

Nkonkobe Local Municipality



**NKONKOB E
MUNICIPALITY**

**Annual Financial Statements for the year ended
30 June 2012**

Nkonkobe Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

Index	Page
Cover	2
General Information	3-4
Accounting Officers' Report and Approval	5
Mayor's Foreword	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Accounting Policies	11-21
Notes to the Annual Financial Statements	22-43
Appendix A: Schedule of External Loans	44
Appendix B: Analysis of Property, Plant and Equipment	45-48
Appendix C: Segmental Statement of Financial Performance	49
Appendix D: Actual versus Budget	50

Annual Financial Statements

for

Nkonkobe Local Municipality

for the year ended 30 June: **2012**

Province:

Eastern Cape

AFS rounding:

R (i.e. only cents)

Contact Information:

Name of Municipal Manager:	K.C Maneli
Name of Chief Financial Officer:	C Makedama
Contact telephone number:	(046) 645 7400
Contact e-mail address:	Vmakedama@nkonkobe.gov.za or castrov@webmail.co.za
Name of contact at provincial treasury:	Mrs Nomfundo Fetsha (Senior Municipal Finance Support)
Contact telephone number:	043 721 2509
Contact e-mail address:	Nomfundo.Fetsha@treasury.ecprov.gov.za
Name of contact at National Treasury:	Matsie Sehlapelo
Contact telephone number:	012 315 5295
Contact e-mail address:	Matsie.Sehlapelo@treasury.gov.za

Nkonkobe Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

General information

Members of the Council

Ntsangani AW	Mayor
Mlamla NP	Speaker
Makeleni MJ	Member of the Executive Committee
Matyila SP	Member of the Executive Committee
Mgengo ME	Member of the Executive Committee
Ngcakaza JN	Member of the Executive Committee
Sinyongo LL	Member of the Executive Committee
Kganedi RA	Council Member
Ngwentle SL	Council Member
Penu SA	Council Member
Ndevu V	Council Member
Nono Daniels CNN	Council Member
Zoki NR	Council Member
Gora NIV	Council Member
Maqakela SW	Council Member
Papu ZL	Council Member
Sixolo P	Council Member
Matya T	Council Member
Gysman D	Council Member
Dyantyi X	Council Member
Nghona C	Council Member
Kanie-Esau LJ	Council Member
Mamase XV	Council Member
Booyesen AA	Council Member
Tyibilika TE	Council Member
Sango - Blackie N	Council Member
Stofile AC	Council Member
Rawana MO	Council Member
Nyangintaka CM	Council Member
Mpendu Z	Council Member
Kleyi S	Council Member
Bantam E	Council Member
Ncume M	Council Member
Nyenyeku MDM	Council Member
Dwanya TP	Council Member
Matshaya MF	Council Member
Xeielwa H	Council Member
Kata MB	Council Member
Ngaye T	Council Member
Mbalo NC	Council Member
Rulashe N	Council Member
Tyali M	Council Member
Mhlambiso S	Council Member
Tyali N	Council Member
Ndlazi N	Council Member
Zibi V	Council Member
Maqoma S	Council Member
Mabandla NL	Council Member

Municipal Manager

Mr K.C Maneli

Chief Financial Officer

Mr C Makedama

Grading of Local Authority

Grade B, Low Capacity Municipality

Auditors

Auditor-General

Bankers

First National Bank

Nkonkobe Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

General information (continued)

Registered Office:	8 Somerset Street
Physical address:	8 Somerset Street Fort Beaufort 5720
Postal address:	PO Box 36 Fort Beaufort 5720
Telephone number:	(046) 645 7400
Fax number:	(046) 645 2562
E-mail address:	pmadotyeni@nkonkobe.gov.za

Nkonkobe Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems, and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year ended 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

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

The annual financial statements set out on pages 7 to 43, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Mr. K. C Maneli
Accounting Officer

31 August 2012

Nkonkobe Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June

Mayor's Foreword

It gives me great pleasure to present the annual financial statements for the 2011/2012 financial year. The Municipal Finance Management Act provides that a municipality must prepare the annual financial statements of the institution and, within two months after the end of the financial year to which those statements relate, submit them to the Auditor General for auditing. During the last financial year we presented improved financial statements to Council. This year, as we endeavour to make further improvements to our financial statements, as the municipality we have tried our utmost best to adhere to the Generally Recognised Accounting Practices when preparing the financial statements - to produce reports attuned to specific needs of the Nkonkobe community.

The annual financial statements for the year under review - 2011/2012 - portray a different picture than the last financial year. This is with regards to financial viability and debt management of the municipality. As an institution with a thin revenue base we have devised strategies to enhance our revenue, so that we are able to move away from grant dependency and become a self sufficient municipality.

To this end, we have established a technical unit in order to do most projects in-house, and some of the projects are funded through our own revenue. As a result, I can safely say that the current financial statements are a true reflection of all the institution's financial activities in the year under review. The challenges that the municipality faced before should be a thing of the past and as such, we firmly believe that we can do better to change the situation from qualified to clean audit.

We are especially pleased to have a functional audit committee and we have also beefed-up our internal audit unit. This purports that the municipality is determined to strive for clean audit outcomes. Our audit committee is committed to ensuring that the municipality performs better.

A.W Ntsangani
Honourable Mayor
301 August 2012

Nkonkobe Local Municipality
STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Note	2012 R	2011 R
ASSETS			
Current assets			
Cash and cash equivalents	1	-	2,558,542
Trade and other receivables from exchange transactions	2	4,838,827	16,811,000
Other receivables from non-exchange transactions	3	5,117,134	6,634,563
Inventories	4	590,382	565,355
VAT receivable	10	1,460,058	1,177,507
Non-current assets			
Property, plant and equipment	5	299,617,354	288,750,443
Intangible assets	6	186,359	121,418
Investment property carried at fair value	7	2,118,637	1,961,758
Total assets		313,928,751	318,580,586
LIABILITIES			
Current liabilities			
Trade and other payables	8	11,877,420	15,597,714
Consumer deposits	9	1,112,892	1,037,039
Bank overdraft	1	738,455	-
Current portion of unspent conditional grants and receipts	11	170,634	1,037,004
Current portion of borrowings	12	-	3,520,171
Current portion of finance lease liability	13	157,211	-
Other current financial liabilities	14	13,052	12,840
Non-current liabilities			
Non-current finance lease liability	13	201,002	-
Non-current provisions	15	33,059,081	24,343,020
Total liabilities		47,329,748	45,547,788
Net assets		266,599,003	273,032,798
NET ASSETS			
Reserves		4,152,100	-
Accumulated surplus		262,446,903	273,032,798
Total net assets		266,599,003	273,032,798

Nkonkobe Local Municipality
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2012

