Chief Financial Officer	553,204	-
Total Earnings	<u>500,245</u>	<u>-</u>
Company Contributions	52,959	-
Other Senior Manager	1,119,938	3,059,907
Total Earnings	<u>1,014,072</u>	<u>3,059,907</u>
Company Contributions	105,866	-
Total Remuneration	<u>2,175,308</u>	<u>3,181,120</u>
As of 11 December 2007 Chief Financial Officer assumed the role of acting Municipal Manager. Numerous other senior staff members held acting managerial position during the current financial year.		
The municipalities employees cost spend as a percentage of total spend is: -	38.7%	55.3%
16. AUDITOR'S REMUNERATION		
Audit fees	<u>1,047,754</u>	<u>1,277,855</u>

NKONKOBÉ MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
17. FINANCE TRANSACTIONS		
Total external interest earned or paid:		
- Interest earned	4,900,441	601,834
- Interest paid	639,922	544,769
<u>Capital charges debited to operating account:</u>		
- Interest paid on external loans	639,922	534,785
- Interest paid on internal loans	13,457	16,130
- Redemption of external loans	601,961	548,107
- Redemption of internal loans	44,447	45,107
	<u>1,299,787</u>	<u>1,144,129</u>
18. APPROPRIATIONS		
Appropriation account		
Accumulated surplus at the beginning of the year	(26,733,480)	(8,994,590)
Operating surplus for the year	(4,931,951)	-2,719,570
	(31,665,431)	(11,714,160)
Less: Appropriations for the year:	-	15,019,320
- ADM Debtors Provision and Sale of Assets	-	16,116,807
- SARS SDL and UIF Assessment	-	1,685,978
- Reversal of Municipal Debtors and Water Debtor Raised incorrectly	-	9,198,279
- Prior years Operating and Project Expenses	-	(11,981,743)
Accumulated surplus at the end of year	<u>(31,665,431)</u>	<u>(26,733,480)</u>
Operating account		
Capital expenditure	897,362	336,573
Contributions to:		
- Revolving Fund	731,973	664,362
- Audit Fee	-	(719,249)
- Doubtful debts	-	4,824,619
- Leave Reserve	(194,567)	(998,153)
	<u>1,434,768</u>	<u>4,108,152</u>
19. CASH UTILISED IN OPERATIONS		
(Deficit) / Surplus for the year	(4,931,951)	(2,719,570)
<u>Adjustments in respect of:</u>		
- Prior Year's Operating Transactions	-	(15,019,320)
<u>Appropriations charged against income:</u>	<u>15,423,028</u>	<u>6,767,862</u>
- Revolving Fund	731,973	664,362
- Provisions	13,147,284	5,766,916
- Fixed Assets	1,543,770	336,573
Investment income (operating account)	(5,994,594)	(1,094,383)
<u>Capital charges</u>	<u>1,742,914</u>	<u>1,144,129</u>
Interest Paid on External Loans	1,083,050	534,785
Interest Paid on Internal Loans	13,457	16,130
Redemption on External Loans	601,961	548,107
Redemption on Internal Loans	44,447	45,107
Grants and Subsidies Received from the State	(40,220,074)	(32,368,969)
<u>Non Operating Expenditure</u>	<u>(4,893,706)</u>	<u>(26,869,766)</u>
- Expenditure charged against funds	(4,818,035)	(24,811,953)
- Expenditure charged against provisions	(75,671)	(2,057,802)
<u>Non Operating Income</u>	<u>(1,300,143)</u>	<u>4,990,299</u>
- Transfers to funds and reserves	(1,300,143)	4,990,299
	<u>(40,174,526)</u>	<u>(65,169,707)</u>

