



**NGQUSHWA MUNICIPALITY**  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012

**General information**

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<b>Legal form of entity</b>	Municipality
<b>Mayoral committee</b>	
Mayor	Mr. S.E. Ndwanyana
Councillors	Mr. Z. Jowela ( Speaker) M T Siwisa (Member of the Executive Committee) L Cuka (Member of the Executive Committee) N Tele (Member of the Executive Council) M Faltein (Member of the Executive Council) N. N. Maphekula M. B. Sethunsa T. M. Dyani T. Tusani M. Boqwana N.C. Gxasheka Z. Gqadushe P. Sitole M.G. Yolelo M. C. Mapuma W Nonyukela (deceased) A. Mtshakazi N.A. Seysman A. Ndaba T. Magazi T. G. Dyibishe N. Mntanga G. M. Ntonjane N. Ndabazonke S. Jali V Moyeni Z Jowela
<b>Grading of Local Authority</b>	Grade 2
<b>Chief Financial Officer</b>	Mr P Mahlasela
<b>Accounting Officer</b>	Mr M Sondaba
<b>Registered Office:</b>	Peddie
<b>Business address:</b>	Corner of N2 and R345 Road Peddie 5640
<b>Postal address:</b>	P.O. Box 539 Peddie 5640
<b>Bankers:</b>	First National Bank, Peddie
<b>Telephone number:</b>	040 673 3940
<b>Fax number:</b>	040 673 3771

**Note to User:**

List the names of the mayor, speaker, members, etc.  
Include dates appointed, resigned, deceased, etc

**NGQUSHWA LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

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The reports set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRIC	International Financial Reporting Interpretations Committee
VAT	Value Added Tax
UIF	Unemployment Insurance Fund

**NGQUSHWA LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

## **Accounting Officer's Responsibilities and Approval**

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Sec. 122 of the Municipal Finance Management Act requires of each Municipality to prepare financial statements which duly represents "the state of affairs of the Municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results and its financial position as at the end of the year".

I believe that the 2011/2012 financial statements are a reflection of what the Act requires. The 2011/2012 financial statements highlighted critical and strategic issues that impacts on our financial viability. These issues remain relevant although some have been addressed whether fully or partly resolved.

Our biggest short term challenge was however the filling of Accounting Officer's vacancies in our Administration. The Municipal Manager, who was suspended in July 2011, and further dismissed after the disciplinary process was finalised, in December 2011. The new Municipal Manager was therefore appointed and assumed duties as from 01 August 2012.

I believe that a fully capacitated senior management team will speed up the recovery process that we have embarked upon with the adoption of our 5 year Integrated Development Plan.

In my budget speech of May 2012, I alluded to the responsibility entrusted on us as the political leadership. We have committed ourselves to champion the financial recovery of this Municipality. We will ensure a stable political environment because it is paramount for a sound Financial Governance Framework, and good governance. We have further committed ourselves to ensure:

1. That all our financial commitments are met timeously.
2. Arrears and payment by bulk resources be monitored.
3. Payment of all short term debt within the financial year incurred.
4. Compliance with formats and statutory requirements.

I am committed in monitoring of Audit Turn-around plan, to ensure compliance with section 131 of MFMA. This will be accomplished through ensuring that all systems are in place. Compliance with law and regulations is our main priority to ensure that we accomplish clean audit in 2014.

The MPAC is committed in perform oversight role of financial reporting, and report to council, assisted by audit committee. HOD's have committed themselves no to take leave during the audit.

Please accept my appreciation for the support from the Speaker, Executive Committee members and all other Councillors for their assistance in achieving this goal. To the Municipal Manager and her staff, I commend you for your hard work and dedication.

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COUNCILLOR S.E. Ndwayana  
MAYOR

**NGQUSHWA LOCAL MUNICIPALITY****STATEMENT OF FINANCIAL POSITION**

as at 30 June 2012

	Note	2012 R	2011 R
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1	10 695 167	2 284 290
Trade and other receivables from exchange transactions	2	2 214 668	2 533 367
Other receivables from non-exchange transactions	3	7 108 146	1 901 418
VAT receivable	4	1 102 949	1 257 874
<b>Non-current assets</b>			
Property, plant and equipment	5	215 763 881	200 614 136
Intangible assets	6	37 671	14 150
Investment property carried at cost	7	1 732 250	1 739 333
<b>Total assets</b>		<b>238 654 732</b>	<b>210 344 568</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	8	11 246 408	11 961 929
Bank overdraft	1	2 098 439	4 505 301
Unspent conditional grants and receipts	16	6 808 737	-
Current portion of finance lease liability	9	149 740	157 181
<b>Non-current liabilities</b>			
Non-current finance lease liability	9	185 292	45 563
Non-current provisions	10	2 484 866	2 221 120
<b>Total liabilities</b>		<b>22 973 482</b>	<b>18 891 094</b>
<b>Net assets</b>		<b>215 681 254</b>	<b>191 453 474</b>
<b>NET ASSETS</b>			
Housing Development Fund		2 187 390	2 118 289
Accumulated surplus / (deficit)		213 493 864	189 335 185
<b>Total net assets</b>		<b>215 681 254</b>	<b>191 453 474</b>

**NGQUSHWA LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ending 30 June 2012

	Note	2012 R	2011 R
<b>Revenue</b>			
Property rates	11	10 411 890	4 211 109
Service charges	12	417 386	463 218
Rental of facilities and equipment	13	105 644	168 822
Interest earned - external investments	14	254 909	495 597
Interest earned - outstanding receivables	15	13 344	-
Fines		197 660	221 820
Licences and permits		377 498	522 963
Leave Provision reversal		312 949	
Income for agency services		251 785	177 929
Government grants and subsidies	16	69 212 550	68 155 881
Public contributions and donations	17	-	10 500
Other income	18	871 762	346 308
<b>Total revenue</b>		<b>82 427 376</b>	<b>74 774 147</b>
<b>Expenses</b>			
Employee related costs	19	25 758 683	24 432 023
Remuneration of councillors	20	6 433 427	6 159 046
Impairment of debtors		-	3 198 648
Depreciation and amortisation expense	21	3 221 874	31 000 798
Repairs and maintenance		1 971 440	1 630 947
Fair Value adjustment			1 462 277
General expenses	22	22 938 935	31 115 252
<b>Total expenses</b>		<b>60 324 360</b>	<b>98 998 991</b>
Loss on sale of assets	23	74 944	-
<b>Surplus / (deficit) for the period</b>		<b>22 028 073</b>	<b>(24 224 844)</b>

**NGQUSHWA LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
as at 30 June 2012

	Note	Housing Development Fund	Total: Reserves	Accumulated Surplus/(Deficit)	Total: Net Assets
		R	R	R	R
<b>Balance at 30 June 2010</b>		2 042 578	2 042 578	210 819 615	212 862 193
Net gains and losses not recognised in the statement of financial performance		75 711	75 711		75 711
Surplus / (deficit) for the period				(24 224 844)	(24 224 844)
<b>Balance at 30 June 2011</b>		<b>2 118 289</b>	<b>2 118 289</b>	<b>186 594 771</b>	<b>188 713 060</b>
Correction of prior period error	26			4 871 020	4 871 020
<b>Restated balance</b>		<b>2 118 289</b>	<b>2 118 289</b>	<b>191 465 791</b>	<b>193 584 080</b>
Net gains and losses not recognised in the statement of financial performance		69 101	69 101		69 101
Surplus / (deficit) for the period				22 028 073	22 028 073
<b>Balance at 30 June 2012</b>		<b>2 187 390</b>	<b>2 187 390</b>	<b>213 493 864</b>	<b>215 681 254</b>