	Note	2012 R	2011 R
Revenue			
Non-exchange Revenue			
Property rates	16	19,069,818	15,632,871
Exchange Revenue			
Service charges	17	24,525,050	15,022,783
Rental of facilities and equipment	18	330,689	215,032
Interest earned - external investments	19	870,954	1,081,540
Interest earned - outstanding receivables	20	1,672,997	5,131,802
Fines		76,910	432,800
Licences and permits		2,154,470	2,180,958
Government grants and subsidies	21	106,218,163	98,633,372
Other income	22	1,580,837	4,654,122
Total revenue		156,499,888	142,985,278
Expenses			
Employee related costs	23	49,893,071	43,864,502
Remuneration of councillors	24	11,021,955	9,957,032
Bad debts	2,3	11,214,007	18,866,779
Depreciation and amortisation expense	25	22,937,599	21,546,619
Repairs and maintenance		11,103,594	8,891,821
Finance costs	26	677,391	988,659
Bulk purchases	27	16,730,467	18,163,361
Grants and subsidies paid	28	10,749,961	7,691,014
General expenses	29	32,688,418	25,174,895
Total expenses		167,016,463	155,144,683
Loss on sale of assets	30	69,319	125,458
Deficit for the year		(10,585,894)	(12,284,863)

Nkonkobe Local Municipality
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2012

		Revaluation Reserve	Accumulated Surplus/(Deficit)	Total: Net Assets
	Note	R	R	R
Balance at 30 June 2010		-	29,837,924	29,837,924
Prior period error correction	43		(4,444,946)	
Change in accounting policy	44		259,924,682	259,924,682
Restated balance		-	285,317,660	289,762,606
Surplus / (deficit) for the period			(12,284,863)	(12,284,863)
Restated balance		-	273,032,798	273,032,798
Revaluation of property plant and equipment		4,152,100	-	4,152,100
Surplus / (deficit) for the period			(10,585,894)	(10,585,894)
Balance at 30 June 2012		4,152,100	262,446,903	266,599,003

Nkonkobe Local Municipality

CASH FLOW STATEMENT

as at 30 June 2012

	Note	2012 R	2011 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		158,492,930	131,046,554
Sales of goods and services		48,149,981	20,291,147
Grants		106,218,162	99,887,944
Interest received		2,543,950	6,213,341
Other receipts		1,580,837	4,654,122
Payments		(127,893,904)	(105,805,224)
Employee costs		52,198,965	44,354,810
Suppliers		64,267,587	52,770,741
Interest paid		677,391	988,659
Grants & Transfers		10,749,961	7,691,014
Net cash flows from operating activities	31	30,599,026	25,241,330
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of assets		(29,874,230)	(31,128,922)
Proceeds on disposal of assets		(69,319)	(125,458)
Net cash flows from investing activities		(29,943,549)	(31,254,380)
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings raised / (Repaid)		201,002	(1,731,189)
Increase / (Decrease) in short term borrowings		(4,229,330)	1,037,004
Increase in Consumer deposits		75,853	95,231
Net cash flows from financing activities		(3,952,474)	(598,954)
Net increase / (decrease) in net cash and cash equivalents		(3,296,997)	(6,612,004)
Net cash and cash equivalents at beginning of period		2,558,542	9,170,546
Net cash and cash equivalents at end of period	32	(738,455)	2,558,542

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

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

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

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

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

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

1.2 PRESENTATION CURRENCY

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

1.3 GOING CONCERN ASSUMPTION

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

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and guidance issued by National Treasury, has been provided in an annexure and notes to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Changes in accounting estimates is accounted for prospectively.

1.5

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

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

GRAP 18 Segment Reporting - issued March 2005
GRAP 20 Related Parties - issued June 2011
GRAP 21 Impairment of non-cash generating assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued November 2009
GRAP 26 Impairment of cash generating assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - issued October 2009
GRAP 105 Transfer of functions between entities under common control
GRAP 106 Transfer of functions between entities not under common control
GRAP 107 Mergers

Application of all the above GRAP standards will be effective from the date to be announced by the Minister of Finance and no standards have been early adopted. For the standards that have been approved, but an effective date has not been determined by the Minister of Finance at the reporting date, certain elements may have been used to formulate an accounting policy.

The impact of the standards not yet effective on future financial statements is not expected to be significant.

Management has considered all the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality. Management applied Directive 5 in determining its reporting framework and accounting policies.

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

2 PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

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

2.2 SUBSEQUENT MEASUREMENT - REVALUATION MODEL (LAND AND BUILDINGS)

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

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

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

2.3 SUBSEQUENT MEASUREMENT - COST MODEL (EXCLUDING LAND AND BUILDINGS)

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

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

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

2.4 DEPRECIATION AND IMPAIRMENT

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

Infrastructure			Other	
Roads and Paving	3 - 50 years		Buildings	30 - 50 years
Pedestrian Malls		-	Mobile offices	10 years
Electricity		-	Specialist vehicles	6 years
Water		-	Other vehicles	5 years
Sewerage		-	Office equipment	5 years
			Furniture and fittings	6 years
			Specialised plant and equipment	10 years
Community			Other items of plant and equipment	5 years
Buildings	25 - 50 years		Landfill sites	30 - 55 years
Recreational Facilities	25 - 30 years		Emergency equipment	3 - 10 years
Security		-	Computer equipment	3 years
Halls	25 - 50 years		Intangible assets (Software)	3 years
Libraries	25 - 30 years			
Parks and gardens		-		
Other assets	25 - 30 years			

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

2.4 DEPRECIATION AND IMPAIRMENT (Cont.)

Heritage assets

Buildings	-
Paintings and artifacts	-

Finance lease assets

Office equipment	5 years
Other assets	3 - 6 years

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for certain Machinery and Equipment and Transport assets with significant carrying values. For Machinery and Equipment and Transport (Above R5,000) the residual value and the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance. Minor assets (Below R5,000) are recognised and depreciated annually to R1 and is included in the asset register mainly for completeness and monitoring purposes.

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

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

Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives, as reflected in the table below:

<i>Heritage Sites</i>	<i>Useful Life Range in Years</i>
Memorials & Statues	Indefinite Life
Heritage Sites	Indefinite Life
Museums	Indefinite Life
Art Works	Indefinite Life

2.5 DERECOGNITION

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

2.6 TRANSITIONAL PROVISIONS

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

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

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

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

Intangible assets are initially recognised at cost.

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

3 INTANGIBLE ASSETS (Cont.)

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

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

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

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

3.3 AMORTISATION AND IMPAIRMENT

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

Computer software	3 years
-------------------	---------

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

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

3.4 DERECOGNITION

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

4 INVESTMENT PROPERTY

4.1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

The cost of self-constructed investment property is the cost at date of completion.

4.2 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Additions are added at cost and Investment property's carrying value is depreciated annually. Any gain or loss arising from a change in the fair value of the property (every 3 years) is included in surplus or deficit for the period in which it arises.