NKONKOBÉ MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
20. DECREASE/(INCREASE) IN WORKING CAPITAL		
(Increase) / Decrease in Stock	(78,618)	(10,990)
(Increase) / Decrease in Debtors, Long Term Debtors	(14,856,760)	15,991,882
(Decrease) / Increase in Creditors, Consumer Deposits	1,110,146	(5,310,479)
	<u>(13,825,232)</u>	<u>10,670,412</u>
21. (DECREASE) / INCREASE IN LONG-TERM LIABILITIES		
Loans raised	443,128	-
Loans repaid	(601,961)	(10,127,803)
	<u>(158,833)</u>	<u>(10,127,803)</u>
22. DECREASE / (INCREASE) IN EXTERNAL CASH INVESTMENT		
Investments Realised	(4,579,894)	5,560,528
Investments Made	-	-
	<u>(4,579,894)</u>	<u>5,560,528</u>
23. DECREASE / (INCREASE) IN CASH ON HAND		
Cash balance at the beginning of the year	900,337	(556,655)
Less: Cash balance at end of year	(4,609,470)	900,337
	<u>5,509,808</u>	<u>(1,456,992)</u>
24. CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS		
The municipality faces possible lawsuit of R10 million for defamation of character relating to housing projects.		
25. POST BALANCE SHEET EVENTS		
The Amathole District Municipality is currently reassessing the WSP function. No further post balance sheet events have been identified		
26. RETIREMENT BENEFITS		
The employees of the municipality and the municipality contribute to various pensions, provident and retirement funds. The main funds being listed below: -		
	<u>Employee</u>	<u>Employer</u>
SAMWU Provident Fund	7.50%	18.00%
SALA	8.60%	20.70%
Cape Joint Pension Fund	9.00%	18.00%
VERSO	15.00%	0.00%
JEPF	7.50%	13.00%
27. CAPITAL COMMITMENTS		
Commitments in respect of capital expenditure	<u>8,007,345</u>	<u>3,295,812</u>
This expenditure will be funded financed from: -		
- Internal Sources	-	-
- External Sources	8,007,345	3,295,812
Other Sources	-	-
Provincial Government	<u>8,007,345</u>	<u>3,295,812</u>
	<u>8,007,345</u>	<u>3,295,812</u>
The above commitments are mainly funded by the Municipal Infrastructure Grants received.		

NKONKOBÉ MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2008

	2008 R	2007 R
28. UNAUTHORISED EXPENDITURE		
During the current year the following departments actual expenditure exceeded the budgeted expenditure: -		
Administration and Human Resources	-	961,982
Financial Management - Administration	6,986,952	5,275,605
Fleet Administration	-	234,220
Sewerage	-	308,882
Water	-	397,620
The municipality has installed a new financial accounting system. This as lead to increased monitoring of the budget. The full impact of the new financial system was only felt in November. This was due to initial teething problems.		
The municipality paid audit fees amounting to R 1,047,754 during the current financial year.		
During the current financial year the municipality lost a High Court Case (2356/2006) against the Rental Company Trust. This resulted in the municipality having to pay cost of R1,510,883. This was financed by the Financial Management department.		
29. IRREGULAR EXPENDITURE		
Irregular expenditure did occur during this financial year. This lead to an investigation and the dismissal of the municipal manager.		
The delegation framework policy is currently being developed, with the assistance of the Amathole District Municipalities Municipal Support Unit.		
During the current year the municipqality incurred excessive legal costs.		
30. MUNICIPAL ENTITIES		
The municipality currently has two municipal entities that fall under it: -		
- Nkonkobe Economic Development Agency		
- Masambe Trust		
31. INTERGOVERNMENTAL ALLOCATIONS		
Equitable Share	34,153,758	
Land Survey	565,000	
Valuation Grant	550,000	
Municipal Infrastructure Grant	6,842,933	
Finance Management Grant	593,360	
Primary Health Care	2,413,205	
Municipal Systems Improvement Grant	184,000	
32. OTHER DISCLOSURES		
PAYE Paid	4,388,220	
Pension and Provident Fund Paid	5,247,058	
Medical Aid Paid	2,202,111	
No further amount are due and payable.		