**NGQUSHWA LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT**  
as at 30 June 2012

	Note	2012 R	2011 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		80 959 349	70 916 677
Sales of goods and services		4 614 052	7 885 898
Grants		76 021 287	62 535 182
Interest received		324 010	495 597
Payments		(60 578 892)	(57 494 522)
Employee costs		(34 950 017)	(28 986 019)
Suppliers		(25 628 874)	(28 508 503)
<b>Net cash flows from operating activities</b>	24	<b>20 380 458</b>	<b>13 422 155</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets (PPE)		(16 120 575)	(18 416 881)
Proceeds from sale of fixed assets		(74 944)	
Proceeds from sale of investments			
Purchase of intangibles		(32 577)	
Decrease/(Increase) in Loans and receivables		6 808 737	
<b>Net cash flows from investing activities</b>		<b>(9 419 359)</b>	<b>(18 416 881)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings			
Repayment of borrowings			
Proceeds from finance lease liability			
Repayment of finance lease liability		(143 361)	
<b>Net cash flows from financing activities</b>		<b>(143 361)</b>	-
<b>Net increase / (decrease) in net cash and cash equivalents</b>		10 817 738	(4 994 726)
<b>Net cash and cash equivalents at beginning of period</b>		(2 221 010)	2 773 716
<b>Net cash and cash equivalents at end of period</b>	1	<b>8 596 728</b>	<b>(2 221 010)</b>

**Accounting Policies**

**1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historic cost convention, except where indicated otherwise. They have been prepared in terms of Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) in accordance with the Accounting Standards prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008

The Accounting Framework of the municipality, based on the preceding paragraphs and applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP12	Inventories
GRAP13	Leases
GRAP14	Events after the Reporting Date
GRAP16	Investment property
GRAP17	Property, Plant and Equipment
GRAP19	Provisions, Contingent Liabilities and Contingent Assets
GRAP102	Intangible Assets
GAMAP9	Paragraphs relating to Revenue from Non-Exchange Transactions
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC4	Determining whether an arrangement contains a lease

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board.

**STANDARDS NOT YET APPLICABLE**

(a) The following Standards of GRAP have been approved and an effective date has been determined by the Minister of Finance. The respective effective dates of these Standards fall within reporting periods beginning after 1 April 2012 and have not been early adopted by the Board:

Standard	Description	Impact
GRAP 21	Impairment of Non-cash-generating Assets	The current accounting policy is in line with GRAP 21 and therefore no impact on future financial years
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)	Accounting policy was formulated to conform with GRAP 23 and therefore no impact on future financial years
GRAP 24	Presentation of Budget Information in Financial Statements	Disclosure note included for budget against actual. Impact on future financial years not estimated to be significant
GRAP 26	Impairment of Cash-generating Assets	No effect in future financial years, since Accounting policy were compiled to conform with GRAP 26
GRAP 103	Heritage Assets	The Board does not have any Heritage Assets, therefore no effect in future financial years

(b) The following Standards of GRAP have been approved, but the

Standard	Description	Impact
GRAP 25	Employee Benefits	Full compliance with GRAP 25 not yet required. The accounting policy of the board was followed. Effect on future financial years to be assessed after Minister of Finance has determined an effective date.
GRAP 104	Financial Instruments	Full compliance with GRAP 104 not yet required. The accounting policy of the board was followed. Effect on future financial years to be assessed after Minister of Finance has determined an effective date.

(c) The following Standards of GRAP have been approved but which the Board is not required to apply:

Standard	Description	Impact
GRAP 18	Segment Reporting	Impact to be assessed on future reporting periods when application becomes compulsory (when effective date is announced).

**1.1 Significant judgements and sources of estimation uncertainty**

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

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

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

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

**Fair value estimation**

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

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### Allowance for doubtful debts

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

### 1.2 Investment property

Investment Property is property held to earn rentals or for capital appreciation or both, rather than for:

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

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

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

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

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

#### Cost model

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

### 1.3 Property, Plant and Equipment

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

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

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

Property, Plant and Equipment is initially measured at cost.

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

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

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

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

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

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

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

### 1.3 Property, Plant and Equipment (continued)

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

Item	Average useful life
Land	indefinite
Buildings	30 years
Computer Equipment	4 years
Furniture and fittings	5-7 years
Specialist vehicles	
Office equipment	5-7 years
Motor Vehicles	7 years
Specialised plant and equipment	10 - 15 years
Infrastructure	
• Roads - Paved	30 years
• Roads - Graded	7 years
• Electricity	20 years
• Water	7 years
Security Equipment	5 years

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

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

### 1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset
- the expenditure attributable to the asset during its development can be measured reliably.

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Traffic System	5 years

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.5 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

### 1.5 Financial instruments (continued)

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

#### Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the prime interest rate, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the prime interest rate.

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Financial instruments designated as available-for-sale

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and receivables;
- Held-to-maturity Investments; or
- Financial assets at fair value through the Statement of Financial Performance.

#### Loans to managers and employees

These financial assets are classified as loans and receivables.

#### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method except where material variances exist between the amortised cost and the nominal value.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Financial liabilities

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value.

#### Gains and losses

### 1.5 Financial instruments

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus and deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

## Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.6 Leases

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

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue. The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis. When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position on the nature of the asset.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Operating leases are those leases which do not fall within the scope of the above definition of finance leases. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

#### Finance leases – lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

#### Finance leases – lessee

The Municipality leases certain property, plant and equipment. Leases of property, plant and equipment where the Municipality substantially assumes risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The Municipality will not incur a foreign lease liability other than that allowed by the Municipal Finance Management Act, 2003 (Act 56 of 2003).

### 1.7 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### 1.8 Provisions and contingencies

Provisions are recognised when:

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

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

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

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the financial statements

#### **Decommissioning, restoration and similar liability**

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and .

#### **1.9 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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

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

#### **Measurement**

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

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the cost to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of the total service to be performed.

## 1.9 Revenue from exchange transactions (continued)

### Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

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

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

## 1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

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

### Measurement

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

### Rates, including collection charges, licences, permits and penalty interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

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

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

### Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

### Income from Agency Fees

Income from Agency Fees is recognised as revenue when:

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

### Government grants

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of revenue can be measured reliably.
- To the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier. When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.



#### **Other grants and donations**

Other grants and donations are recognised as revenue when

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of revenue can be measured reliably.
- To the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

#### **1.11 Investment income**

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

#### **1.12 Comparative figures**

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

#### **1.13 Unauthorised expenditure**

Unauthorised expenditure means:

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

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

#### **1.14 Fruitless and wasteful expenditure**

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

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

#### **1.15 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), and 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.