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 SUBSEQUENT MEASUREMENT

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

5.2.1 INVESTMENTS

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

5.2.2 TRADE AND OTHER RECEIVABLES

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

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

5.2.3 TRADE PAYABLES AND BORROWINGS

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

5.2.4 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

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

6 INVESTMENTS IN ASSOCIATES

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

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

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

6 INVESTMENTS IN ASSOCIATES (Cont.)

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

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

7 UNAUTHORISED EXPENDITURE

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

8 IRREGULAR EXPENDITURE

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

9 FRUITLESS AND WASTEFUL EXPENDITURE

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

10 RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Cont.)

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

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

12 LEASES

12.1 MUNICIPALITY AS LESSEE

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

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

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

12.2 MUNICIPALITY AS LESSOR

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

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

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

13 REVENUE

Revenue is only recognised once all of the following criteria have been satisfied:

- a) The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) 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.

The Municipality has an obligation in terms of legislation to collect all revenue and as such, the Municipality does not consider the collectability of the revenue on initial recognition. The Municipality will assess collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss will be recognised as an expense.

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

13.1 REVENUE FROM EXCHANGE TRANSACTIONS

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

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

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

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

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

Interest revenue is recognised on a time proportion basis.

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

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

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

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

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

13.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

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

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

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

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

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

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

13.3 GRANTS, TRANSFERS AND DONATIONS

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

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

14 BORROWING COSTS

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

15 EMPLOYEE BENEFITS

15.1 SHORT-TERM EMPLOYEE BENEFITS

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

15.2 POST EMPLOYMENT BENEFITS

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

15.3 LEAVE PAY ACCRUAL

The liability is based on the total amount of leave days due to the employees at reporting date and on the total remuneration package of the employees.

15.4 PERFORMANCE BONUSSES

A provision in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees is maintained.

16 IMPAIRMENT OF ASSETS

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

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

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

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

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

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

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

17 INVENTORIES

Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

18 INVESTMENT PROPERTY

Investment property includes property (land or a building or part of a building or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services or the sale of an asset in the ordinary course of operations.

Investment Property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

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

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

Depreciation

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

<i>Investment Property</i>	<i>Investment Property Useful Life Range in Years</i>
o Land	15 - 50
o Other	Indefinite Life

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end.

The assumptions for determining the fair value of the Investment property is set out in the relevant Note of the Annual Financial Statements.

Impairments

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

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

An Investment Property is derecognised when there is a disposal or no future economic benefits are to be derived and all gains or losses are recognised in the Statement of Financial Performance.

Nkonkobe Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

19 EVENTS AFTER REPORTING DATE

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

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

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

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

20 VALUE ADDED TAX (VAT)

The Municipality accounts for Value Added Tax on the payments basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position.

21 INVESTMENT IN MUNICIPAL ENTITY

Group Annual Financial Statements

The group Annual Financial Statements include those of the municipality and its controlled entity (subsidiary). The results of the subsidiary is included from the effective date of aquisition.

Consolidated Annual Financial Statements are prepared, and on aquisition, the group recognises the subsidiary's identifiable assets, liabilities and contingent liabilities at fair value, except for assets classified as held-for-sale, which are recognised at fair value less cost to sell, from the date the control commences until the control ceases.

Municipal Annual Financial Statements

In the municipality's separate Annual Financial Statements, the investment in the municipal entity are carried at cost, less any accumulated impairment.

The Municipal entity is an entity controlled and wholly owned by Nkonkobe Local Municipality. Control exists as the municipality has the power to govern the financial and operating policies, exercise direct control and the municipality provides a majority of the financial needs of the entity.

GRAP 6 - Consolidated and separate financial statements

The Group Annual Financial Statements is presented in accordance with GRAP 6 - "Consolidated and seperate financial statements". The standard is applied retrospectively for the separate financial statements. The effects at transaction date was determined and the opening accumulated surpluses and deficits adjusted as this is the first year that this standard is initially adopted. In terms of paragraph 19 of Directive 4, no comparative information is required to be disclosed, however, due to the simplicity of the transactions between the municipality and its sole wholly owned entity, the comparative consolidated figures is fully diclosed.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2012 R	2011 R
Cash at bank	(748,551)	2,481,164
Call deposits	10,096	77,378
	(738,455)	2,558,542

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

FNB - Fort Beaufort: 62026192336	(748,551)	2,481,164
Cash book balance at beginning of year	2,481,164	2,481,164
Cash book balance at end of year	(748,551)	2,481,164
Bank statement balance at beginning of year	8,146,376	3,624,977
Bank statement balance at end of year	2,207,669	8,146,376

Current Account (Other Account)

Standard Bank-Account number 082142076 (Nkonkobe Fresh Produce)

Cashbook Balance	-	67,381
Bank Statement Balance	-	67,381

First National Bank -Account number 62111847854 (MIG Funding)

Cashbook Balance	10,099.66	10,001
Bank Statement Balance	10,099.66	10,001

First National Bank -Account number 62068499188 (Roxeni Housing Project)

Cashbook Balance	(4)	(4)
Bank Statement Balance	-	-

Cash book balance at beginning of year	77,378	77,378
Cash book balance at end of year	10,096	77,378
Total cash and cash equivalents	-	2,558,542
Total bank overdraft	(738,455)	-

No cash and bank balances have been pledged as security and no restrictions exist on the use of the cash apart from the accounts maintained for conditional grants.

2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade receivables

as at 30 June 2012

	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
Service debtors			
Electricity	2,932,679	-	2,932,679
Refuse	7,363,941	-	7,363,941
Provision for Doubtful Debts		(7,160,005)	(7,160,005)
Total	10,296,620	(7,160,005)	3,136,615

Other receivables

Sundry Debtors	2,076,616	-	2,076,616
Other Debtors	(161,134)	-	(161,134)
Bank suspense accounts	76,580	-	76,580
Other receivables	1,992,062	-	1,992,062

Fair value adjustment			(289,850)
Total Trade and other receivables	12,288,682	(7,160,005)	4,838,827

as at 30 June 2011

Service debtors			
Electricity	14,531,139	-	14,531,139
Refuse	3,603,915	-	3,603,915
Provision for Doubtful Debts	-	(10,425,923)	(10,425,923)
Total	18,135,054	(10,425,923)	7,709,131

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R	
2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Cont.)			
Other receivables			
Sundry Debtors	1,590,010	1,590,010	
Other Debtors	5,045,854	5,045,854	
Bank suspense accounts	2,466,004	2,466,004	
Other receivables	9,101,869	9,101,869	
Total Trade and other receivables	27,236,923	(10,425,923)	
Refuse: Ageing			
Current (0 – 30 days)	444,587	414,165	
31 - 60 Days	396,189	351,267	
61 - 90 Days	5,962,871	2,356,509	
Greater than 90 days	560,294	481,974	
Total	7,363,941	3,603,915	
Electricity: Ageing			
Current (0 – 30 days)	466246.05	440,471	
31 - 60 Days	267,649	6,348,502	
61 - 90 Days	946,023	6,915,049	
Greater than 90 days	1,252,761	827,116	
Total	2,932,679	14,531,139	
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)	1,073,239	1,375,559	416,427.57
31 - 60 Days	1,074,034	597,420	211,431.55
61 - 90 Days	823,536	405,612	193,693.66
Greater than 90 days	14,022,873	4,593,877	1,502,507.47
Sub-total	16,993,681	6,972,467	2,324,060.25
Less: Provision for doubtful debts	(12,033,648)	(4,937,377)	(1,645,725)
Total debtors by customer classification	4,960,033	2,035,090	678,335
as at 30 June 2011			
Current (0 – 30 days)	342,802	183,009	328,824
31 - 60 Days	2,687,338	1,434,671	2,577,761
61 - 90 Days	3,718,905	1,985,387	3,567,266
Greater than 90 days	525,088	280,325	503,677
Sub-total	7,274,132	3,883,393	6,977,529
Less: Provision for doubtful debts	(4,181,931)	(2,232,580)	(4,011,412)
Total debtors by customer classification	3,092,201	1,650,813	2,966,117
Reconciliation of the doubtful debt provision			
Balance at beginning of the year		10,425,923	14,206,769
Contributions to provision		8,198,118	10,425,923
Doubtful debts written off against provision		(11,464,036)	(14,206,769)
Balance at end of year		7,160,005	10,425,923

