

Engcobo Local Municipality



**Annual Financial Statements for the year ended
30 June 2011**

Engcobo Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

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Annual Financial Statements

for

Engcobo Local Municipality

for the year ended 30 June: **2011**

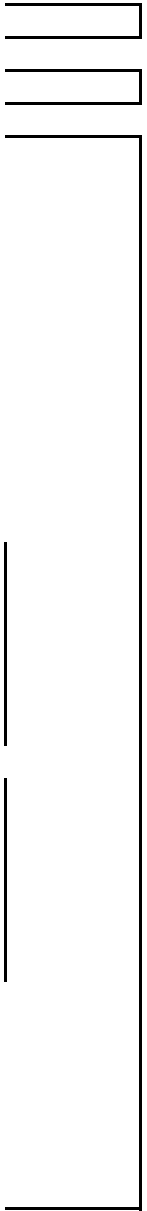
Province:

Eastern Cape

AFS rounding:

R (i.e. only cents)

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Engcobo Local Municipality
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General information

Members of the Council

L. Jiyose, Mayor - Continuing Councillor	N. Singama - Continuing Councillor
N. Roskruge, Speaker - New Councillor	Y. Ponoshe - Continuing
S. Mbolo, Chief Whip - New Councillor	S. Mabadi - New Councillor
S. Nkele, Finance - New Councillor	S. Ndude - Continuing Councillor
Z. Xuba, Corporate Service - New Councillor	N. Beta - New Councillor
Z. Jabanga, Infrastructure - New Councillor	T. Daniel - Continuing Councillor
N. Gedeni, SPU - Continuing Councillor	L. Mdodana - New Councillor
N. Berana, Community service - New Councillor	S. Marenene - Continuing Councillor
M. Mbhenyana, IPED - Continuing Councillor	N. Tolbhadi - Continuing Councillor
M. S. Tunce - New Councillor	N. Nyudwane - New Councillor
T. S. N. Bizana - New Councillor	A.T. Sobhuza - Resigned
N. O. Noludwe - Continuing Councillor	Z. Makhasi - Resigned
N. Macingwane - Continuing Councillor	T. Mbekeni - Resigned
N. Dalasile - New Councillor	S.C Dotwana - Resigned
S. Mbutuma - New Councillor	N.F. Qina - Resigned
M. Paliso - New Councillor	M. Nyalaba - Resigned
L. Sizani - New Councillor	T. Dangazele - Resigned
S. Guma - Continuing Councillor	N.P.B. Ntsodo - Resigned
P. V. Ntsibantu - New Councillor	M. Mayekiso - Resigned
N. Yalezo - New Councillor	D.M.Xauka - Resigned
Z. Konile - New Councillor	G.M Dyani - Resigned
M. W. Macozoma - New Councillor	N. Mgwangwa - Resigned
B. M. Gqitiyeza - New Councillor	N.V. Qaziyana - Resigned
M. P. Zenani - New Councillor	D.N. Mgudlwa - Continuing
N. C. Lumkwana - New Councillor	B.B. Songo - Resigned
N. Bottoman - New Councillor	N.S Sigwela - Resigned
M. Saki - Continuing Councillor	Z. Madyolo - Continuing
W. S. Mafufu - New Councillor	

Municipal Manager

Mr. S Mahlasela

Chief Financial Officer

Mrs. H.B. Mlamli

Grading of Local Authority

Grade 2

Auditors

Auditor-General

Bankers

First National Bank / Meeg Bank / ABSA Bank

Engcobo Local Municipality
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General information (continued)

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Engcobo Local Municipality
ANNUAL FINANCIAL STATEMENTS
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Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 36, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 18 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager:

31 August 2011

Engcobo Local Municipality
STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

	Note	2011 R	2010 R
ASSETS			
Current assets			
Cash and cash equivalents	1	26 504 703	13 132 032
Trade and other receivables from exchange transactions	2	156 861	173 951
Other receivables from non-exchange transactions	3	4 626 755	3 014 443
VAT receivable	6	4 089 950	3 678 970
Non-current assets			
Property, plant and equipment	4	222 795 979	224 861 792
Total assets		258 174 249	244 861 187
LIABILITIES			
Current liabilities			
Trade and other payables	5	4 851 317	3 242 908
Current provisions	7	1 214 148	80 131
Current portion of unspent conditional grants and receipts	8	13 595 436	15 830 272
Current portion of finance lease liability	9	267 131	-
Non-current liabilities			
Non-current finance lease liability	9	191 868	-
Non-current provisions	10	-	1 097 324
Total liabilities		20 119 901	20 250 633
Net assets		238 054 348	224 610 554
NET ASSETS			
Accumulated surplus / (deficit)		238 054 348	224 610 554
Total net assets		238 054 348	224 610 554

Engcobo Local Municipality
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2011

	Note	2011 R	2010 R
Revenue			
Property rates	11	3 373 429	3 275 063
Service charges	12	680 884	587 933
Rental of facilities and equipment	13	104 565	79 498
Interest earned - external investments	14	1 337 619	1 266 843
Fines		67 095	254 176
Licences and permits		3 282 471	1 699 202
Government grants and subsidies	15	106 018 527	122 380 337
Other income	16	7 557 281	1 625 601
Total revenue		122 421 871	131 168 653
Expenses			
Employee related costs	17	20 378 733	20 274 928
Remuneration of councillors	18	6 623 642	6 586 061
Bad debts		885 667	1 253 603
Impairment losses		458 851	-
Depreciation and amortisation expense	19	19 624 782	18 676 691
Repairs and maintenance		4 145 656	2 027 536
Finance costs	20	11 277	-
General expenses	21	58 338 507	85 934 104
Total expenses		110 467 114	134 752 923
Gain / (loss) on sale of assets	22	(48 503)	(813 115)
Surplus / (deficit) for the period		11 906 254	(4 397 385)

Engcobo Local Municipality
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2011

	Accumulated Surplus/(Deficit)	Total: Net Assets
Note	R	R
Balance at 30 June 2009	(12 391 248)	(12 391 248)
Correction of prior period error	35 242 936 728	242 936 728
Restated balance	230 545 480	230 545 480
<i>VAT Adjustment relating to 2009/10</i>	36 (1 537 540)	(1 537 540)
Surplus / (deficit) for the period as initially stated	11 357 252	11 357 252
Balance at 30 June 2010	240 365 191	240 365 191
Correction of prior period error	35 (15 754 638)	(15 754 638)
Restated balance	224 610 554	224 610 554
<i>VAT Adjustment relating to 2009/10</i>	1 537 540	1 537 540
Surplus / (deficit) for the period	11 906 254	11 906 254
Balance at 30 June 2011	238 054 348	238 054 348

Engcobo Local Municipality

CASH FLOW STATEMENT

as at 30 June 2011

	Note	2011	2010
		R	R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		117 295 166	137 703 838
Sales of goods and services		3 185 736	4 122 608
Grants		103 783 692	127 412 440
Interest received		1 337 619	1 266 843
Other receipts		8 988 120	4 901 948
Payments		(87 852 710)	(115 852 180)
Employee costs		(27 002 374)	(26 860 989)
Interest paid		(11 277)	-
Suppliers		(60 839 060)	(88 991 191)
Net cash flows from operating activities	23	29 442 456	21 851 658
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)		(18 066 324)	(13 403 382)
Change in accumulated surplus		1 537 540	(2 423 733)
Net cash flows from investing activities		(16 528 783)	(15 827 115)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	(1 333 333)
Proceeds from finance lease liability		458 999	-
Net cash flows from financing activities		458 999	(1 333 333)
Net increase / (decrease) in net cash and cash equivalents		13 372 672	4 691 210
Net cash and cash equivalents at beginning of period		13 132 032	8 440 822
Net cash and cash equivalents at end of period	24	26 504 703	13 132 032

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

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

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted 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. The details of any changes in accounting policies are explained in the relevant policy.