#### **1.16 Use of estimates**

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

#### **1.17 Presentation of currency**

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

#### **1.18 Offsetting**

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

#### **1.19 Conditional grants and receipts**

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

#### **1.20 Going concern**

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

**NGQUSHWA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

Note	2012 R	2011 R	2010 R
<b>1 CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents consist of the following:			
Cash on hand			
Cash at bank	10 695 167	2 284 290	
Call deposits	(2 098 439)	(4 505 301)	
	<u>8 596 728</u>	<u>(2 221 010)</u>	
The Municipality has the following bank accounts: -			
<b><u>Current Account (Primary Bank Account) Call Account</u></b>			
<b><u>Cash book balances</u></b>			
First National Bank - Call Account - 62035920596	66 236	65 411	64 397
First National Bank - Call Account - 62048047494	2 187 390	2 118 413	2 042 578
First National Bank - Call Account - 62270666616	766 746	1 000	1 002 959
First National Bank - Call Account - 622706675531	6 826 312	3 369	1 002 959
First National Bank - Call Account - 61684000098	97 308	96 097	94 622
First National Bank - Call Account - 62352053301	751 176	-	-
Cash book balance at beginning of year	2 284 290	4 201 597	2 086 908
Cash book balance at end of year	<u>10 695 167</u>	<u>2 284 290</u>	<u>4 207 515</u>
<b><u>Bank statement balances</u></b>			
First National Bank - Call Account - 62035920596	66 236	65 411	64 397
First National Bank - Call Account - 62048047494	2 187 390	2 118 289	2 042 578
First National Bank - Call Account - 62270666616	766 746	1 000	1 000 000
First National Bank - Call Account - 62270667531	6 826 312	3 369	1 000 000
First National Bank - Call Account - 61684000098	97 308	96 097	94 622
First National Bank - Call Account - 62352053301	751 176	-	-
Bank statement balance at beginning of year	2 284 166	4 201 597	2 086 961
Bank statement balance at end of year	<u>10 695 167</u>	<u>2 284 166</u>	<u>4 201 597</u>
<b><u>Current Account (Other Account)</u></b>			
First National Bank - Public Sector Cheque Account - 62022000898	(2 098 439)	(4 505 301)	
Cash book balance at beginning of year	<u>(1 625 500)</u>	<u>(1 428 004)</u>	
Bank statement balance at end of year	<u>257 486</u>	<u>(1 625 500)</u>	
Total cash and cash equivalents	<u>10 695 167</u>	<u>2 284 290</u>	
Total bank overdraft	<u>(2 098 439)</u>	<u>(4 505 301)</u>	
<b>2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>			
<b><u>Trade receivables</u></b>	<b>Gross Balances</b>	<b>Provision for Doubtful Debts</b>	<b>Net Balance</b>
<b>as at 30 June 2012</b>	<b>R</b>	<b>R</b>	<b>R</b>
Rates and other taxes	3 898 975	(1 684 305)	2 214 669
Refuse	<u>3 898 975</u>	<u>(1 684 305)</u>	<u>2 214 669</u>
<b>Total</b>	<u>3 898 975</u>	<u>(1 684 305)</u>	<u>2 214 669</u>
<b>Total Trade and other receivables</b>	<u>3 898 975</u>	<u>(1 684 305)</u>	<u>2 214 669</u>

as at 30 June 2011

Rates and other taxes

Refuse

Total

3 864 501	(1 684 305)	2 180 196
<b>3 864 501</b>	<b>(1 684 305)</b>	<b>2 180 196</b>

Other receivables

Other receivables

353 171	-	353 171
<b>353 171</b>	<b>-</b>	<b>353 171</b>

Total Trade and other receivables

<b>4 217 672</b>	<b>(1 684 305)</b>	<b>2 533 367</b>
------------------	--------------------	------------------

Rates: Ageing

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

91 - 120 Days

121 - 365 Days

+ 365 Days

Total

2012

2011

754 434	-
335 665	-
564 650	-
330 673	-
3 010 005	-
7 656 420	-
<b>12 651 848</b>	<b>-</b>

Electricity, Water and Sewerage: Ageing

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

91 - 120 Days

121 - 365 Days

+ 365 Days

Total

68 343

23 517

22 550

22 306

153 251

910 118

**1 200 084**

-

-

-

-

-

-

-

Summary of Debtors by Customer Classification

Consumers

Industrial /  
Commercial

National and  
Provincial  
Government

R

R

R

as at 30 June 2012

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

91 - 120 Days

121 - 365 Days

+ 365 Days

Sub-total

Less: Provision for doubtful debts

Total debtors by customer classification

178 712

145 222

139 955

138 913

1 359 915

3 859 535

**5 822 252**

-

**5 822 252**

50 757

15 277

14 090

14 090

369 489

1 141 003

**1 604 706**

-

**1 604 706**

634 635

217 080

450 042

216 829

1 557 944

4 112 113

**7 188 643**

-

**7 188 643**

as at 30 June 2011

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

91 - 120 Days

121 - 365 Days

+ 365 Days

Sub-total

Less: Provision for doubtful debts

Total debtors by customer classification

-

-

-

-

-

-

-

-

-

## 2 Reconciliation of the doubtful debt provision

Balance at beginning of the year

Contributions to provision

Doubtful debts written off against provision

Reversal of provision

Balance at end of year

1 684 305

-

-

-

**1 684 305**

-

-

-

-

**1 684 305**

## 3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade receivables

as at 30 June 2012

Rates and other taxes

Total

Gross Balances	Provision for Doubtful Debts	Net Balance
R	R	R
12 653 717	(5 658 346)	6 995 371
<b>12 653 717</b>	<b>(5 658 346)</b>	<b>6 995 371</b>

Other receivables

Other receivables

112 774

112 774

**112 774**

-

-

**-**

112 774

112 774

**112 774**

Total Trade and other receivables

**12 766 492**

**(5 658 346)**

**7 108 146**

as at 30 June 2011  
 Rates and other taxes  
 Refuse  
**Total**

7 446 990	(5 658 346)	1 788 644
<b>7 446 990</b>	<b>(5 658 346)</b>	<b>1 788 644</b>

**Other receivables**  
**Provision**

112 774	-	112 774
<b>112 774</b>	<b>-</b>	<b>112 774</b>

**Total Trade and other receivables**

<b>7 559 764</b>	<b>(5 658 346)</b>	<b>1 901 418</b>
------------------	--------------------	------------------

**Reconciliation of the doubtful debt provision**

Balance at beginning of the year	5 658 346	
Contributions to provision	-	-
Impairment of debtors	-	-
Reversal of provision	-	-
<b>Balance at end of year</b>	<b>5 658 346</b>	<b>5 658 346</b>