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. An interest rate of 14% is charged on outstanding balances overdue, thus the carrying value of the receivable is held at amortised cost (Fair Value).

Trade and other receivables impaired

As of 30 June 2012, trade and other receivables of R 18 616 750 (2010: R 18 866 779) were impaired and provided for.

The ageing of these receivables is as follows:

Over 4 months	21,542,099	10,425,923
---------------	------------	------------

No debtors have been pledged as security.

Nkonkobe Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2012

	2012 R	2011 R
3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Other debtors	398,815	393,229
Rates	16,476,743	14,682,190
Less: Provison for bad debts	(11,456,745)	(8,440,856)
Nett Rates	5,019,999	6,241,334
Fair value adjustment	(301,680)	-
Total Other Debtors	5,117,134	6,634,563
<u>Rates: Ageing</u>		
Current (0 – 30 days)	1,230,737	477,915
31 - 60 Days	666,812	439,092
61 - 90 Days	13,796,885	13,206,177
Greater than 90 days	781,216	559,005
Total	16,475,650	14,682,190
<u>Reconciliation of the doubtful debt provision</u>		
Balance at beginning of the year	8,440,856	98,985,187
Contributions to provision	3,015,889	8,440,856
Doubtful debts written off against provision	-	(98,985,187)
Reversal of provision	-	-
Balance at end of year	11,456,745	8,440,856
4 INVENTORIES		
Closing balance of inventories:	590,382	565,355
Consumable stores	590,382	565,355
No inventory has been pledged as security.		

Nkonkobe 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	Buildings	Infrastructure	* Other Assets	Total
	R	R	R	R
as at 1 July 2011	248,708	274,502,778	13,998,957	288,750,443
Cost/Revaluation	248,708	312,880,375	21,615,456	334,744,539
Accumulated depreciation and impairment losses	-	(38,377,597)	(7,616,499)	(45,994,096)
Acquisitions		19,149,444	6,439,882	25,589,326
Capital under Construction		8,254,191		8,254,191
Depreciation	(22,328)	(20,178,305)	(2,597,352)	(22,797,986)
Carrying value of disposals	-	-	178,620	178,620
Cost/Revaluation	-	-	209,670	209,670
Accumulated depreciation and impairment losses	-	-	(31,049)	(31,049)
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
Other movements*	-	-	-	-
as at 30 June 2012	226,380	281,728,108	17,662,866	299,617,354
Cost/Revaluation	248,708	340,284,010	27,845,668	368,378,386
Accumulated depreciation and impairment losses	(22,328)	(58,555,902)	(10,182,802)	(68,761,032)

* Included under Furniture and office equipment are assets held under a finance lease with a nett book value of R352 894

5.2 Reconciliation of Carrying Value	Buildings	Infrastructure	Other Assets	Total
	R	R	R	R
as at 1 July 2010	-	253,461,240	11,454,463	264,915,703
Cost/Revaluation	-	272,434,860	17,260,700	289,695,559
Accumulated depreciation and impairment losses	-	(18,973,620)	(5,806,237)	(24,779,857)
Acquisitions		18,922,874	4,752,122	23,674,995
Capital under Construction	248,708	21,522,642	-	21,771,350
Depreciation		(19,403,977)	(2,081,245)	(21,485,222)
Carrying value of disposals	-	-	126,382	126,382
Cost/Revaluation	-	-	397,365	397,365
Accumulated depreciation and impairment losses	-	-	(270,983)	(270,983)
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
*Other movements	-	-	-	-
as at 30 June 2011	248,708	274,502,778	13,998,957	288,750,443
Cost/Revaluation	248,708	312,880,375	21,615,456	334,744,539
Accumulated depreciation and impairment losses		(38,377,597)	(7,616,499)	(45,994,096)

Refer to Appendix B for a detail classification of property, plant and equipment.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

5 PROPERTY, PLANT AND EQUIPMENT

5 PROPERTY, PLANT AND EQUIPMENT (Cont.)

5.3 Details of valuation

The effective date of the revaluation of land and buildings was 1 July 2009 and 30 June 2012. Revaluations of land and buildings was performed by an independent valuer, Mrs PJ Lindstrom who is not connected to the municipality.

The effective date of the revaluation of infrastructure assets was 1 July 2009 and 30 June 2012. Revaluations of infrastructure assets was performed by independent engineers that is not connected to the municipality.

Land and buildings are re-valued independently every 3 years and Infrastructure every 5-7 years.

The valuations was performed using the comparative market approach, depreciated replacement value and the Direct Comparison Method where appropriate. The assumptions are based on current market conditions.

5.4 Other information

All property, plant and equipment that are fully depreciated but still in use is disclosed at R1. The extent of assets of this nature does not warrant any change in the expected useful lives per category and is deemed to be insignificant.

5.5 Details of property

Due to the extent and sheer number of the properties, it is not practical to disclosed details on every property in the financial statements. Full details on each property is available from the municipal offices on request.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

6 INTANGIBLE ASSETS

6.1 Reconciliation of carrying value

	Computer Software R	Total R
as at 1 July 2011	121,418	121,418
Cost	137,778	137,778
Accumulated amortisation and impairment losses	(16,360)	(16,360)
Acquisitions	158,397	158,397
Amortisation	(93,456)	(93,456)
as at 30 June 2012	186,359	186,359
Cost	296,175	296,175
Accumulated amortisation and impairment losses	(109,817)	(109,817)

6.2 Reconciliation of carrying value

	Computer Software R	Total R
as at 1 July 2010	6,617	6,617
Cost	9,026	9,026
Accumulated amortisation and impairment losses	(2,409)	(2,409)
Acquisitions	128,752	128,752
Amortisation	(13,951)	(13,951)
as at 30 June 2011	121,418	121,418
Cost	137,778	137,778
Accumulated amortisation and impairment losses	(16,360)	(16,360)

7 INVESTMENT PROPERTY CARRIED AT FAIR VALUE

7.1 Reconciliation of fair value

	Investment property R	Total R
as at 1 July 2011	1,961,758	1,961,758
Acquisitions	203,400	203,400
Fair value adjustment	(46,521)	(46,521)
Fair value of disposals	-	-
Impairment loss/Reversal of impairment loss	-	-
Transfers	-	-
Other movements	-	-
as at 30 June 2012	2,118,637	2,118,637

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

7 INVESTMENT PROPERTY CARRIED AT FAIR VALUE (Cont.)

7.2 Reconciliation of fair value	Investment property R	Total R
as at 1 July 2010	2,008,279	2,008,279
Acquisitions	-	-
Fair value adjustment	-	-
Fair value of disposals	-	-
Impairment loss/Reversal of impairment loss	(46,521)	(46,521)
Transfers	-	-
Other movements	-	-
as at 30 June 2011	<u>1,961,758</u>	<u>1,961,758</u>

7.4 Details of property

Due to the extent and sheer number of the properties, it is not practical to disclosed details on every property in the financial statements. Full details on each property is available from the municipal offices on request.