1.2 PRESENTATION CURRENCY

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

1.3 GOING CONCERN ASSUMPTION

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

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where 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.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET

1.5 EFFECTIVE

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

GRAP 8 Interest in Joint Ventures - issued August 2006
GRAP 18 Segment Reporting - issued March 2005
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 103 Heritage Assets - issued July 2008

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits - effective 1 January 2009
IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

2 PROPERTY, PLANT AND EQUIPMENT

2.1 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. 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 asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its 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.

2.2 SUBSEQUENT MEASUREMENT - REVALUATION MODEL (LAND AND BUILDINGS)

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

2.3 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and 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 associated with the asset.

2.4 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives in line with National Treasury guidelines:

Infrastructure		Other	
Roads and Paving	3 - 50 years	Buildings	30 - 50 years
Pedestrian Malls		- Specialist vehicles	6 years
Electricity		- Other vehicles	5 years
Water		- Office equipment	5 years
Sewerage		- Furniture and fittings	6 years
		Watercraft	-

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

Community			
Buildings	25 - 50 years	Bins and containers	-
Recreational Facilities	25 - 30 years	Specialised plant and equipment	10 years
Security	-	Other items of plant and equipment	5 years
Halls	25 - 50 years	Landfill sites	30 - 55 years
Libraries	25 - 30 years	Quarries	-
Parks and gardens	-	Emergency equipment	3 - 10 years
Other assets	25 - 30 years	Computer equipment	3 years
		Intangible assets (Software)	3 years
Heritage assets			
Buildings	-		
Paintings and artifacts	-		
Finance lease assets			
Office equipment	5 years		
Other assets	3 - 6 years		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.5 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising 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.

2.6 TRANSITIONAL PROVISIONS

The municipality has brought in retrospectively all assets previously not disclosed as per the provisions of directive 4. The previously unrecognised assets were valued and retrospectively recognised in accordance with the provisions of directive 7.

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. 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; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible 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.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

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

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. 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.

3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising 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.

4 NON-CURRENT ASSETS HELD FOR SALE

4.1 INITIAL RECOGNITION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

4.2 SUBSEQUENT MEASUREMENT

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

5.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

5.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured 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 period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

5.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

5.2.3 TRADE PAYABLES AND BORROWINGS

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

5.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). 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, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

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: other financial liabilities carried at amortised cost.

6 INVESTMENTS IN ASSOCIATES

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.

The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

The municipality commences accounting for an investment in an associate from the date that significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

7 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 the 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 in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

8 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 (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 in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

9 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

10 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits 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. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits 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.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

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; and

(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.

11 LEASES

11.1 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 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, equipment or intangibles. 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 derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

11.2 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 derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

12 REVENUE

12.1 REVENUE FROM EXCHANGE TRANSACTIONS

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

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on average consumption.

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

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

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

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

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

12.2 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.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

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, a deferred income (liability) is recognised.

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.

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.

12.3 GRANTS, TRANSFERS AND DONATIONS

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 raised 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.

13 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2011

14 RETIREMENT BENEFITS

14.1 SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits include salaries and wages, short-term compensated absences and bonus plans. The entity recognises a liability and corresponding expense for short-term employee benefits when an employee has rendered services that entitle him/her to the benefits.

14.2 POST EMPLOYMENT BENEFITS

Payments made to defined contribution plans are recognised as an expense on the accrual basis. The municipality operates defined contributions plans. Once the contributions have been paid the municipality has no further payment obligation. The regular contributions constitute periodic costs for the year in which they are due and such are included in the staff costs.

15 IMPAIRMENT OF ASSETS

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

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its 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.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
1 CASH AND CASH EQUIVALENTS			
Cash and cash equivalents consist of the following:			
Cash on hand		2 825	-
Cash at bank		1 855 833	(281 120)
Call deposits		24 646 046	13 413 153
		<u>26 504 703</u>	<u>13 132 032</u>
The Municipality has the following bank accounts: -			
<u>Current Account (Primary Bank Account)</u>			
First National Bank Limited - Engcobo Branch: Account Number 52171242061		1 855 833	(281 120)
Cash book balance at beginning of year		(281 120)	(829 386)
Cash book balance at end of year		<u>1 855 833</u>	<u>(281 120)</u>
Bank statement balance at beginning of year		<u>2 623 485</u>	<u>2 236 775</u>
Bank statement balance at end of year		<u>2 265 545</u>	<u>2 623 485</u>
<u>Current Account (Other Account)</u>			
First National Bank (M.I.G) - Account number: 62095050523 (Money Market Account)			
Cashbook Balance			
Bank Statement Balance		5 450 511	8 165 434
		5 450 511	8 165 434
First National Bank (Mun.systems improvement grant)- Account No: 62095030426 (Money Market Account)			
Cashbook Balance		10 306	387 857
Bank Statement Balance		10 306	387 857
<u>First National Bank (Self Insurance Fund) - Acc number: 62101651976 (Self Insurance Fund)</u>			
Cashbook Balance		259 984	249 156
Bank Statement Balance		259 984	249 156
First National Bank(Mun Finance Mangement Grant)-Acc number: 62095026524(Money Market Account)			
Cashbook Balance		10 564	18 348
Bank Statement Balance		10 564	18 348
Meeg Bank Investment - Account number : 9191868465 (Call Account)			
Cashbook Balance		660 561	657 538
Bank Statement Balance		660 561	657 538
First National Bank - Mun admn Programme- Acc number: 62095023728 (Money Market Account)			
Cashbook Balance		99 600	95 995
Bank Statement Balance		99 600	95 995
First National Bank- Kwagcina Agric Fund, Acc number: 62095029148			
Cashbook Balance		56 476	55 607
Bank Statement Balance		56 476	55 607
First National Bank - Pilot Housing , Account number: 61217013327 (Call Account)			
Cashbook Balance		1 988	1 968
Bank Statement Balance		1 988	1 968
First National Bank -03 Account , Account number: 62024356570 (Money Market Account)			
Cashbook Balance		2 327 593	2 231 321
Bank Statement Balance		2 327 593	2 231 321
First National Bank - Equitable Share No-02, Account number:62012728482 (Call Account)			
Cashbook Balance		15 206 361	1 046 460
Bank Statement Balance		15 206 361	1 046 460

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
Standard Bank - Employee Levy Fund, Account number : 287133591 (Savings)			
Cashbook Balance		59 671	58 779
Bank Statement Balance		59 671	58 779
First National Bank - DBSA Investment, Account number: 61217016107 (Call Account)			
Cashbook Balance		418 939	407 831
Bank Statement Balance		418 939	407 831
First National Bank- CMIP Account , Account number:62027299967 (Call Account)			
Cashbook Balance		37 256	36 859
Bank Statement Balance		37 256	36 859
First National Bank- Equitable share no 1, Account number:74032009421			
Cashbook balance		46 237	-
Bank Statement Balance		46 237	-
Cash book balance at beginning of year		13 413 153	9 274 707
Cash book balance at end of year		24 646 046	13 413 153
Bank statement balance at beginning of year		13 413 153	1
Bank statement balance at end of year		24 717 251	13 413 153
Cash on hand		2 825	-
Total cash and cash equivalents		26 504 703	13 132 032
Total bank overdraft		-	-