**4 VAT RECEIVABLE**

VAT receivable	1 102 949	1 257 874
	<b>1 102 949</b>	<b>1 257 874</b>

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

**NGQUSHWA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**5 PROPERTY, PLANT AND EQUIPMENT**

**5.1 Reconciliation of Carrying Value**

	Land	Buildings	Infrastructure	Furniture and Fixtures	Motor Vehicles	Office Equipment	IT Equipment	Maintenance Equipment	Security Equipment	Plant	Capital work in progress	Total
	R	R	R	R	R	R			R			R
<b>as at 1 July 2011</b>	-	<b>100 582 830</b>	<b>75 164 064</b>	<b>1 758 849</b>	<b>3 677 338</b>	<b>192 353</b>	<b>451 079</b>	<b>76 129</b>	<b>82 733</b>	-	<b>18 282 063</b>	<b>200 267 438</b>
Cost/Revaluation	-	105 644 639	204 502 321	3 392 319	7 430 637	266 762	1 571 565	338 269	251 148	-	18 282 063	341 679 723
Correction of error (note 48)	-	-	-	-	-	-	-	-	-	-	-	-
Change in accounting policy (note 47)	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	(5 061 809)	(129 338 257)	(1 633 470)	(3 753 299)	(74 409)	(1 120 486)	(262 140)	(168 415)	-	-	(141 412 285)
Acquisitions	2 775 408	967 115	8 848 071	10 965	200 439	763 079	269 281	56 217	-	2 230 000	-	16 120 575
Restatement	-	-	-	-	-	2 267 251	-	-	-	-	-	-
Capital under Construction	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	-	(1 319 900)	-	(465 599)	(1 080 609)	(243 453)	(12 954)	(54 124)	(29 095)	-	-	(3 205 735)
Carrying value of disposals	-	-	-	-	-	-	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-	-	-	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-	-	(136 645)	-	-	-	-	-	(136 645)
Transfers	-	-	450 997	-	-	-	-	-	-	-	-	450 997
Other movements*	-	-	-	-	-	-	-	-	-	-	-	-
<b>as at 30 June 2012</b>	<b>2 775 408</b>	<b>100 230 045</b>	<b>84 463 132</b>	<b>1 304 215</b>	<b>2 797 167</b>	<b>2 842 585</b>	<b>707 406</b>	<b>78 222</b>	<b>53 638</b>	<b>2 230 000</b>	<b>18 282 063</b>	<b>215 763 881</b>
Cost/Revaluation	2 775 408	106 611 754	213 801 389	3 403 284	7 631 076	3 160 447	1 840 846	394 486	251 148	2 230 000	18 282 063	360 381 901
Accumulated depreciation and impairment losses	-	(6 381 709)	(129 338 257)	(2 099 069)	(4 833 908)	(317 862)	(1 133 440)	(316 264)	(197 510)	-	-	(144 618 020)

**NGQUSHWA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**5.1 Reconciliation of Carrying Value**

	Land	Buildings	Infrastructure	Furniture and Fixtures	Motor Vehicles	Office Equipment	Other Assets IT Equipment	Maintenance Equipment	Security Equipment	Capital work in progress	Total
	R	R	R	R	R	R			R		R
<b>as at 1 July 2010</b>	-	<b>100 896 348</b>	<b>91 805 420</b>	<b>1 554 178</b>	<b>3 641 059</b>	<b>38 330</b>	<b>438 707</b>	<b>137 223</b>	<b>134 038</b>	-	<b>212 838 919</b>
Cost/Revaluation	-	103 416 268	194 721 393	2 676 091	6 335 103	59 419	1 284 075	326 539	249 708	-	323 262 212
Accumulated depreciation and impairment losses	-	(2 519 920)	(102 915 973)	(1 121 913)	(2 694 044)	(21 089)	(845 368)	(189 316)	(115 670)	-	(110 423 293)
Acquisitions	-	-	-	716 228	1 095 534	207 343	287 490	11 730	1 440	-	2 319 765
Capital under Construction	-	-	-	-	-	-	-	-	-	16 097 116	16 097 116
Depreciation	-	(2 541 889)	(26 422 284)	(511 557)	(1 059 255)	(53 320)	(275 118)	(72 824)	(52 745)	-	(30 988 992)
Transfers	-	2 228 371	9 780 928	-	-	-	-	-	-	(12 008 669)	630
<b>as at 30 June 2011</b>	-	<b>100 582 830</b>	<b>75 164 064</b>	<b>1 758 849</b>	<b>3 677 338</b>	<b>192 353</b>	<b>451 079</b>	<b>76 129</b>	<b>82 733</b>	<b>18 282 063</b>	<b>200 267 438</b>
Cost/Revaluation	-	105 644 639	204 502 321	3 392 319	7 430 637	266 762	1 571 565	338 269	251 148	18 282 063	341 679 723
Accumulated depreciation and impairment losses	-	(5 061 809)	(129 338 257)	(1 633 470)	(3 753 299)	(74 409)	(1 120 486)	(262 140)	(168 415)	-	(141 412 285)

**NGQUSHWA LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

	Note	2012 R	2011 R
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**6 INTANGIBLE ASSETS**

**6.1 Reconciliation of carrying value**

	Traffic System R	Other* R	Total R
<b>as at 1 July 2011</b>	14 150	-	14 150
Cost	37 768	-	37 768
Accumulated amortisation and impairment losses	(23 618)	-	(23 618)
Acquisitions	32 577		32 577
Amortisation	(9 056)		(9 056)
<b>as at 30 June 2012</b>	<b>23 521</b>	-	<b>37 671</b>
Cost	32 577	-	70 345
Accumulated amortisation and impairment losses	(9 056)	-	(32 674)

**6.2 Reconciliation of carrying value**

	Traffic System R	Other* R	Total R
<b>as at 1 July 2010</b>	<b>18 871</b>	-	<b>18 871</b>
Cost	37 768	-	37 768
Accumulated amortisation and impairment losses	(18 897)	-	(18 897)
Amortisation	(4 721)	-	(4 721)
<b>as at 30 June 2011</b>	<b>14 150</b>	-	<b>14 150</b>
Cost	37 768	-	37 768
Accumulated amortisation and impairment losses	(23 618)	-	(23 618)

**7 INVESTMENT PROPERTY CARRIED AT COST**

**7.1 Reconciliation of carrying value**

	Land R	Buildings R	Total R
<b>as at 1 July 2011</b>	<b>1 541 000</b>	<b>198 333</b>	<b>1 739 333</b>
Cost	1 541 000	212 500	1 753 500
Accumulated depreciation and impairment losses	-	(14 167)	(14 167)
Depreciation	-	(7 083)	(7 083)
<b>as at 30 June 2012</b>	<b>1 541 000</b>	<b>191 250</b>	<b>1 732 250</b>
Cost	1 541 000	212 500	1 753 500
Accumulated depreciation and impairment losses	-	(21 250)	(21 250)

**7.1 Reconciliation of carrying value**

	Investment property R	Investment property R	Total R
<b>as at 1 July 2010</b>	<b>1 541 000</b>	<b>205 417</b>	<b>1 746 417</b>
Cost	1 541 000	212 500	1 753 500
Accumulated depreciation and impairment losses	-	(7 083)	(7 083)
Depreciation	-	(7 084)	(7 084)
<b>as at 30 June 2011</b>	<b>1 541 000</b>	<b>205 417</b>	<b>1 746 417</b>
Cost	1 541 000	212 500	1 753 500
Accumulated depreciation and impairment losses	-	(7 083)	(7 083)