7.5 Details of valuation for Infrastructure and Properties

The effective date of the revaluations was 1 July 2009 and 30 June 2012 in accordance with Directive 4. Revaluations were performed by an independent valuer, Mrs PJ Lindstrom who not connected to the entity and have recent experience in location and category of the investment property being valued.

The valuation was based on comparative market approach, depreciated replacement value and the Direct Comparison Method as and where appropriate and all assumptions are based on prevailing market conditions.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R
8 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS			
Trade creditors		6,436,920	8,966,074
Staff leave accrual		3,306,673	3,395,375
Staff bonus accrual		1,095,184	939,936
Other creditors		1,038,644	2,296,328
Total creditors		11,877,420	15,597,714

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

9 CONSUMER DEPOSITS

Electricity Deposits		1,112,892	1,037,039
Total consumer deposits		1,112,892	1,037,039

No guarantees are held in lieu of Electricity Deposits.

10 VAT RECEIVABLE

VAT receivable		1,460,058	1,177,507
		<u>1,460,058</u>	<u>1,177,507</u>

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

11 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

11.1 Unspent Conditional Grants from other spheres of Government

Municipal Infrastructure Grant (MIG)		-	-
Other Grants		170,634	1,037,004
Total Unspent Conditional Grants and Receipts		170,634	1,037,004

11.2 Non-current unspent conditional grants and receipts

Current portion of unspent conditional grants and receipts		-	-
		170,634	1,037,004

Refer to note 22 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.

12 BORROWINGS

Development Bank of South Africa		-	3,520,171
		-	3,520,171
Less : Current portion transferred to current liabilities		-	(3,520,171)
Total Non-Current borrowings		-	-

Refer to Appendix A for more detail on borrowings.

13 FINANCE LEASE LIABILITY

	Minimum lease payments R	Future finance charges R	Present value of minimum lease payments R
2012			
Amounts payable under finance leases			
Within one year	181,873	24,662	157,211
Within two to five years	212,185	11,183	201,002
	<u>394,059</u>	<u>35,846</u>	<u>358,213</u>
Less: Amount due for settlement within 12 months (current portion)			(157,211)
			201,002

The municipality leases labour saving devices from Technology Acceptances (Pty) Ltd. The lease term is for 3 years commencing September 2011. Interest rates are linked to prime + .085%. The lease has a fixed repayment rate of R 15 156 per month. No arrangements have been entered into for contingent rent.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R	
13 FINANCE LEASE LIABILITY (Cont.)			
2011	Minimum lease payments R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	-	-	-
Within two to five years	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Less: Amount due for settlement within 12 months (current portion)			<u>-</u>

14 OTHER FINANCIAL LIABILITIES

14.1 OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities	13,052	12,840
-------------------------------------	--------	--------

15 NON-CURRENT PROVISIONS

Post Retirement Healthcare Liability	20,576,442	14,253,000
Provision for long-service awards	2,263,097	2,046,693
Provision for rehabilitation of landfill sites	10,219,542	8,043,327
Total Non-Current Provisions	33,059,081	24,343,020

15.1 Post Retirement Healthcare Liability

The Post Retirement Healthcare Liability represents the obligation of the municipality to meet the medical aid contributions of retired employees. The amount of the liability is the present value of the obligation less the fair value of any plan assets held in respect of the post-retirement medical scheme. There are no plan assets in this valuation.

Key assumptions used

The following assumptions were used on the valuation on 30 June:

<i>Discount rate</i>	8.20%
<i>Healthcare cost inflation</i>	7.09%
<i>Net discount rate</i>	1.04%
<i>Pre-retirement mortality</i>	SA 85-90
<i>Post-retirement mortality</i>	PA (90)-2 Ultimate
<i>Expected retirement age - Males</i>	63 years
<i>Expected retirement age - Females</i>	63 years
<i>Spouse and principal member age difference</i>	Male 3 years older than female
<i>Continuation percentage (employees)</i>	100%
<i>Continuation percentage (widows)</i>	100%

Sensitivity Analysis - changes in healthcare cost

Post Retirement Healthcare Liability	Change	In-Service	Continuation
<i>Central Assumptions</i>		16.784	3.793
<i>Health Care inflation</i>	1%	20.532	4.125
	-1%	13.840	3.499
<i>Post Retirement mortality</i>	-1yr	17.355	3.964
<i>Average retirement age</i>	-1yr	18.111	3.793
<i>Withdrawal rate</i>	-50%	18.288	3.793

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
------	-----------	-----------

15 NON-CURRENT PROVISIONS (Cont.)

15.2 Provision for long-service awards

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.

Key assumptions used

The following assumptions were used on the valuation on 30 June 2011/12

Discount rate	6.19%
General Salary Inflation (long-term)	5.97%
Net effective discount rate	0.20%

The salaries used in the valuation include an assumed increase in July 2011 at 6.08%. The next salary increase was assumed to take place in July 2012.

Average retirement age 63 years

Mortality during employment SA 85-90

Withdrawal from service (sample annual rates)	Age		Rate	
			Female	Male
	20	30	24%	16%
40	50	15%	10%	
55		6%	6%	
		2%	2%	
		0%	0%	

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

Post Retirement Healthcare Liability		
Balance at the beginning of year	14,253,000	12,841,000
Contributions to provision	6,323,442	302,629
Expenditure incurred	(136,140)	(135,629)
Increase in provision due to discounting	136,140	1,245,000
Transfer to current provisions	-	-
Balance at the end of year	20,576,442	14,253,000
 Provision for long-service awards:		
Balance at the beginning of year	2,046,693	2,035,295
Contributions to provision	(216,404)	(95,610)
Expenditure incurred	(122,887)	(40,634)
Increase in provision due to discounting	769,804	147,642
Transfer to current provisions	-	-
Balance at the end of year	2,477,206	2,046,693

15.3 Provision for rehabilitation of landfill sites

Provision for rehabilitation of landfill sites:		
Balance at the beginning of year	8,043,327	8,100,000
Contributions to provision	3,400,000	-
Expenditure incurred	(1,223,785)	(56,673)
Balance at the end of year	10,219,542	8,043,327

Seymour
Hogsback
Fort Beaufort

The municipality will be cleaning and covering all sites apart from the sites at Alice and Middledrift that will remain operational.