2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
Trade receivables			
as at 30 June 2011			
Service debtors			
Rates	2 802 628	(2 798 255)	4 373
Refuse	698 288	(548 800)	149 488
Total	3 500 916	(3 347 055)	153 861
Other receivables			
	232 939	(229 939)	3 000
Other receivables	232 939	(229 939)	3 000
Total Trade and other receivables	3 733 855	(3 576 994)	156 861
as at 30 June 2010			
Service debtors			
Rates	2 020 274	(1 987 256)	33 018
Refuse	621 465	(500 639)	120 826
Total	2 641 739	(2 487 895)	153 844
Other receivables			
	223 539	(203 432)	20 107
Other receivables	223 539	(203 432)	20 107
Total Trade and other receivables	2 865 278	(2 691 327)	173 951
Rates: Ageing			
Current (0 – 30 days)		3 722	7 987
31 - 60 Days		450	-
61 - 90 Days		154	-
91 - 120 Days		-	3 811
121 - 365 Days		2 798 255	2 008 477
Total		2 802 582	2 020 275
Refuse: Ageing			
Current (0 – 30 days)		98 108	77 859
31 - 60 Days		29 046	24 469
61 - 90 Days		22 334	18 498
91 - 120 Days		18 385	16 705
121 - 365 Days		530 415	483 934
Total		698 288	621 465

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
<u>Summary of Debtors by Customer Classification</u>	Consumers	Industrial / Commercial	National and Provincial Government
	R	R	R
as at 30 June 2011			
Current (0 – 30 days)	35 354	44 894	21 583
31 - 60 Days	10 241	13 004	6 252
61 - 90 Days	7 808	9 914	4 766
91 - 120 Days	6 383	8 105	3 897
121 - 365 Days	1 155 674	1 467 529	705 511
Sub-total	1 215 460	1 543 447	742 009
Less: Provision for doubtful debts	(1 162 042)	(1 475 614)	(709 399)
Total debtors by customer classification	53 418	67 833	32 610

as at 30 June 2010			
Current (0 – 30 days)	29 804	37 847	18 195
31 - 60 Days	8 495	10 788	5 186
61 - 90 Days	6 422	8 155	3 921
91 - 120 Days	7 123	9 045	4 348
121 - 365 Days	865 323	1 098 828	528 259
Sub-total	917 168	1 164 662	559 909
Less: Provision for doubtful debts	(1 361 258)	(911 832)	(214 805)
Total debtors by customer classification	(444 091)	252 830	345 104

2 Reconciliation of the doubtful debt provision

Balance at beginning of the year	2 691 327	1 437 724
Contributions to provision	885 667	1 253 603
Doubtful debts written off against provision	-	-
Reversal of provision	-	-
Balance at end of year	3 576 994	2 691 327

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

3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Creditors with debit balances	-	71 080
CHDM Debtors account	4 107 297	2 734 810
Other debtors	519 458	208 553
Total Other Debtors	4 626 755	3 014 443

Engcobo Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2011

4 PROPERTY, PLANT AND EQUIPMENT

4.1 Reconciliation of Carrying Value

	Land	Buildings	Infrastructure	Community	Heritage	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R	R	R
as at 1 July 2010	3 934 335	2 648 219	190 060 333	22 111 540	-	6 107 364	-	224 861 792
Cost/Revaluation	3 934 335	2 729 512	206 371 962	22 787 138	-	14 022 568	-	249 845 515
Accumulated depreciation and impairment losses	-	(81 293)	(16 311 629)	(675 598)	-	(7 915 203)	-	(24 983 723)
Acquisitions	-	-	7 625 814	183 703	-	2 481 293	546 922	10 837 731
Capital under Construction	-	-	7 228 592	-	-	-	-	7 228 592
Depreciation	-	(81 293)	(16 892 807)	(690 428)	-	(1 869 100)	(91 154)	(19 624 782)
Carrying value of disposals	-	-	-	-	-	48 503	-	48 503
Cost/Revaluation	-	-	-	-	-	60 164	-	60 164
Accumulated depreciation and impairment losses	-	-	-	-	-	(11 661)	-	(11 661)
Impairment loss/Reversal of impairment loss	-	-	-	-	-	(458 851)	-	(458 851)
as at 30 June 2011	3 934 335	2 566 927	188 021 932	21 604 814	-	6 212 203	455 769	222 795 979
Cost/Revaluation	3 934 335	2 729 512	221 226 368	22 970 840	-	16 443 697	546 922	267 851 675
Accumulated depreciation and impairment losses	-	(162 585)	(33 204 436)	(1 366 026)	-	(10 231 494)	(91 154)	(45 055 695)

Refer to Appendix A for more detail on property, plant and equipment

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

4.1 Reconciliation of Carrying Value	Land	Buildings	Infrastructure	Community	Heritage	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R	R	R
as at 1 July 2009	3 934 335	2 601 367	195 032 351	22 787 138	-	6 593 026	-	230 948 216
Cost/Revaluation	3 934 335	2 601 367	195 050 326	22 787 138	-	15 426 014	-	239 799 179
Accumulated depreciation and impairment losses	-	-	(17 975)	-	-	(8 832 988)	-	(8 850 964)
Acquisitions	-	128 145	10 046 853	-	-	1 953 600	-	12 128 598
Capital under Construction	-	-	1 274 783	-	-	-	-	1 274 783
Depreciation	-	(81 293)	(16 293 654)	(675 598)	-	(1 626 147)	-	(18 676 691)
Carrying value of disposals	-	-	-	-	-	813 115	-	813 115
Cost/Revaluation	-	-	-	-	-	3 357 046	-	3 357 046
Accumulated depreciation and impairment losses	-	-	-	-	-	(2 543 931)	-	(2 543 931)
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-	-	-
as at 30 June 2010	3 934 335	2 648 219	190 060 333	22 111 540	-	6 107 364	-	224 861 792
Cost/Revaluation	3 934 335	2 729 512	206 371 962	22 787 138	-	14 022 568	-	249 845 515
Accumulated depreciation and impairment losses	-	(81 293)	(16 311 629)	(675 598)	-	(7 915 203)	-	(24 983 723)

Refer to Appendix A for more detail on property, plant and equipment

Engcobo Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2011

Note	2011 R	2010 R
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4.2 Details of valuation

Land and buildings

The effective date of the revaluations was 30 June 2010 and this was de-escalated based on market conditions to provide a value as at 1 July 2009. Revaluations were performed by Penny Lindstrom who is a Professional Valuer (Reg. NO 935/7) from Penny Lindstrom Valuations cc. Mrs Lindstrom is not connected to the entity.

Land and buildings are re-valued independently every 4 years in terms of the Municipal Property Rates Act.

The valuation was performed using the following methods:

- Direct Comparison Method was used for residential properties and vacant land. This was based on arms-length transactions which had taken place during the period.
- The Capitalization of Income Method was used for all properties from which an income was derived i.e. Investment Properties.
- The Discounted Replacement Value Method was used for properties which were used by the Municipality in their enterprise and therefore do not generate any income. i.e. offices, workshops etc. Factors considered to determine the discount rate, using this method, are the condition and age of the improvement as well as it's functionality and position.

All assumptions were based on prevailing market conditions during the period of valuation.