**7.2 Investment properties are not pledged as security**

**7.3 Details of property:**

**Erf 2220 Peddie - Land Extent 4340m2**

Land is leased to Engen Petroleum for R1,050 per month with an escalation clause of 10%  
Land - market value

	921 500	921 500
	<u>921 500</u>	<u>921 500</u>

**Erf 314 Peddie - Land Extent 989m**

The property is the old Municipal Library and is currently leased to the African National Congress for R1500 per month  
Land - market value  
Building - market value

	84 500	84 500
	<u>67 000</u>	<u>67 000</u>
	<u>151 500</u>	<u>151 500</u>

**Erf 447 Hamburg**

Portion of the Caravan Park is leased to Mrs Dorego for R1,500 per month.  
Land - market value  
Building - market value

	535 000	535 000
	<u>145 500</u>	<u>145 500</u>
	<u>680 500</u>	<u>680 500</u>

NGQUSHWA LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 30 June 2012

Note	2012 R	2011 R
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**8 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS**

Trade creditors	8 685 384	6 218 101
Accrued leave pay	862 888	1 088 078
Accrued bonus	724 482	477 624
Accrued Administration and water sanitation expense	119 299	119 299
Sundry Receipts Default Suspense	854 355	854 355
Salary Suspense Accounts	-	2 757 907
Unknown / Unallocated Deposits	-	393 630
Duplicate receipts	-	52 935
<b>Total creditors</b>	<b>11 246 409</b>	<b>11 961 929</b>

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

**9 FINANCE LEASE LIABILITY**

2012	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
<b>Amounts payable under finance leases</b>			
Within one year	181 404	31 664	149 740
Within two to five years	199 500	14 208	185 292
	<b>380 904</b>	<b>45 872</b>	<b>335 032</b>
Less: Amount due for settlement within 12 months (current portion)			(149 740)
			<b>185 292</b>

The average lease term is 5 years and the average effective borrowing rate is linked to prime rate. Interest rates are fixed at the contract date. Leases have fixed repayment terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

2011	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
<b>Amounts payable under finance leases</b>			
Within one year	182 140	24 959	157 181
Within two to five years	55 403	9 840	45 563
	<b>237 543</b>	<b>34 799</b>	<b>202 744</b>
Less: Amount due for settlement within 12 months (current portion)			(157 181)
			<b>45 563</b>

The average lease term is 5 years and the average effective borrowing rate is prime rate. Interest rates are fixed at the contract date. Leases have fixed repayment terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

## 10 NON-CURRENT PROVISIONS

Provision for rehabilitation of landfill sites	2 416 060	2 181 768
Provision for long-service awards	68 805	39 352
<b>Total Non-Current Provisions</b>	<b>2 484 865</b>	<b>2 221 120</b>

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 6%, over an average period of 10 years.

The long-service award is payable after every 5 years of continuous service. The provision is an estimate of the long-service based on historical staff turnover.

The movement in the non-current provision is reconciled as follows: -

Provision for rehabilitation of landfill sites:		
<b>Balance at the beginning of year</b>	2 238 440	2 059 104
Add: Restatement	-	124 821
<b>Restated balance at the beginning of year</b>	2 238 440	2 183 925
Contributions to provision	177 620	-
Increase in provision due to discounting	-	49 220
Transfer to current provisions	-	5 295
<b>Balance at the end of year</b>	<b>2 416 060</b>	<b>2 238 440</b>
Provision for long-service awards:		
<b>Balance at the beginning of year</b>	39 352	-
Contributions to provision	60 622	39 352
Expenditure incurred	(31 169)	-
<b>Balance at the end of year</b>	<b>68 805</b>	<b>39 352</b>

## 11 PROPERTY RATES

### Actual

Residential	2 499 155	-
Commercial	871 527	-
State	7 041 207	-
<b>Total property rates</b>	<b>10 411 890</b>	<b>4 211 109</b>

### Market Value of properties

Residential	86 328 103	86 328 103
Commercial	33 901 000	33 901 000
State	690 130 901	690 130 901
Municipal	5 899 200	5 899 200
Villages	1 400 000	1 400 000
Other	29 130 690	29 130 690
<b>Total Market Value of Properties</b>	<b>846 789 894</b>	<b>846 789 894</b>



Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2008.

A general rate as per annual rates approved is applied to property valuations to determine assessment rates. Rebates of 15% 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 2012.

## 12 SERVICE CHARGES

Refuse removal	417 386	463 218
<b>Total Service Charges</b>	<b>417 386</b>	<b>463 218</b>

## 13 RENTAL OF FACILITIES AND EQUIPMENT

Rental of facilities	105 644	168 822
<b>Total rentals</b>	<b>105 644</b>	<b>168 822</b>

## 14 INTEREST EARNED - EXTERNAL INVESTMENTS

Bank	-	63 428
Other	254 909	432 169
<b>Total interest</b>	<b>254 909</b>	<b>495 597</b>

## 15 INTEREST EARNED - OUTSTANDING RECEIVABLES

<b>Total interest</b>	<b>13 344</b>	<b>-</b>
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## 16 GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	55 140 000	47 261 182
MIG Grant	10 448 263	15 241 911
Drivers licence testing station	-	1 323 504
Finance management grant	1 450 000	1 200 000
Human Resource development	146 365	-
Small town revitalisation	750 000	-
Municipal Systems improvement grant	790 000	854 284
LED Revenue	487 922	1 350 000
Subsidy - JEC	-	900 000
Vuna Awards	-	25 000
<b>Total Government Grant and Subsidies</b>	<b>69 212 550</b>	<b>68 155 881</b>

### 16.1 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 which is funded from the grant.

### 16.2 Grants

<b>Balance unspent at beginning of year</b>	-	4 192 911
<b>Current year receipts</b>		
MIG Grant	17 257 000	11 049 000
Conditions met - transferred to revenue	(10 448 263)	(15 241 911)
<b>Conditions still to be met - MIG Grants that remain liabilities (see note 10)</b>	<b>6 808 737</b>	<b>-</b>
FMG Grant	1 450 000	1 200 000
Conditions met - transferred to revenue	1 450 000	-
<b>Conditions still to be met - that remain liabilities</b>	<b>-</b>	<b>1 200 000</b>
LED Grant	487 922	1 350 000
Conditions met - transferred to revenue	487 922	1 350 000
<b>Conditions still to be met - that remain liabilities</b>	<b>-</b>	<b>-</b>
MSI Grant	790 000	854 284
Conditions met - transferred to revenue	790 000	854 284
<b>Conditions still to be met - that remain liabilities</b>	<b>-</b>	<b>-</b>
Other Grants	896 365	2 284 504
Conditions met - transferred to revenue	896 365	2 284 504
<b>Conditions still to be met - that remain liabilities</b>	<b>-</b>	<b>-</b>

### 16.3 Changes in levels of government grants

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

**17 PUBLIC CONTRIBUTIONS AND DONATION**

Public contributions - Unconditional	-	10 500
<b>Total public contributions and donations</b>	<b>-</b>	<b>10 500</b>