Landfill sites restoration is a provision that will be revisited each year and estimated. Unlicensed sites should be rehabilitated as required by legislation. The Alice and Middledrift sites are licenced and will remain operational.

The four sites are operated without permits. Penalties of R 10 million per site can be imposed by the Department of Environmental Affairs. The possible penalties have been disclosed under contingent liabilities per note 37.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
16 PROPERTY RATES		
Actual		
Residential	7,152,899	1,997,939
Commercial	2,527,407	8,167,633
State	4,797,894	4,868,588
Agricultural	265,333	533,622
Other	4,326,285	65,089
Total property rates	19,069,818	15,632,871
Property rates - penalties imposed and collection charges	-	-
Total	19,069,818	15,632,871
Valuations		
Residential	1,018,900,244	1,030,066,874
Commercial	360,018,460	549,914,950
State	683,439,743	336,576,643
Municipal	37,795,602	38,349,202
Agricultural	600,405,573	571,574,023
Other	15,855,500	41,565,948
Total Property Valuations	2,716,415,122	2,568,047,640
<p>Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.</p> <p>Rates are levied on a monthly or annual basis with the final date of payment being 30 September for annual levies. Interest at 14% per annum (2010: 14%) is levied on outstanding rates.</p>		
17 SERVICE CHARGES		
Sale of electricity	17,534,725	9,231,427
Refuse removal	6,990,325	5,791,356
Total Service Charges	24,525,050	15,022,783
18 RENTAL OF FACILITIES AND EQUIPMENT		
Rental of facilities	330,088	215,032
Total rentals	330,689	215,032
19 INTEREST EARNED - EXTERNAL INVESTMENTS		
Bank	870,954	1,081,540
Total interest	870,954	1,081,540
20 INTEREST EARNED - OUTSTANDING RECEIVABLES		
Interest on outstanding consumer debtors	1,672,997	5,131,802
Total interest	1,672,997	5,131,802
21 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	76,099,000	72,656,160
MIG Grant	21,693,000	18,037,000
Other Government Grants and Subsidies	8,426,163	7,940,212
Total Government Grant and Subsidies	106,218,163	98,633,372
21.1 Equitable Share		
<p>In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of R81.51, which is funded from the grant.</p>		

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
21 GOVERNMENT GRANTS AND SUBSIDIES (Cont.)		
21.2 MIG Grant		
Balance unspent at beginning of year	-	-
Current year receipts	21,693,000	18,037,000
Conditions met - transferred to revenue	(21,693,000)	(18,037,000)
Conditions still to be met (Refer note 12)	-	-
21.3 Other Government Grants and Subsidies		
Balance unspent at beginning of year	1,037,004	-
Current year receipts	7,559,793	8,977,217
Conditions met - transferred to revenue	(8,426,163)	(7,940,212)
Conditions still to be met (Refer note 12)	170,634	1,037,004
Conditions still to be met in accordance with grant terms disclosed as a liability.		
Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
22 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS		
22.1 Other income		
Other income	1,580,837	4,654,122
Total Other Income	1,580,837	4,654,122
23 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	29,581,478	29,320,478
Employee related costs - Contributions for UIF, pensions and medical aids	5,399,113	5,227,324
Travel, motor car, accommodation, subsistence and other allowances	2,591,138	2,226,161
Housing benefits and allowances	461,036	550,677
Overtime payments	1,616,026	1,334,850
Performance and other bonuses	2,014,774	1,099,884
Other employee related costs	1,430,633	2,505,468
PRMA - Service Cost	878,000	891,000
PRMA - Interest Cost	1,319,000	1,245,000
PRMA - Actuarial Gains/Losses	4,262,582	(588,371)
LSA - Service Cost	324,667	319,326
LSA - Interest Cost	142,385	147,642
LSA - Actuarial Gains/Losses	(127,761)	(414,936)
Employee Related Costs	49,893,071	43,864,502
There were no advances to employees.		
Included in the total for employee costs above are remuneration of individual executive managers as detailed below:		
Remuneration of the Municipal Manager		
Annual Remuneration	461,121	443,031
Travel, motor car, accommodation, subsistence and other allowances	394,142	295,354
Contributions to UIF, Medical and Pension Funds	9,086	1,497
Total	864,349	739,882
Remuneration of the Chief Finance Officer		
Annual Remuneration	384,260	369,185
Travel, motor car, accommodation, subsistence and other allowances	330,729	246,123
Other	2,686	
Contributions to UIF, Medical and Pension Funds	8,826	1,497
Total	726,501	616,806
Remuneration of the LED Manager		
Annual Remuneration	384,260	369,185
Travel, motor car, accommodation, subsistence and other allowances	302,245	246,123
Other	2,923	
Contributions to UIF, Medical and Pension Funds	8,095	1,497
Total	697,524	616,806

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R	
23 EMPLOYEE RELATED COSTS (Cont.)				
Remuneration of Individual Executive Managers		Technical Services R	Corporate Services R	Community Services R
2012				
Annual Remuneration		219,665	384,260	61,531
Travel, motor car, accommodation, subsistence and other allowances		171,912	293,605	160,113
Other		91,653		
Contributions to UIF, Medical and Pension Funds		5,609	7,623	1,974
Total		488,839	685,488	223,618
2011				
Annual Remuneration		369,185	369,185	369,185
Travel, motor car, accommodation, subsistence and other allowances		246,123	246,123	246,123
Contributions to UIF, Medical and Pension Funds		1,497	1,497	1,497
Total		616,806	616,806	616,806
24 REMUNERATION OF COUNCILLORS				
Mayor		656,342	539,656	
Speaker		513,306	234,276	
Executive Committee Members:				
Makeleni MJ		487,028	452,430	
Matyila SP		308,761	213,387	
Mgengo ME		499,786	452,354	
Ngcakaza JN		484,814	213,387	
Sinyongo LL		506,437	46,396	
Councillors		226,844	61,374	
Councillors' pension and medical aid contributions		359,485	322,079	
Councillors' allowances		6,979,152	9,033,924	
Total Councillors' Remuneration		11,021,955	9,957,032	
In-kind Benefits				
The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.				
The Mayor has use of the Council-owned vehicle for official duties. The Executive Mayor has 1 full-time driver.				
25 DEPRECIATION AND AMORTISATION EXPENSE				
Depreciation in assets		22,844,143	21,532,668	
Amortisation		93,456	13,951	
		22,937,599	21,546,619	
26 FINANCE COSTS				
Borrowings		154,224	256,846	
Fair Value Adjustment - Expenditure & Payables		523,167	731,813	
Total Finance Costs		677,391	988,659	
27 BULK PURCHASES				
Electricity		16,730,467	18,163,361	
Total Bulk Purchases		16,730,467	18,163,361	
28 GRANTS AND SUBSIDIES PAID				
Nkonkobe Economic Development Agency (NEDA)		966,603	936,913	
Indigent Subsidy		6,500,345	2,981,691	
Free basic electricity		3,083,013	3,772,410	
Nkonkobe Cricket Development Agency		200,000	-	
		10,749,961	7,691,014	