Infrastructure assets

The process is as follows for arriving at the deemed value of assets prior to 1 July 2009:

1. Componentise the assets.
2. Calculate the Current Replacement Cost (CRC) from a catalogue of average unit rates as at 1 July 2011 for each component.
3. The Current Replacement Cost at 1 July 2009 is calculated by discounting the CRC of 1 July 2011 using the SA Stats Construction indexes at these dates.
4. The RUL is back-calculated from 1 July 2011 to 1 July 2009.
5. The deemed cost is calculated at 1 July 2009 using the DRC formula with the CRC and RUL as at 1 July 2009.
6. From the take-on date of 1 July 2009, the asset is depreciated over the back-calculated RUL (Remaining Useful Life) to the present day.

For infrastructure projects completed since 1 July 2009 the actual cost is used and apportioned across the components making up the project.

4.3 Details of property

Details of the municipality's properties are listed in its asset register and valuation register.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
5 TRADE AND OTHER PAYABLES			
Trade creditors		1 563 354	1 064 855
Debtors with credit balance		87 435	71 166
Staff leave accrual		3 143 121	1 984 923
Other creditors		57 407	121 964
Total creditors		4 851 317	3 242 908

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

6 VAT RECEIVABLE

VAT receivable		4 089 950	3 678 970
		4 089 950	3 678 970

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

7 PROVISIONS

Current portion of landfill site restoration provision (see note 10)		1 214 148	80 131
Total Provisions		1 214 148	80 131

8 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

8.1 Unspent Conditional Grants from other spheres of Government

MIG Grants		10 796 485	12 069 193
Other		2 798 951	3 761 079

Total Unspent Conditional Grants and Receipts		13 595 436	15 830 272
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Non-current unspent conditional grants and receipts		-	-
Current portion of unspent conditional grants and receipts		13 595 436	15 830 272

See Note 15 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.

9 FINANCE LEASE LIABILITY

	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
2011			
Amounts payable under finance leases			
Within one year	297 600	30 469	267 131
Within two to five years	198 400	6 532	191 868
	496 000	37 001	458 999
Less: Amount due for settlement within 12 months (current portion)			(267 131)
			191 868

The municipality leases photo copiers from Tsolo Office Machinery. The lease term is for 2 years commencing March 2011. Interest rates are fixed at the contract date. The lease has a fixed repayment rate of R 24 800 per month. No arrangements have been entered into for contingent rent.

10 NON-CURRENT PROVISIONS

Provision for rehabilitation of landfill sites		-	-
Total Non-Current Provisions		-	-

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at prime interest rate, over an average period of 3 years. The discounting over 3 years has been done so as to comply with the retrospective restatement of the provision in line with GRAP. The landfill site will be rehabilitated during 2011/12.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
Assumptions made:			
<i>Interest rate (prime)</i>		10%	9%
<i>Total value of restoration during 2011/12 financial year</i>		1 362 200	1 362 200
The movement in the non-current provision is reconciled as follows: -			
Provision for rehabilitation of landfill sites:			
Balance at the beginning of year (current and non-current)		1 177 454	1 127 329
Contributions to provision		-	-
Expenditure incurred		(80 131)	(67 921)
Increase in provision due to discounting		116 825	118 046
Transfer to current provisions		(1 214 148)	(80 131)
Balance at the end of year		-	1 097 324
11 PROPERTY RATES			
Actual			
Residential		1 171 198	1 137 047
Commercial		1 487 242	1 443 875
State		569 032	552 440
Other		145 957	141 701
Total property rates		3 373 429	3 275 063
Property rates - penalties imposed and collection charges		-	-
Total		3 373 429	3 275 063
Valuations			
Residential		108 467 780	108 467 780
Commercial		137 737 400	137 737 400
State		52 699 560	52 699 560
Municipal		13 517 423	13 517 423
Total Property Valuations		312 422 163	312 422 163
Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2008.			
A general rate of R 0.0132 (2010: R 0.0139) is applied to property valuations to determine assessment rates. Rebates of 20% are granted to residential and state property owners. Rates are levied on an annual basis on property owners.			
Rates are levied on an annual basis with the final date of payment being 30 June 2011 (2010: 30 June).			
12 SERVICE CHARGES			
Refuse removal		680 884	587 933
Total Service Charges		680 884	587 933
13 RENTAL OF FACILITIES AND EQUIPMENT			
Rental of facilities		104 565	79 498
Total rentals		104 565	79 498
14 INTEREST EARNED - EXTERNAL INVESTMENTS			
Bank		1 337 619	1 266 843
Total interest		1 337 619	1 266 843
15 GOVERNMENT GRANTS AND SUBSIDIES			
Equitable share		46 996 861	38 441 250
Other operational grants		4 200 751	-
MIG Grant		15 249 708	11 657 780
Other Government Grants and Subsidies		39 571 207	72 281 307
Total Government Grant and Subsidies		106 018 527	122 380 337

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

Note	2011 R	2010 R
15.1 Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of 50% of basic charge for water and sanitation and 6 kilolitres of free water, which is funded from the grant.		
15.2 MIG Grant		
Balance unspent at beginning of year	12 069 193	7 453 973
Current year receipts	13 977 000	16 273 000
Conditions met - transferred to revenue	(15 249 708)	(11 657 780)
Conditions still to be met - remain liabilities (see note 8)	10 796 485	12 069 193

15.3 Other Government Grants and Subsidies

Balance unspent at beginning of year	3 761 079	3 344 196
Current year receipts	38 609 079	72 698 190
Conditions met - transferred to revenue	(39 571 207)	(72 281 307)
Conditions still to be met - remain liabilities (see note 8)	2 798 951	3 761 079

15.4 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

16 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS

16.1 Other income

Other income	7 557 281	1 625 601
Total Other Income	7 557 281	1 625 601

17 EMPLOYEE RELATED COSTS

	23 408 026	22 785 266
Employee related costs - Salaries and Wages	14 069 769	12 877 448
Employee related costs - Contributions for UIF, pensions and medical aids	2 509 145	2 371 483
Travel, motor car, accommodation, subsistence and other allowances	2 273 751	2 814 687
Housing benefits and allowances	58 310	48 740
Overtime payments	283 921	159 948
Other employee related costs	1 183 836	2 002 622
Employee Related Costs	20 378 733	20 274 928

There were no advances to employees.

Included in the total for employee costs above are remuneration of individual executive managers as detailed below:

Remuneration of the Municipal Manager

Annual Remuneration	468 972	191 465
Travel, motor car, accommodation, subsistence and other allowances	161 713	37 779
Contributions to UIF, Medical and Pension Funds	1 497	11 169
Total	632 182	240 413

The Corporate Services Manager occupied the position of acting Municipal Manager for the year under audit.