**18 OTHER INCOME**

<b>Other income</b>		
Sundry Revenue	786 140	113 210
Other income	-	180 638
Cemetery fees	653	218
Photocopies and faxes	3 288	3 655
Building plan fees	14 429	16 842
Public toilets	16 100	-
Tresspass fees	15 985	31 745
<b>Total Other Income</b>	<b>836 595</b>	<b>346 308</b>

**19 EMPLOYEE RELATED COSTS**

	<b>32 192 110</b>	<b>30 591 069</b>
Employee related costs - Salaries and Wages	18 504 640	16 784 273
Bonuses	1 437 475	1 056 046
Contributions for UIF, pensions and medical aids	3 305 584	3 040 851
Travel, cellphone, telephone allowances and Bargaining Council	1 705 761	1 743 372
Skills Development Levy	206 699	158 730
Redemption of Leave	222 538	781 266
Workmens compensation payments	7 687	-
Housing benefits and allowances	30 276	14 752
Overtime payments	338 022	575 915
Performance and other bonuses	-	276 818
<b>Employee Related Costs</b>	<b>25 758 683</b>	<b>24 432 023</b>

The amounts below have been included above.

**Remuneration of the Municipal Manager**

Annual Remuneration	359 708	656 791
Performance- and other bonuses	-	61 875
Travel, motor car, accommodation, subsistence and other allowances	63 000	126 000
Contributions to UIF, Medical and Pension Funds	4 856	1 497
<b>Total</b>	<b>427 563</b>	<b>846 163</b>

The Municipal Manager was dismissed in December 2011 and as such, there has been no further payments

**Remuneration of the Chief Finance Officer**

Annual Remuneration	583 779	531 200
Performance- and other bonuses	-	53 736
Travel, motor car, accommodation, subsistence and other allowances	126 000	126 000
Contributions to UIF, Medical and Pension Funds	8 170	1 497
<b>Total</b>	<b>717 949</b>	<b>712 433</b>

**Remuneration of Individual Executive Managers**

	Technical Services	Corporate Services	Community Services
	R	R	R
<b>2012</b>			
Annual Remuneration	535 131	583 779	583 779
Travel, motor car, accommodation, subsistence and other allowances	115 500	126 081	125 768
Contributions to UIF, Medical and Pension Funds	7 659	8 089	8 401
Acting Allowance	-	43 592	27 298
<b>Total</b>	<b>658 290</b>	<b>761 541</b>	<b>745 246</b>
<b>2011</b>			
Annual Remuneration	531 200	531 200	531 200
Performance- and other bonuses	53 736	53 736	53 736
Travel, motor car, accommodation, subsistence and other allowances	126 000	126 000	126 000
Contributions to UIF, Medical and Pension Funds	1 497	1 497	1 497
<b>Total</b>	<b>712 433</b>	<b>712 433</b>	<b>712 433</b>

**20 REMUNERATION OF COUNCILLORS**

Mayor	640 620	504 605
Speaker	505 660	407 158
Committee Members	1 445 458	849 341
Other Allowances	57 995	-
Councillors' pension and medical aid contributions	703 453	527 238
Councillors' allowances	3 080 241	3 870 704
<b>Total Councillors' Remuneration</b>	<b>6 433 427</b>	<b>6 159 046</b>

**In-kind Benefits**

The Executive Mayor, Deputy Executive Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by the Council at no cost. The Mayor has use of the Council owned vehicle for official duties. The Executive Mayor has one full-time bodyguard/driver.

**21 DEPRECIATION AND AMORTISATION EXPENSE**

Property, plant and equipment	3 205 735	30 988 992
Intangible assets	9 056	4 721
Investment property carried at cost	7 083	7 084
<b>Total Depreciation and Amortisation</b>	<b>3 221 874</b>	<b>31 000 798</b>

## 22 GENERAL EXPENSES

2012

2011

Included in general expenses are the following:-

Auction fees	-	10 818
Advertising	128 915	139 824
Admin fees	-	7 902 886
Agriculture	385 216	-
Audit committee Expenses	164 998	221 131
Audit fees	1 885 472	1 795 151
Accommodation expenses	1 661 244	3 976 408
Animal Feed	8 616	10 355
Bank charges	278 790	314 253
Beach Festival	28 215	-
Books and Publication	3 939	-
Bursaries	246 900	-
Buildings	-	2 267 251
Business Plans	177 080	-
Career Guidance	26 445	-
Commission paid	-	16 311
Communication and Public relations	1 935 581	1 061 483
Computer expenses	7 094	18 797
Conferences and seminars	29 549	139 820
Consultation and Professional fees	977 710	951 468
Consumable stock & Material	105 738	641 990
Disaster management	15 200	222 236
DSTV	7 439	-
Education Awareness	44 112	-
Electricity	740 872	433 060
Entertainment	139 925	258 742
Employee Assistance Programme	2 900	-
Environmental Awareness Programme	161 279	-
Financial recovery plan & strategy	15 000	-
Financial management enhancement	1 481 431	-
Free basic Electricity	2 839 285	2 354 125
Fuel and oil	636 909	1 603 457
Healthy and Safety Equipment	4 105	-
Hire of Life savers	209 900	148 200
Hire of Equipment	14 300	-
Indigent registration	-	64 311
IDP Reviewal	469 644	-
Insurance	301 803	156 457
Inventory items	15 153	-
Inter Governmental relations	5 790	-
Increase in Provision of Landfill site	181 904	-
Interest on finance Lease	36 738	-
Lease rentals on operating lease	-	964 073
LED	585 044	-
Legal expenses	2 272 785	571 237
Licence fees	-	5 100
Newsletter and Publications	46 379	87 737
Mayoral discretionary fund	-	27 903
Membership fees	4 429	-
Municipal Development Finance	32 304	-
Pauper burials	-	3 018
Pest control	4 904	6 400
PMU costs	143 811	870 080
PMS review	17 040	-
Printing and stationery	331 198	360 938
Protective Clothing	167 582	125 095
Public Participation	25 828	-
Refuse	85 481	90 217
Rental of office equipment	165 486	-
Rezoning and registration	-	105 451
Outreach programmes	213 319	-
Security costs	-	72 864
Small town Revitalisation	445 974	-
Solid waste Hamburg	-	204 432
SPU	296 098	-
Subscription, membership & publication	-	1 904
Telephone cost	877 486	781 195
Tourism	366 267	-
Training	644 319	818 010
Travel and subsistence	482 345	220 053
Valuation costs	180 167	36 543
Water and Sanitation	111 493	259 959
Water - Municipal Use	64 004	-
Other	-	794 509
	<b>22 938 935</b>	<b>31 115 252</b>

**23 LOSS ON SALE OF ASSETS**

Property, plant and equipment	74 944	-
<b>Loss on Sale of Assets</b>	<b>74 944</b>	<b>-</b>