Nkonkobe Economic Development Agency is paid an unconditional grant to fund the daily operations of the entity. The municipality also pays the audit fees for the entity.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R
29 GENERAL EXPENSES			
Included in general expenses are the following:-			
Advertising		533,313	434,705
Audit fees		2,376,117	2,600,214
Bank charges		270,880	167,950
Bursaries		55,117	66,638
CBP Expenses		528,863	612,924
Clean-up campaigns		334,569	207,662
Conferences and delegations		2,559,673	1,597,816
Consulting fees		3,237,941	3,674,940
Consumables		535,747	395,466
Entertainment		259,921	269,698
Fuel and oil		1,369,578	999,857
Insurance		739,814	875,929
Legal expenses		306,065	591,151
Licence fees - vehicles		168,325	114,102
Licence fees - computers		-	2,350
Membership fees		90,402	7,114
Postage		144,522	325,030
Printing and stationery		557,883	509,106
Rental of office equipment		1,265,063	1,444,714
Rental of computer equipment		-	72,320
Other rentals		72,487	59,458
Security costs		156,234	173,974
Subscription & publication		59,320	824,527
Telephone cost		2,577,385	1,887,264
Training		766,034	1,078,899
Travel and subsistence		39,728	7,406
Uniforms & overalls		284,233	129,922
Valuation costs		213,597	415,138
Water and Sanitation		1,229,408	2,167,408
Ward committee activities		2,461,960	2,246,677
Fencing for farmers		611,085	-
Events		402,890	-
Special Programmes		617,341	-
LED Projects		1,235,153	-
Planning & Consultancy		1,171,839	-
EPWP		4,163,812	-
Other		1,292,122	1,214,534
		32,688,418	25,174,895
30 LOSS ON SALE OF ASSETS			
Property, plant and equipment		69,319	125,458
Total loss on sale of assets		69,319	125,458
The loss on sale of assets represent damaged or lost assets written off			
31 CASH GENERATED BY OPERATIONS			
Surplus/(deficit) for the year		(10,585,894)	(12,284,863)
Adjustment for:-			
Depreciation and amortisation		22,937,599	21,546,619
(Gain) / loss on sale of assets		69,319	125,458
Contribution to provisions - non-current		8,716,061	9,466,725
<i>Operating surplus before working capital changes:</i>		21,137,085	18,853,939
(Increase)/decrease in inventories		(25,028)	(15,472)
(Increase)/decrease in trade receivables		13,207,050	5,673,483
Increase/(decrease) in trade payables		(3,720,082)	729,380
Net cash flows from operating activities		30,599,025	25,241,330
32 CASH AND CASH EQUIVALENTS			
Cash and cash equivalents included in the cash flow statement comprise the following:			
Bank balances and cash		-	2,558,542
Bank overdrafts		738,455	-
Net cash and cash equivalents (net of bank overdrafts)		738,455	2,558,542

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
33 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		
33.1 Unauthorised expenditure		
Reconciliation of unauthorised expenditure		
Opening balance	18,964,980	6,324,221
Unauthorised expenditure current year	28,874,606	12,640,759
Approved by Council or condoned	(18,964,980)	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	<u>28,874,606</u>	<u>18,964,980</u>

Incident Disciplinary steps/criminal proceedings

The municipality incurred unauthorised expenditure as a result of adopting GRAP 17. Depreciation of R22 937 599 on assets was not known therefore not budgeted for as the municipality had never had infrastructure assets valued before. In addition to the above, the municipality had not budgeted for audit fees that were paid on behalf of its entity (NEDA), and other grants and subsidies paid to an amount of R 7 008 275. Bad debts provision to an amount of R 11 214 007 as not budgeted for.

33.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance -	285,106	119,813
Fruitless and wasteful expenditure current year	-	165,294
Condoned or written off by Council	(285,106)	-
Fruitless and wasteful expenditure awaiting condonement	<u>-</u>	<u>285,106</u>

33.3 Irregular expenditure

Reconciliation of irregular expenditure		
Opening balance	4,926,868	2,377,374
Irregular expenditure current year	2,208,637	2,549,495
Condoned or written off by Council	(4,926,868)	-
Transfer to receivables for recovery – not condoned	-	-
Irregular expenditure awaiting condonement	<u>2,208,637</u>	<u>4,926,868</u>

Incident	Disciplinary steps/criminal proceedings	
Supplier		
Propcom Internet	-	722,847
In Service Suppliers	-	826,791
BRM	-	999,857
Tradefirst 94 (Pty) Ltd	589,473.00	-
Kudec Engineering	1,213,324.00	-
Tractor World	405,840.00	-
TOTAL	<u>2,208,637</u>	<u>2,549,495</u>

Tenders advertised on 80:20 points were scored and awarded on scores applicable to 90:10 points. The awarding took place before 07/12/2011. The following are contracts awarded and their values:

- 1) Tradefirst 94 (Pty) Ltd - 589 473
- 2) Kudec Engineering-1 213 324

Tenders advertised on 90:10 points were scored and awarded on scores applicable to 80:20 points.

- 1) Ronnies motors trust t/a Tractor World - 405 840

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
34 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
34.1 Contributions to organised local government		
Opening balance	-	-
Council subscriptions	105,803	59,077
Amount paid - current	(105,803)	(59,077)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

34.2 Audit fees

Opening balance	627,216	1,974,370
Current year audit fee	2,765,940	2,600,214
Amount paid - current year	(2,694,978)	(1,972,998)
Amount paid - previous years	(150,252)	(1,974,370)
Balance unpaid (included in payables)	547,926	627,216

34.3 VAT

The net of VAT input receivables and VAT output payables are shown in note 10.

34.4 PAYE and UIF

Opening balance	-	-
Current year payroll deductions	10,134,087	4,998,726
Amount paid - current year	(10,134,087)	(4,998,726)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

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

34.5 Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and Council Contributions	15,282,826	6,950,157
Amount paid - current year	(15,282,826)	(6,950,157)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

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

34.6 Councillor's arrear consumer accounts

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

as at 30 June 2012

	Total R	Outstanding less than 90 days R	Outstanding more than 90 days R
AR Kganedi	1,148	1,148	-
Total Councillor Arrear Consumer Accounts	1,148	1,148	-
AR Kganedi	164	164	-
NW Nxawe	130	130	-
JH Ndlebe	130	130	-
JM Papu	1,714	1,714	-
Total Councillor Arrear Consumer Accounts	2,138	2,138	-

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R
35 CAPITAL COMMITMENTS			
35.1 Commitments in respect of capital expenditure			
- Approved and contracted for		55,386,324	8,828,302
Property, plant and equipment		47,372,790	8,429,314
Community			398,988
Heritage			
Other		8,013,535	
- Approved but not yet contracted for		-	-
Infrastructure		-	-
Community		-	-
Heritage		-	-
Other		-	-
Total		55,386,324	8,828,302
This expenditure will be financed from:			
- External Loans		-	-
- Government Grants		55,386,324	8,828,302
- Own resources		-	-
- District Council Grants		-	-
		55,386,324	8,828,302

35.2 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	834,597	779,088
In the second to fifth year inclusive	174,027	747,966
After five years	-	-
Total	1,008,624	1,527,054

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Rentals are fixed for an average of five years. No contingent rent is payable.