NKONKOB MUNICIPALITY

STATUTORY FUNDS, RESERVES AND TRUST FUNDS - 30 June 2008

	Balance at 30 June 2007 R	Contributions during year R	Interest on Investments Net of Refunds R	Other Income / VAT Refunds R	Transfers during year R	Operating expenditure during year R	Capital expenditure during year R	Balance at 30 June 2008 R
STATUTORY FUNDS								
Revolving Fund	12,523,026	731,973	13,457					13,268,456
Dog Tax Fund	84,735							84,735
Loans Redemption Fund	643,453							643,453
Community Facilities	27,586							27,586
Other	5,997							5,997
	13,286,107	731,973	13,457					14,030,537
TRUST FUNDS								
Cash Backed Funds								
13 Starter Homes	157,414		14,014			716		171,428
Alice CMIP	25,476					619	2,445,826	24,760
Alice Golf Area 1111	2,808,093		241,883					703,531
Alice Housing Project (Std Bank)	302,178					716		301,463
Alice Kuntsalamanzi	45,804		3,656			429	9,724	39,307
Bhofolo Phase 2	1,374					270		1,104
Development	134,870		11,339			139,985		6,225
Erhoxeno Peoples Housing Project	190,929		17,963			270		208,041
Erhoxeno Peoples Housing Project (2)	23,165		1,375			300		24,281
Fishing Project	80,271		7,509			463	64,047	87,780
Fort Beaufort Golf Area 1177	286,108		19,617			610		191,216
Fort Beaufort Gamma Gamma	17,104		1,002			564		17,296
Fresh Produce Market	59,859			9,899				69,294
Human Settlement - Re-development Plan	2,980		145					2,995
Land Survey		555,000	42,545	10,893				618,438
Kwankoboko Peoples Housing Project	136,462		12,890			270		149,081
McFarland Peoples Housing Project	143,978		13,600			270		157,308
McFarland Peoples Housing Project (2)	1,793		100			330		1,863
Middsdrif Housing	18,961		1,363			716		18,324
Middsdrif Infrastructure	45,431					334	5,941	44,715
Mpolweni Housing Development 2	73,562		6,260		1,000			73,547
MSP Funding	1,000							
MSP Funding / Valuation Grant	1,000							589,313
NER Operating Account	1,249,970		38,313			300,730		1,016,970
Seymour Extension 6	162,421		67,730			429	26,880	147,358
Seymour Housing Project Number 2	33,817		14,275			150		1,282,398
MIG Funding	3,295,812		157,627	24,678	33,667			878,293
MIG Funding 2		6,842,933	279,540	6,479	1,317,425			7,129,052
Unsobomvu & FMG Trust Fund	1,000,000	593,360	117,731			522,648		1,189,242
	10,346,733	8,551,293	1,080,696	51,949	1,352,092	971,218	3,846,617	13,850,544

RESERVES

Repairs and Renewals	591,831
Repairs and Maintenance	24,267
Plant and Stock	14,250
Maintenance and Renewal	147,839
Home Improvements	26,495
Loss of Rental	23,729
Rent Reserve	1,868
Abattoir Reserve Fund	1,721,479
	2,651,758

APPENDIX A

NKONKOB MUNICIPALITY

EXTERNAL LOANS AND INTERNAL ADVANCES - 30 June 2008

	Rate	Termination	Balance at 30 June 2007 R	Received during the year R	Interest Capitalised R	Redeemed/ written off during year R	Balance at 30 June 2008 R
EXTERNAL LOANS - Funding Fixed Assets							
DBSA - Capital	11.0%	30-Sep-2014	-	-	-	-	-
DBSA - Capital Arrears Interest	11.0%	30-Sep-2014	-	-	-	-	-
DBSA - Capital Arrears Interest	16.0%	30-Sep-1998	2,655,470	-	443,128	358,908	3,098,598
Wesbank	9.5%	1-Feb-2010	1,074,205	-	-	239,270	715,298
Wesbank	9.5%	1-Mar-2010	742,596	-	-	3,784	503,426
Wesbank	9.5%	1-Sep-2010	14,382	-	-	-	10,599
			<u>4,486,754</u>	<u>-</u>	<u>443,128</u>	<u>601,961</u>	<u>4,327,921</u>
INTERNAL LOANS							
Loans outstanding	Various	Various	<u>222,234</u>	<u>-</u>	<u>-</u>	<u>44,447</u>	<u>177,787</u>