**24 CASH GENERATED BY OPERATIONS**

Surplus/(deficit) for the year	22 028 073	(24 224 843)
Adjustment for:-		
Depreciation and amortisation	3 221 874	31 000 797
(Gain) / loss on sale of assets	74 944	-
Contribution to provisions - non-current	-	117 369
Finance costs	-	75 711
Other non-cash item		
<b>Operating surplus before working capital changes:</b>	<b>25 324 891</b>	<b>6 969 034</b>
(Increase)/decrease in trade receivables	318 698	(333 281)
(Increase)/decrease in other receivables	(4 718 737)	1 010 286
(Increase)/decrease in VAT receivable	154 925	-
Increase/(decrease) in conditional grants and receipts	-	(5 620 699)
Increase/(decrease) in trade payables	(715 521)	10 299 429
Increase/(decrease) in consumer deposits		1 098 013
Other non cash items	16 202	(627)
<b>Cash generated by/(utilised in) operations</b>	<b>20 380 458</b>	<b>13 422 155</b>

**25 CASH AND CASH EQUIVALENTS**

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

Bank balances and cash	10 695 167	2 284 290
Bank overdrafts	(2 098 439)	(4 505 301)
<b>Net cash and cash equivalents (net of bank overdrafts)</b>	<b>8 596 728</b>	<b>(2 221 011)</b>

**26 CORRECTION OF ERROR**

During the year ended 30 June 2011 and previous years, PPE and other assets were incorrectly recognised: -

The comparative amount has been restated as follows:

Provision on Landfill site	5 295	
Vat Claims	1 377 999	
Depreciation	(136 646)	
Net effect on surplus/(deficit) for the year	1 246 648	-
Unallocated deposits (Trade Creditors)	(376 887.97)	
Trade creditors (2009/2010 Accruals)	(1 056 479.38)	
Trade creditors (Salary suspense)	(2 546 386.53)	
Lease Liability	(143 954.45)	
Property, Plant and Equipment	(1 993 959.07)	
Net effect on Statement of Financial Position	(6 117 667)	-
Net effect on Accumulated surplus opening balance	(4 871 020)	-

**UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE****27 DISALLOWED****27.1 Unauthorised expenditure**

Reconciliation of unauthorised expenditure

Opening balance	8 752 893	3 224 106
Unauthorised expenditure current year	-	5 528 787
Unauthorised expenditure awaiting authorisation	8 752 893	8 752 893

There were no incidents of unauthorised expenditure. No council resolution has been taken to condone any unauthorised expenditure yet.

**27.2 Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure

Opening balance -	606 399	437 046
Fruitless and wasteful expenditure current year	27 300	-
Interest on Eskom and Telkom overdue accounts	-	1 668
Defamation claims against the municipality by the former municipal manager and mayor	-	54 911
Overpayment of Councillors	-	112 774
Fruitless and wasteful expenditure awaiting condonement	633 699	606 399

**2012**

The amount of R27 300 that was incurred was for a Catering service that was procured for the roadshows and on the day, the event was subsequently cancelled and that resulted in wasteful expenditure

### 27.3 Irregular expenditure

#### Reconciliation of irregular expenditure

Opening balance	10 323 830	4 354 051
Irregular expenditure current year	4 519 739	
Irregular expenditure previous year		5 969 779
Condoned or written off by Council	103 742	
Transfer to receivables for recovery – not condoned		
Irregular expenditure awaiting condonement		
	<b>14 947 311</b>	<b>10 323 830</b>

#### 2012

- Community disputed and said the area where the hall was being built belonged to them and that leads to the delay with finalising the project. An extra claim for delay was submitted by the contractor and an amount of R66 006 was incurred

- Extension of scope was made without following required supply chain processes and the expenditure subsequently exceeded the award amount by a total of R2 009 746

Consultants were appointed to determine the fee cost for the consulting fees for a construction of Dorenkloof access road. Fees determined by the Consultants were more the amount which they previously appointed for and therefore that resulted in the increase in the fees which was due them. In light of this reason, a top up fee was paid to the Consultant to match the difference. The expenditure exceeds the award amount with R333 529

- The expenditure exceeds the award amount by R331 680
- The municipality did not foresee the delay in the transferring of funds by local government and therefore we were not able to initiate the procurement process without having the allocated funds. This led to a deviation from the supply chain processes by R726 000.

- Disciplinary Processes and enquiry of R206 518

#### 2011

Irregular expenditure of R1 418 771 relates to a disagreement by the Accounting Officer with the recommendation of the Adjudication Committee. No disciplinary action has been taken to date.

- Irregular expenditure of R2 760 031 relates to payments made to contractors that exceeded contract value. No disciplinary action has been taken to date.

- Irregular expenditure of R1 790 977 is due to procurement processes that were not followed. No disciplinary action has been taken to date

No Council resolution has been taken to condone any Irregular expenditure incurred yet.

#### ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT

##### 28 ACT

#### 28.1 Contributions to organised local government

Opening balance		
Council subscriptions		
Amount paid - current	-	153 900
Amount paid - previous years	-	(153 900)
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>

#### 28.2 Audit fees

Opening balance	1 790 437	1 012 213
Current year audit fee	2 220 010	1 795 151
Amount paid - current year	-	
Amount paid - previous years	-	(1 016 927)
<b>Balance unpaid (included in payables)</b>	<b>4 010 447</b>	<b>1 790 437</b>

The opening balance in relates to 2010/11 audit fees. These were subsequently paid in July 2012. The remainder of the audit fees represent the estimate of the 2011/12 audit of the Annual Financial Statements

#### 28.3 VAT

Vat receivable	1 102 949	2 635 872
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VAT input receivables and VAT output payables are shown in note 18. All VAT returns have been submitted by the due date throughout the year.

#### 28.4 PAYE and UIF

Opening balance		
Current year payroll deductions	4 026 051	3 472 100
Amount paid - current year	(4 026 051)	
Amount paid - previous years		(3 472 100)
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>

## 28.5 Pension and Medical Aid Deductions

Opening balance		
Current year payroll deductions and Council Contributions	2 833 310	2 553 266
Amount paid - current year	(2 833 310)	
Amount paid - previous years		(2 553 266)
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>-</b>

## 28.6 Councillor's arrear consumer accounts

	Total	Outstanding less than 90 days	Outstanding more than 90 days
	R	R	R
The following Councillors had arrear accounts outstanding for more than 90 days as at: -			
<b>as at 30 June 2012</b>			
SE Ndwayana	240	240	
<b>Total Councillor Arrear Consumer Accounts</b>	<b>240</b>	<b>240</b>	<b>-</b>
<b>as at 30 June 2011</b>			
NE Dyani	298	37	261
M Faltein	1 001	45	956
A S Jali	5 358	-	5 358
S Ndwayana	53	-	53
N. A. Seysman	298	37	261
<b>Total Councillor Arrear Consumer Accounts</b>	<b>7 008</b>	<b>119</b>	<b>6 889</b>

## 29 CAPITAL COMMITMENTS

### 29.1 Commitments in respect of capital expenditure

- Approved and contracted for	<b>6 805 225</b>	<b>17 043 559</b>
Infrastructure	6 805 225	15 827 724
Other		1 215 835
- Approved but not yet contracted for		<b>1 459 944</b>
Other		1 459 944
<b>Total</b>	<b>6 805 225</b>	<b>18 503 503</b>
This expenditure will be financed from:		
- Government Grants	6 808 737	-
	<b>6 808 737</b>	<b>-</b>

### 29.2 Operating leases

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

#### Operating leases - lessee

Within one year	142 655	95 354
In the second to fifth year inclusive	326 651	488 222
After five years		
<b>Total</b>	<b>469 306</b>	<b>583 576</b>

Total future minimum sublease payment expected to be received under non-cancellable sublease

## 30 RETIREMENT BENEFIT INFORMATION

### 30.1 Defined contribution plan

It is the policy of the municipality to provide benefits to all its employees. The current defined contribution provident fund is held with SAMWU, which are subject to the Pension Fund Act, exist for this purpose. The municipality is under no obligation to cover any unfunded benefit.