Remuneration of the Chief Finance Officer

Annual Remuneration	470 646	421 036
Travel, motor car, accommodation, subsistence and other allowances	106 287	119 963
Contributions to UIF, Medical and Pension Funds	1 497	1 497
Total	578 431	542 496

Remuneration of Individual Executive Directors

	Technical Services R	Corporate Services R	Community Services R
2011			
Annual Remuneration	468 972	468 972	468 972
Travel, motor car, accommodation, subsistence and other allowances	132 202	161 713	113 359
Contributions to UIF, Medical and Pension Funds	1 497	1 497	1 497
Total	602 671	632 182	583 828

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011		2010	
		R		R	
		Technical Services	Corporate Services	Community Services	
		R	R	R	
2010					
Annual Remuneration		426 773	424 740	421 036	
Travel, motor car, accommodation, subsistence and other allowances		200 038	113 636	92 065	
Contributions to UIF, Medical and Pension Funds		1 547	3 433	44 161	
Total		628 358	541 809	557 262	

18 REMUNERATION OF COUNCILLORS

Executive Mayor		552 280	536 781
Speaker		462 236	490 325
Councillors		4 598 307	4 624 442
Councillors' pension and medical aid contributions		94 643	14 684
Councillors' allowances		1 930 692	1 946 934
Total Councillors' Remuneration		6 623 642	6 586 061

In-kind Benefits

The Executive Mayor, Speaker and one member of the Executive Committee (chief wip) are full-time. The Mayor and the Speaker are provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by the Council at no cost. The Executive Mayor pays for electricity, refuse and water on own account. The Executive Mayor has use of a Council owned vehicle for official duties.

19 DEPRECIATION AND AMORTISATION EXPENSE

Property, plant and equipment	19 624 782	18 676 691
Total Depreciation and Amortisation	19 624 782	18 676 691

20 FINANCE COSTS

Interest - Finance Lease Obligation	11 277	-
Total Finance Costs	11 277	-

21 GENERAL EXPENSES

Included in general expenses are the following:-

Advertising	177 191	98 384
Audit fees	2 262 432	2 718 725
Bank charges	135 686	83 609
Cleaning	251 556	83 454
Conferences and delegations	-	106 003
Consulting fees	1 334 897	-
Entertainment	285 690	211 200
Fuel and oil	1 397 875	833 065
Insurance	168 320	136 026
Legal expenses	935 398	652 308
Levies paid	6 133	5 551
Membership fees	138 889	114 264
Postage	6 884	5 173
Printing and stationery	806 738	466 343
Professional fees	3 104 504	-
Rental of office equipment	1 840 349	955 210
Other rentals	-	15 382
Security costs	922 336	712 323
Skills development levies	191 616	195 459
Stocks and material	194 558	109 298
Subscription & publication	-	8 850
Telephone cost	860 583	653 711
Training	188 636	151 640
Travel and subsistence	1 963 777	632 873
Uniforms & overalls	189 597	27 515
Ward committee programmes	1 465 182	166 766
Integrated development plan	2 301 050	234 545

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

Note	2011 R	2010 R
Agricultural pilot project	-	1 161 283
Charcoal projects	1 704 942	1 487 962
Marketing - LED Strategy	-	361 448
Mgwali projects	525 867	948 191
Electricity purchases	1 368 928	1 200 542
Performance management systems	300 647	156 831
Skills development & capacity building	670 049	803 283
HIV / AIDS Programme	763 157	194 617
Refuse bags and bins	548 060	199 575
Financial Management & MFMA Implementation Systems	369 266	2 201 898
Systems Improvement	870 973	609 467
Electrification expenses - DME	26 381 027	65 766 668
EPWP Programs	340 898	-
Development of policies and bylaws	236 650	-
Other	3 128 162	1 464 662
	58 338 507	85 934 104

22 GAIN / (LOSS) ON SALE OF ASSETS

Property, plant and equipment	(48 503)	(813 115)
Total Gain / (Loss) on Sale of Assets	(48 503)	(813 115)

23 CASH GENERATED BY OPERATIONS

Surplus/(deficit) for the year	11 906 254	(4 397 385)
Adjustment for:-		
Depreciation and amortisation	19 624 782	18 676 691
(Gain) / loss on sale of assets	48 503	813 115
Contribution to provisions - non-current	(1 097 324)	(30 005)
Contribution to provisions - current	1 134 018	80 131
Impairment loss / (reversal of impairment loss)	458 851	-
Operating surplus before working capital changes:	32 075 084	15 142 546
(Increase)/decrease in Trade and other receivables from exchange transactions	17 090	259 612
(Increase)/decrease in Other receivables from non-exchange transactions	(1 612 312)	868 793
(Increase)/decrease in VAT receivable	(410 980)	374 677
Increase/(decrease) in Trade and other payables from exchange transactions	1 608 409	173 927
Increase/(decrease) in Current portion of unspent conditional grants and receipts	(2 234 836)	5 032 103
Cash generated by/(utilised in) operations	29 442 455	21 851 658

24 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following:

Bank balances and cash	26 504 703	13 132 032
Net cash and cash equivalents (net of bank overdrafts)	26 504 703	13 132 032

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

25 DISALLOWED

25.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	8 553 067	8 414 302
Unauthorised expenditure current year	-	2 508 765
Approved by Council or condoned	(8 553 067)	(2 370 000)
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	8 553 067

Incident	Disciplinary steps/criminal proceedings
<i>No unauthorised expenditure for the current year. Council condoned the balance of 2009/10 unauthorised expenditure during the current year.</i>	

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
25.2 Fruitless and wasteful expenditure			
Reconciliation of fruitless and wasteful expenditure			
Opening balance -		16 643	16 643
Fruitless and wasteful expenditure current year		-	-
Condoned or written off by Council		(16 643)	-
To be recovered – contingent asset (see note 30)		-	-
Fruitless and wasteful expenditure awaiting condonement		-	16 643
		-	16 643

Incident	Disciplinary steps/criminal proceedings
No fruitless and wasteful expenditure noted for the current year. Council condoned the balance of 2009/10 fruitless and wasteful expenditure during the current year.	

25.3 Irregular expenditure

Reconciliation of irregular expenditure			
Opening balance		28 776 469	15 929 980
Irregular expenditure current year		-	12 846 489
Condoned or written off by Council		(28 776 469)	-
Transfer to receivables for recovery – not condoned		-	-
Irregular expenditure awaiting condonement		-	28 776 469
		-	28 776 469

Incident	Disciplinary steps/criminal proceedings
No irregular expenditure noted for the current year. Council condoned the balance of 2009/10 irregular expenditure during the current year.	

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE

26 MANAGEMENT ACT

26.1 Contributions to organised local government

Opening balance		-	-
Council subscriptions		14 231	8 850
Amount paid - current		(14 231)	(8 850)
Amount paid - previous years		-	-
Balance unpaid (included in payables)		-	-

26.2 Audit fees

Opening balance		-	86 370
Current year audit fee		2 262 432	2 052 275
Amount paid - current year		(2 262 432)	(2 138 645)
Amount paid - previous years		-	-
Balance unpaid (included in payables)		-	-

All audit fees have been paid over before year-end.

26.3 VAT

VAT input receivables and VAT output payables are shown in note 6. All VAT returns have been submitted by the due date throughout the year.

26.4 PAYE and UIF

Opening balance		-	809
Current year payroll deductions		1 966 727	1 889 261
Amount paid - current year		(1 966 727)	(1 889 261)
Amount paid - previous years		-	(809)
Balance unpaid (included in payables)		-	-

All PAYE and UIF deductions have been paid over before year-end.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
26.5 Pension and Medical Aid Deductions			
Opening balance		-	19 780
Current year payroll deductions and Council Contributions		4 122 986	4 982 928
Amount paid - current year		(4 122 986)	(4 982 928)
Amount paid - previous years		-	(19 780)
Balance unpaid (included in payables)		-	-

All Pension and Medical Aid deductions have been paid over before year-end.