APPENDIX B

NKONKOB MUNICIPALITY

ANALYSIS OF FIXED ASSETS - 30 June 2008

	2007 Expenditure R	Balance at 30 June 2007 R	Expenditure during year R	Redeemed, transferred or written off during year R	Balance at 30 June 2008 R
RATES AND GENERAL SERVICES	801,455	53,065,136	1,932,363	-	54,997,500
Community Services	801,455	49,150,058	1,703,963	-	50,854,028
Administration - Housing	30,014	381,305			381,305
Buildings & Land	-	6,426,507	1,133,683		7,560,190
Town Treasure	-	1,887,347			1,887,347
Community Facilities	638,954	8,009,437			8,009,437
Furniture & Equipment	-	1,052,098	105,230		1,157,328
Council and CEO	47,607	1,751,616			1,751,616
Civil Defence	49,328	111,966			111,966
Town Engineer	-	13,786,730			13,786,730
Traffic Services	-	882,567			882,567
Roads & Streetworks	(26,700)	14,155,852	465,050		14,620,902
Health Services	62,261	704,641			704,641
Subsidised Services	-	1,564,843	28,900	-	1,593,743
Parks and Recreation	-	1,334,446	28,900		1,363,346
Cemetery	-	127,286			127,286
Fire	-	48,792			48,792
Library Services	-	54,319			54,319
Economic Services	-	2,350,228	199,500	-	2,549,728
Refuse	-	479,858	199,500		679,358
Sewerage	-	-			-
Town Estate	-	1,806,742			1,806,742
Mining	-	63,628			63,628
Housing Services	-	20,228,196	98,682	-	20,228,196
Trading Services	147,372	13,724,447	-	-	13,823,129
Abattoir	-	430,193			430,193
Electricity	147,372	13,294,255	98,682		13,392,937
Water	-	-			-
TOTAL FIXED ASSETS	948,827	87,017,780	2,031,045	-	89,048,825
LESS: LOANS REDEEMED AND OTHER CAPITAL RECEIPTS	-	84,964,262	2,031,045	646,408	87,641,715
Contributions from Other Sources	-	10,411,389		646,408	11,057,797.31
Contributions from operating income	-	15,158,238	897,362		16,055,599.81
Grants and subsidies	-	59,394,635	1,133,683		60,528,317.98
NET FIXED ASSETS	-	2,053,517	0	(646,408)	1,407,110

NKONKOBÉ MUNICIPALITY

ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2008

	2007 Actual R	2008 Actual R	2008 Budget R
INCOME			
Grants and subsidies	32,368,959	40,220,074	35,633,271
Operating income	27,955,886	31,284,282	48,967,391
Assessment Rates	9,596,736	9,069,039	19,874,532
Electricity Sales	8,266,257	10,211,919	16,437,849
Water Sales	151,159	-	-
Interest Received	601,834	4,900,441	3,210,582
Income from Tariffs, Service Charges etc	9,339,912	7,102,883	9,444,428
Total Income	60,324,858	71,504,356	84,600,662
EXPENDITURE			
Salaries, wages and allowances	34,863,283	29,561,527	33,318,198
Councillor's Remuneration	-	7,786,194	6,958,387
Electricity Bulk Purchases	6,966,033	6,208,608	6,910,346
General expenditure	11,905,059	13,472,365	26,576,361
Repairs and maintenance	2,375,439	3,525,773	4,210,210
Capital charges	1,144,099	1,299,787	805,594
Contributions to fixed assets	336,573	897,362	4,148,948
Contributions to Funds	5,453,942	13,684,691	1,669,867
Total Expenditure	63,044,428	76,436,307	84,597,911