## 31 CONTINGENT LIABILITY

### 31.1 Claim for damages

	176 782	176 782
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Milisa Security and Cleaning Services is instituting a damages claim against the municipality following cancellation of its contract during January 2009. Council is contesting the claim based on legal advice. The legal costs will be determined once action has started.

### 31.2 Performance bonus dispute – Legal fees

	177 232	196 300
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Several senior officials are disputing the assessment process regarding the payment of performance bonuses. Provision has been made for the payment of the bonuses as assessed by the Municipality. The claim is being considered by the labour court after the CCMA ruled in favour of the Council.

## 32 CONTINGENT ASSET

Action was instituted against the 2008/2009 Municipal Manager to recover funds spent as fruitless and wasteful expenditure during his term of office, civil proceedings have commenced to recover the amount. According to council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

	397 125	397 126
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## 33 EVENTS AFTER THE REPORTING DATE

There were no events after the Balance Sheet date.

## 34 RISK MANAGEMENT

### 34.1 Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern. Available capital is largely dependant on grant receipts from national government. Minimised use of capital from external borrowings ensures optimal capital structures and also reduces the cost of capital. The municipality manages capital risk through the monitoring of proposed grants to be received from national government and through the synchronisation of capital outlay with grant receipts. The capital structure of the municipality consists of cash and cash equivalents and equity. There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### 34.2 Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the financial department with the assistance of operating divisions. Risk management is carried out under policies approved by the accounting officer.

### 34.3 Liquidity risk

The municipality's risk relates to funds available that will cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and projected grant receipts. Cash flow forecasts are prepared and adequate managed borrowing facilities are continually monitored.

### 34.5 Market Risk: Interest rate risk

The municipality's interest bearing assets are included under cash and cash equivalents. The municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

At year end financial assets exposed to interest rate risk were as follows:

Cash and cash equivalents - R10 695 167
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Balances with banks, deposits and all call and current accounts attract interest at rates that vary with South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 1.

Finance leases linked to South African prime rate.

### 34.5 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.

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

#### The estimated rate increases

The estimated increase in base points	200	200
Effect on net Surplus	12,880	6,240

### 34.6 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. 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. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the municipality's credit control and debt collection policies. Adequate provision has been made for anticipated doubtful debts.

The carrying amount of financial assets, represent the entity's maximum exposure to credit risk in relation to these assets.

The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk:

Bank balances	(4,505,301)	(1,428,004)
Short term deposits	2,284,290	4,201,720
Trade and other receivables	4,434,785	4,290,871
	<u>2,213,774</u>	<u>7,064,587</u>

**34.7 Market Risk: Currency risk**

The municipality is not exposed to currency risk as no transactions are negotiated in foreign currency. The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

**36 RESTATEMENT OF COMPARATIVE INFORMATION**

Mistatements have been corrected in non current provision, Trade Payables, Vat, Lease Liability and property, Plant and Equipment

**Statement of Financial Performance**

Provision on Landfill site	5 295
Vat Claims	1 377 999
Depreciation	(136 646)
	<u>1 246 648</u>

**Statement of Financial Position:**

Unallocated deposits (Trade Creditors)	(376 888)
Trade creditors (2009/2010 Accruals)	(1 056 479)
Trade creditors (Salary suspense)	(2 546 387)
Lease Liability	(143 954)
Property, Plant and Equipment	(1 993 959)
	<u>(6 117 667)</u>

**37 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E(1) and E(2)

**38 SUPPLY CHAIN MANAGEMENT POLICY**

The Municipal Manager has the power to authorise deviations from the normal Procurement Process. The deviations for the 2011/12 financial year

**SUMMARY OF SUPPLY CHAIN MANAGEMENT DEVIATIONS RATIFIED**

TYPE	TRANSACTIONS	AMOUNT
Emergency Procurement		R 13 678
Sole Service Providers		R 90 064
Other exceptional cases		R 0
<b>TOTAL</b>		<b>R 103 742</b>

**39 RELATED PARTIES**

There are no entities that directly, or indirectly through one or more intermediaries control, or are controlled by Ngqushwa Municipality. Entities include:

- \* Associate and joint ventures, individuals owning, directly or indirectly, an interest in Ngqushwa Municipality that gives them a significance influence over the municipality.
- \* Key management personnel and close members of key management personnel.



## ANNEXURE 1

**NGQUSHWA LOCAL MUNICIPALITY**  
**DISCLOSURES OF PROCUREMENT DEVIATIONS AND BREACHES**  
**FOR THE YEAR ENDED 30 JUNE 2012**

NGQUSHWA MUNICIPALITY

## SCM DEVIATION REGISTER - 2011/12 FINANCIAL PERIOD

TRANSACTION DESCRIPTION (including dates)	CIRCUMSTANCES / REASONS WHICH LED TO DEVIATION FROM NORM	NAME OF SERVICE PROVIDER	AMOUNT	NAME OF DEPARTMENT	RESPONSIBLE OFFICER	URGENCY	EMERGENCY	SOLE PROVIDER/ SUPPLIER	SCOPE SUBSEQUENT VARIATION	RECOMMENDED/ NOT RECOMMENDED (BY) YES	APPROVED/ NOT APPROVED (BY) YES	FINALIZATION DATE
Install server equipment	TCS is sole servicer provider of the Traffic Contravention system currently being utilised. Therefore the support provision is only limited to TCS.	Total Client Services	R 31 687.71	Traffic Department	MR Jooste			√				18/08/2011
woman in local government, workshop	There was a late invitation to the office of the speaker to invite two women Councillors and in light of reason a deviation based on the urgency was committed.	Lejweng Communication Projects	R 13 677.72	Municipal Manager	Ncapayi	√				yes	yes	01/08/2011
Repairs of Air Condation	So called only Service Provider	Mtimka's eletrical & builders	R 18 810.00	Technical Depart	Mr Badi			v		yes	no	04/08/2011
services of machinery	Only accredited service provider to service our infrastructure equipment	Babcock Equipment	R 14 456.28	Technical Depart	Mr Badi			√		yes	yes	06/10/2011
training for plumbing course	training course done full time in other institution	Border Training Centre	R 15 210.00	Community Depart	Mr MJO			√		YES	YES	16/08/2011
poly prop labels, couries costs	Only service provider that services supplies steal codes	PWC combined systems	R 9 900.00	Finance Department	Mr mahlasela			√		YES	YES	06/10/2011
<b>TOTAL</b>			<b>R 103 741.71</b>									