26.6 Councillor's arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at: -

as at 30 June 2011

No Councillor arrears for the year

Total Councillor Arrear Consumer Accounts

	Total R	Outstanding less than 90 days R	Outstanding more than 90 days R
	-	-	-
Total Councillor Arrear Consumer Accounts	-	-	-

as at 30 June 2010

Councillor MM Sigwela

Total Councillor Arrear Consumer Accounts

	4 838	1 021	3 817
Total Councillor Arrear Consumer Accounts	4 838	1 021	3 817

During the year the following Councillors had arrear accounts outstanding for more than 90 days.

as at 30 June 2011

No Councillor arrears for the year

as at 30 June 2010

Councillor MM Sigwela

	Highest Amount Outstanding R	Ageing Days
	-	-
	4 838	+ 90 days

27 CAPITAL COMMITMENTS

27.1 Commitments in respect of capital expenditure

- Approved and contracted for

Infrastructure

Other

	10 385 661	149 312 590
	9 031 397	149 312 590
	1 354 264	

- Approved but not yet contracted for

Infrastructure

	2 100 000	-
	2 100 000	-

Total

	12 485 661	149 312 590
--	-------------------	--------------------

This expenditure will be financed from:

- External Loans

- Government Grants

- Own resources

- District Council Grants

	-	-
	12 485 661	149 312 590
	-	-
	-	-
	12 485 661	149 312 590

28 RETIREMENT BENEFIT INFORMATION

28.1 Defined contribution plan

The following are defined contribution plans: SAMWU Provident Fund, Cape Joint Pension Fund and Councillors' Pension Fund. These contributions have been expensed. These funds have been registered and governed under the Pension Fund Act, 1956 as amended.

There are 103 employees that belong to the SAMWU Provident Fund (2010: 103), 18 employees that belong to the Cape Joint Pension Funds (2010: 18) and there are 29 councillors that belong to the Councillors' Pension Fund (2010: 29).

Amounts contributed to the plans are as follows:

	2011	2010
SAMWU Provident Fund	2 371 720	2 014 421
- employer	1 581 147	671 474
- employee	790 573	1 342 947

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

Note	2011 R	2010 R
Cape Joint Pension Fund	720 932	586 176
- employer	476 846	187 059
- employee	244 086	399 117
Councillors' Pension Fund	995 340	1 171 953
- employer	94 643	2 738
- employee	900 697	1 169 215

28.2 Defined benefit plan

The following are defined benefit plans: Cape Joint Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

Certain employees of the municipality belong to the Cape Joint Pension Fund, a multi-employer plan. The most recent actuarial valuation was done on 30 June 2010. The estimated shortfall at 30 June 2009 amounts to R 73 879 which is to be covered by the municipality as the actuarial valuation indicates shortfall of plan assets to meet retirement liabilities.

An amount of R 720 932 (2010 : R 586 176) was contributed by Council in respect of Councillors and employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

29 CONTINGENT LIABILITY

Claim for damages	26 138 083
Management description of matter	Estimated outflow including legal costs
Noxolo Palmer vs Engcobo Municipality - Noxolo Palmer is directing the municipality to reinstate and pay her an amount of R500.00 monthly for housing allowance with effect from the 25th of October 2009 till termination of contract. The applicant brought this to court after the municipality terminated her housing allowance of R500 monthly. The Municipality opposed and instituted counterclaim against Noxolo Palmer.	80 000
Aluvo Construction vs Engcobo Municipality - Aluvo Construction is suing the municipality based on the cession which was not signed by the municipality.	150 000
Mango Moon Trading 1087 CC ta Qhamani Plant Hire vs Engcobo Municipality - Mango Moon Trading 1087 CC ta Qhamani Plant Hire is suing the Municipality for payment in terms of a breach of contract of Access Road.	2 311 341
Phumzile Kilwa vs Engcobo Municipality - Phumzile Kilwa has instituted action against Municipality for alleged unlawful suspension from work.	130 000
Portia Tyanikazi Magwentshu vs Engcobo Municipality - The plaintiff instituted claim against Municipality in respect of refuse services charged by the Municipality, according to Portia Tyanikazi Magwentshu the Municipality is failing to collect refuse.	30 000
ALCARI 708 CC t/a Jongisizwe Traffic Solutions vs Engcobo Municipality - The plaintiff is suing the Municipality for payment in terms of a breach of contract in respect of prosecution of road traffic offenders with traffic cameras.	22 569 000
Chief M Sondlo and others vs Engcobo Municipality - The plaintiff is suing the municipality for demolishing Home steads.	567 330
Sibingiseni and Lusanda Grace Mpika vs Engcobo Municipality - The applicants are suing the Municipality for disclosure of information in terms of Access to information Act 2 of 2000	80 000

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
Vuyani Macingwane vs Engcobo Municipality - Vuyani Macingwane instituted action against Municipality for the alleged defamatory statements made publicly by the Municipal Manager		50 000	
Zama Buka vs Engcobo Municipality - The plaintiff is suing the Municipality for first the reckless or negligent driving of its employee and second Defendant that knocked the Plaintiff's motor vehicle with a grader.		15 254	
Dumile Moses Mvulane vs Engcobo Municipality - There are a number of cases that the municipality deals with which involved 3 attorneys and 2 advocates. The work done ranges from consultations, legal opinions, drafting to a number of court appearances.		155 158	
30 CONTINGENT ASSET		400 000	
		Estimated inflow nett of legal costs	
Management description of matter			
Engcobo Municipality vs Lwazi Mditshwa and others - The municipality is prohibiting the Respondents from subdividing the municipality land and erecting dwellings on the land referred to as the golf Course.		200 000	
Engcobo Municipality vs Thuthuzelwa Bali and others - The municipality is prohibiting the Respondents from subdividing the municipality land and erecting dwellings on the land referred to as the golf Course.		200 000	
31 RELATED PARTIES			
Joint Ventures		<i>None identified</i>	
Associates		<i>None identified</i>	
Members of key management		<i>None identified</i>	
Close family member of key management		<i>None identified</i>	
Post employment benefit plan for employees of municipality and/or other related parties		<i>None identified</i>	
Other related party relationships		<i>None identified</i>	
Compensation to councillors and other key management (refer to note 17 & 18)		<i>None identified</i>	
32 EVENTS AFTER THE REPORTING DATE			
No events have occurred after 30 June 2011 which necessitates adjustment or disclosure within the annual financial statements.			
33 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS			
The following areas involve a significant degree of estimation uncertainty:			
Useful lives and residual values of property, plant, and equipment			
Recoverable amounts of property, plant and equipment			
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)			
Present value of defined benefit obligation			
Provision for doubtful debts			
Impairment of assets			
Provision for long-term service award			
The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:			
Impairment of assets			
Provisions			
34 RISK MANAGEMENT			
34.1 Maximum credit risk exposure			
Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.			

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.			
Financial assets exposed to credit risk at year end were as follows:			
Cash & Bank		26 501 878	13 132 032
Trade and other receivables		156 861	173 951

These balances represent the maximum exposure to credit risk.

34.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	2 - 5 years	More than 5 years
At 30 June 2011			
Trade and other payables from exchange transactions	4 851 317	-	-
Current portion of unspent conditional grants and receipts	13 595 436	-	-
	18 446 753	-	-
At 30 June 2011			
Trade and other payables from exchange transactions	15 830 272	-	-
Current portion of unspent conditional grants and receipts	3 242 908	-	-
	19 073 179	-	-

34.3 Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

As the entity does not have any instruments that effect net assets directly, the disclosure only indicates the effect of the change in interest rates on surplus.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis from one year to the next.