APPENDIX D

NKONKOB MUNICIPALITY

DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	2007 Actual income	2007 Actual expenditure	2007 Surplus/ (deficit)	2008 Actual income	2008 Actual expenditure	2008 Surplus/ (deficit)	2008 Budgeted surplus/ (deficit)
	R	R	R	R	R	R	R
RATES AND GENERAL SERVICES	51,873,909	55,041,939	(3,168,030)	61,291,522	65,001,478	(3,709,956)	(3,892,400)
Community services	47,163,389	47,616,031	(351,641)	58,697,251	51,621,072	7,076,179	3,416,751
Council's General Expenses	-	9,523,526	(9,523,526)	-	9,497,437	(9,497,437)	(11,533,235)
Health	2,253,967	2,472,293	(218,326)	2,416,695	2,493,655	(76,961)	(730,211)
Municipal Manager	-	387,535	(387,535)	220,081	971,671	(751,590)	(1,185,254)
Fleet Administration	-	2,186,236	(2,186,236)	-	2,199,869	(2,199,869)	(2,423,673)
Financial Management - Administration	43,277,541	13,215,743	30,061,797	53,936,823	15,635,388	38,301,435	38,999,009
Public Works	3,895	4,307,557	(4,303,662)	4,657	5,302,146	(5,297,489)	(6,306,714)
Civil Protection	-	2,315,006	(2,315,006)	-	2,580,753	(2,580,753)	(2,785,831)
Traffic Control	94,738	624,272	(529,534)	112,231	717,395	(605,164)	(582,327)
Library	67	632,715	(632,648)	-	765,346	(765,346)	(785,955)
Strategic Planning & LED	-	1,445,157	(1,445,157)	-	1,189,539	(1,189,539)	(2,038,862)
Natis	1,527,753	508,983	1,018,769	1,878,216	534,678	1,343,538	2,620,620
A-Grade Testing	-	-	-	128,548	-	(9,604,648)	(9,850,817)
Administration & Human Resources	5,430	9,896,008	(9,890,578)	-	9,733,196	(9,604,648)	(1,944,244)
Subsidised services	6,403	1,472,181	(1,465,778)	26,385	1,584,679	(1,558,294)	(1,944,244)
Parks and Recreation	6,403	1,472,181	(1,465,778)	26,385	1,584,679	(1,558,294)	(1,944,244)
Economic services	4,704,117	6,054,727	(1,350,610)	2,567,886	11,795,727	(9,227,841)	(5,364,608)
Refuse	1,550,919	5,745,845	(4,194,926)	2,567,886	11,795,727	(9,227,841)	(5,364,608)
Sewerage	3,153,198	308,882	2,844,316	-	-	-	-
TRADING SERVICES	8,450,949	6,002,489	448,460	10,212,834	11,434,828	(1,221,995)	3,894,852
Electricity	8,274,601	7,408,997	865,604	10,212,829	11,215,170	(1,002,341)	4,214,294
Abattoir	25,189	195,872	(170,683)	4	219,658	(219,654)	(319,442)
Water	151,159	397,620	(246,461)	-	-	-	-
TOTAL	60,324,858	63,044,428	(2,719,570)	71,504,356	76,436,307	(4,931,951)	2,751
Appropriations for the year (refer to note 18)			(15,019,320)				
NET (DEFICIT) SURPLUS FOR THE YEAR			(17,738,890)				
Accumulated surplus beginning of the year			(6,894,590)				
ACCUMULATED DEFICIT END OF THE YEAR			(28,733,480)				

APPENDIX E

NKONKOB MUNICIPALITY

APPENDIX F

STATISTICAL INFORMATION

GENERAL STATISTICS

Population	128,660
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Site valuations at

- Residential	844
- Exempt	-
	844

Assessment rates:

- All properties 2.086 cents in the rand
- Pensioners can apply for a 40% rebate and Residents 20 % respectively
- Churches exempt

Number of residential properties

Number of employees of local authority

- Casual	67
- Permanent	244
- Council	41

ELECTRICITY STATISTICS

See below note

REFUSE

See below note

Note: -

The municipality does not have up to date statistical information. The municipality through the District Municipality is in the process of performing a update of its data base.