	2011	2010
Increase (decrease) in interest rates		
The estimated increase (decrease) in basis points	50	50
Effect on surplus	1 325 094	656 602

35 RESTATEMENT OF COMPARATIVE INFORMATION

During the year the following prior period error corrections and reclassifications took place:

Property rates - the property rates rebate amount has incorrectly been included under general expenses within the prior period. A reclassification of the rebate amount from general expenses to property rates has been performed for the comparative period.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
Government grants and subsidies - grant revenue has been recognised on three projects previously accounted for under trade receivables. The same amount of related expenditure has been recognised under general expenditure for the comparative period. Revenue on grants relating to trust funds converted during 2008/09 has been recognised in the comparative period as all conditions have been met.			
Other income - connection fees amounting to R 1 000 had not been accounted for in the comparative period and a resultant restatement has been made.			
Employee related costs - A reclassification of leave accrual of R 2 002 622 and casual labour of R 200 027 had been made from general expenditure as well as a reclassification of other expenditure contained within employee costs to general expenditure.			
Remuneration of councillors - Prior period councillor remuneration has been restated to account for incorrect classification of general expenses.			
Bad debts - Bad debts has been reclassified and is now separately disclosed under the statement of financial performance and no longer as a line item within general expenditure.			
Depreciation and amortisation expense - Depreciation expense has been recognised in the comparative year with the expiry of directive 4.			
Repairs and maintenance - General expenses contained within repairs and maintenance of the comparative period have been reclassified as general expenditure.			
General expenses - General expenditure has been restated by reclassifying expenditure from and between repairs and maintenance, bad debts, remuneration of councillors, employee related costs and cash & bank.			
Gain / (loss) on sale of assets - Gains/losses on sale of assets have been recognised in the comparative year with the expiry of directive 4.			
Cash and cash equivalents - Expenditure contained within the cashbook suspense account had been reallocated to expenditure within the comparative period. An additional payment has not been reflected on the bank account and had been recognised.			
Other receivables from non-exchange transactions - CHDM Water and Sewerage debtors have been reclassified from other receivables to other debtors within trade and other receivables.			
VAT receivable - Errors on VAT claims on asset addition payments have been corrected for 2009/10. Also included is Unidentified difference in 2009/10 relating to MAXPROF VAT Adjustment.			
Property, plant and equipment / Depreciation - Property, plant and equipment restatements have been performed in terms of directive 7 as the exemption granted under directive 4 has expired during 2010/11. This resulted in an opening balance on accumulated surplus restatement of R 249 359 189 as well as depreciation of R 19 067 223 for 2009/10 resulting in a total restatement of property, plant and equipment for 2009/10 of R 230 635 984.			
Trade and other payables from exchange transactions - a reclassification has been done taking unspent conditional grant amounts contained under trade and other payables to current portion of unspent conditional grants and receipts.			
Current portion of unspent conditional grants and receipts - Reclassifications have been done from trade and other payables above as well as revenue recognised on trust funds converted during 2008/09.			

As previously stated:

Statement of Financial Performance

Property rates	3 446 589
Government grants and subsidies	117 698 098
Other income	1 626 601
Employee related costs	18 411 584
Remuneration of councillors	6 772 962
Bad debts	-
Depreciation and amortisation expense	-
Repairs and maintenance	2 322 518
General expenses	87 794 623
Gain / (loss) on sale of assets	-

Statement of Financial Position

Cash and cash equivalents	13 435 244
Trade and other receivables from exchange transactions	173 952
Other receivables from non-exchange transactions	2 749 273
VAT receivable	2 602 293
Property, plant and equipment	-
Trade and other payables from exchange transactions	5 680 436
Current portion of unspent conditional grants and receipts	14 314 322
Current provisions	-
Non-current provisions	-

Engcobo Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2011

	Note	2011 R	2010 R
<u>Restatement movements:</u>			
Property rates			171 526
Government grants and subsidies			-4 682 239
Other income			1 000
Employee related costs			1 863 344
Remuneration of councillors			-186 901
Bad debts			1 253 603
Depreciation and amortisation expense			18 676 691
Repairs and maintenance			-294 982
General expenses			-1 860 519
Gain / (loss) on sale of assets			813 115
Net effect on accumulated surplus			15 754 638
Cumulative changes to opening balance of accumulated surplus			-242 936 728
Seperate adjustment for VAT relating to 2009/10 year			1 537 540
Cash and cash equivalents			-303 212
Other receivables from non-exchange transactions			265 170
VAT receivable			1 076 677
Property, plant and equipment			224 861 792
Trade and other payables from exchange transactions			2 437 528
Current portion of unspent conditional grants and receipts			-1 515 950
Current provisions			-80 131
Non-current provisions			-1 097 324
Total movement in Statement of Financial Position			225 644 550

Restated balances:

Statement of Financial Performance

Property rates	3 275 063
Government grants and subsidies	122 380 337
Other income	1 625 601
Employee related costs	20 274 928
Remuneration of councillors	6 586 061
Bad debts	1 253 603
Depreciation and amortisation expense	18 676 691
Repairs and maintenance	2 027 536
General expenses	85 934 104
Gain / (loss) on sale of assets	-813 115

Statement of Financial Position

Cash and cash equivalents	13 132 032
Trade and other receivables from exchange transactions	173 951
Other receivables from non-exchange transactions	3 014 443
VAT receivable	3 678 970
Property, plant and equipment	224 861 792
Trade and other payables from exchange transactions	3 242 908
Current portion of unspent conditional grants and receipts	15 830 272
Current provisions	80 131
Non-current provisions	1 097 324

36 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure C

Engcobo Local Municipality
APPENDIX A
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value	
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance				
	R	R	R	R	R	R	R	R	R	R				
Land														
Land	3 934 335	-	-	-	3 934 335	-	-	-	-	-	-	-	-	3 934 335
Landfill Sites	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	3 934 335	-	-	-	3 934 335	-	-	-	-	-	-	-	-	3 934 335
Buildings	2 601 367	-	-	-	2 601 367	(81 293)	(81 293)	-	-	(162 585)	-	-	-	2 438 782
Infrastructure														
Drains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Roads	198 206 310	7 625 814	-	-	205 832 124	(16 311 629)	(16 892 807)	-	-	(33 204 436)	-	-	-	172 627 688
Sewerage Mains & Purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity Mains	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity Peak Load Equip	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Mains & Purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reservoirs – Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Under construction	8 165 652	-	-	7 228 592	15 394 245	-	-	-	-	-	-	-	-	15 394 245
	206 371 962	7 625 814	-	7 228 592	221 226 368	(16 311 629)	(16 892 807)	-	-	(33 204 436)	-	-	-	188 021 932
Community Assets														
Parks & Gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation Grounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic Buildings	3 410 926	183 703	-	-	3 594 628	(105 468)	(120 298)	-	-	(225 766)	-	-	-	3 368 863
Stadiums	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Halls	19 504 357	-	-	-	19 504 357	(570 130)	(570 130)	-	-	(1 140 261)	-	-	-	18 364 096
Theatre	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming Pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	22 915 283	183 703	-	-	23 098 985	(675 598)	(690 428)	-	-	(1 366 026)	-	-	-	21 732 959
Heritage Assets														
Historical Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paintings & Artifacts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total carried forward	235 822 947	7 809 516	-	7 228 592	250 861 056	(17 068 520)	(17 664 528)	-	-	(34 733 048)	-	-	-	216 128 008

Engcobo Local Municipality
APPENDIX A
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R	R	R	R
Total brought forward	235 822 947	7 809 516	-	7 228 592	250 861 056	(17 068 520)	(17 664 528)	-	-	(34 733 048)	-	-	216 128 008
Other Assets													
Office Equipment (Incl. In furniture below)	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Office equipment	1 681 877	378 601	(449)	-	2 060 029	(976 853)	(318 033)	33	(14 474)	(1 309 327)	-	-	750 702
Machinery & Equipment	7 379 158	1 654 867	(36 271)	-	8 997 755	(4 975 573)	(636 497)	5 587	(444 197)	(6 050 679)	-	-	2 947 076
Emergency Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport assets	3 254 837	2 457	-	-	3 257 294	(1 299 686)	(331 759)	-	-	(1 631 445)	-	-	1 625 849
Fire engines	-	-	-	-	-	-	-	-	-	-	-	-	-
Refuse tankers	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	1 689 400	128 495	(23 444)	-	1 794 451	(657 254)	(524 811)	6 041	(180)	(1 176 205)	-	-	618 247
Intangible assets	17 296	316 873	-	-	334 169	(5 838)	(58 000)	-	-	(63 838)	-	-	270 330
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
	14 022 568	2 481 293	(60 164)	-	16 443 697	(7 915 203)	(1 869 100)	11 661	(458 851)	(10 231 494)	-	-	6 212 203
Finance Lease Assets													
Office Equipment	-	546 922	-	-	546 922	-	(91 154)	-	-	(91 154)	-	-	455 769
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	546 922	-	-	546 922	-	(91 154)	-	-	(91 154)	-	-	455 769
Total	249 845 515	10 837 731	(60 164)	7 228 592	267 851 675	(24 983 723)	(19 624 782)	11 661	(458 851)	(45 055 695)	-	-	222 795 979

Engcobo Local Municipality
APPENDIX A
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2010

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R			
Land													
Land	3 934 335	-	-	-	3 934 335	-	-	-	-	-	-	-	3 934 335
Landfill Sites	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries	-	-	-	-	-	-	-	-	-	-	-	-	-
	3 934 335	-	-	-	3 934 335	-	-	-	-	-	-	-	3 934 335
Buildings	2 601 367	-	-	-	2 601 367		(81 293)	-	-	(81 293)	-	-	2 520 074
Infrastructure													
Drains	-	-	-	-	-	-	-	-	-	-	-	-	-
Roads	188 159 457	10 046 853	-	-	198 206 310	(17 975)	(16 293 654)	-	-	(16 311 629)	-	-	181 894 681
Sewerage Mains & Purification	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity Mains	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity Peak Load Equip	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Mains & Purification	-	-	-	-	-	-	-	-	-	-	-	-	-
Reservoirs – Water	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Meters	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm Water	-	-	-	-	-	-	-	-	-	-	-	-	-
Under construction	6 890 869	-	-	1 274 783	8 165 652	-	-	-	-	-	-	-	8 165 652
	195 050 326	10 046 853	-	1 274 783	206 371 962	(17 975)	(16 293 654)	-	-	(16 311 629)	-	-	190 060 333
Community Assets													
Parks & Gardens	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation Grounds	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic Buildings	3 282 781	128 145	-	-	3 410 926		(105 468)	-	-	(105 468)	-	-	3 305 458
Stadiums	-	-	-	-	-	-	-	-	-	-	-	-	-
Halls	19 504 357	-	-	-	19 504 357		(570 130)	-	-	(570 130)	-	-	18 934 227
Theatre	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming Pools	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-
	22 787 138	128 145	-	-	22 915 283	-	(675 598)	-	-	(675 598)	-	-	22 239 685
Heritage Assets													
Historical Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-
Paintings & Artifacts	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
Total carried forward	224 373 166	10 303 143	-	1 274 783	235 822 947	(17 975)	(17 050 544)	-	-	(17 068 520)	-	-	218 754 427

Engcobo Local Municipality
APPENDIX A
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2010

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R	R	R	R
Total brought forward	224 373 166	10 303 143	-	1 274 783	235 822 947	(17 975)	(17 050 544)	-	-	(17 068 520)	-	-	218 754 427
Other Assets													
Office Equipment (Incl. In furniture below)	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Office equipment	1 608 682	140 923	(67 728)	-	1 681 877	(745 008)	(262 973)	31 129	-	(976 853)	-	-	705 024
Machinery & Equipment	10 543 721	35 984	(3 200 547)	-	7 379 158	(6 710 906)	(717 251)	2 452 584	-	(4 975 573)	-	-	2 403 586
Emergency Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport assets	1 862 257	1 392 580	-	-	3 254 837	(1 128 046)	(171 640)	-	-	(1 299 686)	-	-	1 955 151
Fire engines	-	-	-	-	-	-	-	-	-	-	-	-	-
Refuse tankers	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	1 407 218	370 953	(88 771)	-	1 689 400	(246 864)	(470 609)	60 219	-	(657 254)	-	-	1 032 146
Intangible assets	4 136	13 160	-	-	17 296	(2 164)	(3 674)	-	-	(5 838)	-	-	11 458
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
	15 426 014	1 953 600	(3 357 046)	-	14 022 568	(8 832 988)	(1 626 147)	2 543 931	-	(7 915 203)	-	-	6 107 364
Finance Lease Assets													
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	239 799 179	12 256 743	(3 357 046)	1 274 783	249 845 515	(8 850 964)	(18 676 691)	2 543 931	-	(24 983 723)	-	-	224 861 792

Engcobo Local Municipality
APPENDIX C
STATEMENT OF BUDGET AND ACTUAL INFORMATION
as at 30 June 2011

Description	Final Budget	Actual Income	Unauthorised Expenditure	Variance	Actual Income As % Of Final Budget
	4	5	6	7	8
	R	R	R	R	R
Financial Performance					
Property Rates	3 387 930	3 373 429	14 501	-14 501	100%
Service Charges	650 194	680 884	-30 690	30 690	105%
Investment Revenue	750 000	1 337 619	-587 619	587 619	178%
Transfers Recognised - Operational	99 728 436	106 018 527	-6 290 091	6 290 091	106%
Other Own Revenue	1 665 863	11 011 412	-9 345 549	9 345 549	661%
Total Revenue (Excluding Capital Transfers & Contributions)	106 182 423	122 421 871	-16 239 448	16 239 448	1150%
Employee Costs	13 324 373	20 378 733	-7 054 360	7 054 360	153%
Remuneration Of Councillors	6 591 533	6 623 642	-32 109	32 109	100%
Debt Impairment	-	-	-	-	0%
Depreciation & Asset Impairment	-	19 631 186	-19 631 186	19 631 186	100%
Finance Charges	-	11 277	-11 277	11 277	100%
Materials & Bulk Purchases	-	-	-	-	0%
Transfers & Grants	-	-	-	-	0%
Other Expenditures	67 560 543	63 763 457	3 797 086	-3 797 086	94%
Total Expenditure	87 476 449	110 408 294	-22 931 845	22 931 845	126%
Surplus/(Deficit)		48 503			
Transfers Recognised - Capital	18 705 974	11 965 074	6 692 397	-6 692 397	64%
Surplus/(Deficit) After Capital Transfers & Contributions					
Share Of Surplus/(Deficit) Of Associate	18 705 974	11 965 074	6 692 397	-6 692 397	64%
Surplus/(Deficit For The Year)					
	18 705 974	11 965 074	6 692 397	-6 692 397	64%