36 RETIREMENT BENEFIT INFORMATION

36.1 Defined contribution plan

The municipality contributes to the following funds: Government Employee Pension Fund, Verso Pension Fund, Cape Joint Pension Fund, Cape Joint Provident Fund, Salga Pension Fund and Samwu Provident Fund. These membership is in terms of a defined contribution plan. These funds have been registered and governed under the Pension Fund Act, 1956 as amended.

For the period ending 30 June 2012, the monthly contributions towards the Provident Fund are a minimum of 7.5% of the employee's basic salary, which is calculated as the cost to company and a 7.5% is contributed by the employer. The employee reserves the right to contribute a larger percentage as and when he / she so decides. These contributions have been expensed in the statement of financial performance..

36.2 Defined benefit plan

Defined benefit plans are not treated as such as defined by IAS19, but are accounted for as defined contribution plans or as provisions until the Minister of Finance issue an effective date for GRAP 25. Further to this assumption, the exemption in IAS 19 par. 30 is also adopted which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting for due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

Certain employees of the municipality belong to the Post Retirement Healthcare and long-service awards benefit. Details and liabilities have been disclosed as part of Provisions (Note 16) in preparation of implementation of GRAP 25 and details around the most recent actuarial valuation and the plan's financial position is also disclosed in the note.

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
37 CONTINGENT LIABILITY	Estimated outflow including legal costs	
37.1 Claim for damages	<u>220,000</u>	
PLM Construction vs Nkonkobe Municipality - PLM Construction is suing the Municipality for payment in terms of a breach of contract on the construction of a road in Fort Beaufort.	100,000	
B.E Baba vs Nkonkobe Municipality - The plaintiff is claiming for damages caused to his vehicle after it collided with one belonging to the municipality.	50,000	
Spaire (DUMA) vs Nkonkobe Municipality - The plaintiff has instituted civil proceedings against the municipality for wrongly burying another person on a grave site bought by the plaintiff.	<u>70,000</u>	
37.2 Fines and penalties	30,000,000	
The municipality is operating 3 landfill sites without the required permits from the Department of Environmental Affairs. The Department may impose a penalty of up to R 1 0 000 000 per landfill site operated without the required permits or for non-compliance with permit conditions. There is uncertainty if the penalties will be imposed.		
38 CONTINGENT ASSET	Estimated inflow nett of legal costs	
	<u>335,000</u>	
Nkonkobe Municipality vs TradeMart - The municipality is suing for amounts outstanding on the auctioning of municipal property.	100,000	
Nkonkobe Municipality vs Randall & Another - the municipality is suing the defendant for unlawful eviction.	10,000	
Nkonkobe Municipality vs Mdila & Ano - the municipality is suing to recoup funds on a contract illegally entered into.	200,000	
Nkonkobe Municipality vs Q Williams - the municipality is claiming favourable costs from the defendant incurred during the hearing. The matter is complete and the costs are with the taxing master.	<u>25,000</u>	
39 RELATED PARTIES		
Nkonkobe Economic Development Agency	The municipality provides a transfer subsidy to the development agency to assist with its operations. In addition the municipality also settles the entity's audit fees on its behalf.	
Associates	None identified	
Members of key management	None identified	
Close family member of key management	None identified	
Post employment benefit plan for employees of municipality and/or other related parties	None identified	
Other related party relationships	None identified	
Compensation to councillors and other key management	Refer to note 23 & 24	
Related party balances		
No related party balances at year-end		
Related party transactions		
Subsidy paid to Nkonkobe Economic Development Agency	<u>966,603</u>	<u>936,913</u>
40 EVENTS AFTER THE REPORTING DATE		
No events have occurred after 30 June 2012 which necessitates adjustment or disclosure within the annual financial statements.		

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R
--	------	-----------	-----------

41 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

- Provision for Long Service Awards
- Provision for Post Retirement Medical Aid Assistance
- Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)
- Provision for doubtful debts

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Valuation and Impairment of assets - First-time adoption

42 RISK MANAGEMENT

42.1 Maximum credit risk exposure

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

First National Bank	(805,837)	2,489,832
Trade and other receivables	4,838,827	16,811,000
Borrowings - Development Bank of South Africa	-	3,520,171

These balances represent the maximum exposure to credit risk.

42.2 Liquidity risk

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

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

	Less than 1 year	2 - 5 years	More than 5 years
At 30 June 2012			
Trade and other payables from exchange transactions	11,877,420	-	-
Current portion of borrowings	-	-	-
Other current financial liabilities	13,052	-	-
Current portion of finance lease liability	157,211	-	-
Non-current provisions	33,059,081	-	-
Non-current finance lease liability	201,002	-	-
At 30 June 2011			
Trade and other payables from exchange transactions	15,597,714	-	-
Current portion of borrowings	3,520,171	-	-
Other current financial liabilities	13,052	-	-
Non-current provisions	24,343,020	-	-

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

	Note	2012 R	2011 R
42 RISK MANAGEMENT			
42.3 Interest rate risk			
<p>As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.</p> <p>OR</p> <p>The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.</p>			
<p>At year end, financial instruments exposed to interest rate risk were as follows:</p> <ul style="list-style-type: none"> - Call deposits - Notice deposits 			
42.4 Interest rate sensitivity analysis			
<p>The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate</p> <p>The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of</p> <p>A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.</p> <p>As the entity does not have any instruments that effect net assets directly, the disclosure only indicates the effect of the change in interest rates on</p>			
42.5 Other price risk			
<p>Examples include changes in commodity prices.</p>			
43 RESTATEMENT OF COMPARATIVE INFORMATION			
During the year the following prior period error corrections and reclassifications took place:			
<p>LED Expenditure of R4 444 946 which was incorrectly classified as a debtor in 2010 has been corrected. Therefore the opening balance of the comparative year for trade and other receivables has been restated against accumulated surplus.</p> <p>A debtor for R1,459,772 was raised as Grants received in the prior year against Dept of Sports, Arts and Culture in respect of expenses incurred on libraries which is to be recouped in the 2012 financial year. Similarly LED expenditure of R246 923 which was not recognised in prior year has been restated. Surplus for the year was restated accordingly.</p> <p>Assets to the value of R 103 555 that were expensed to Repairs and maintenance and General expenses in the prior year were correctly classified as Property, Plant and Equipment in the prior year and surplus for the year updated accordingly.</p> <p>An invoice for R 16,006 for assets purchased in the prior year was paid in the current year, therefore the Accounts payable was restated to account for the creditor and Property, Plant and Equipment was restated at year-end.</p>			
<u>As previously stated:</u>			
Statement of Financial Performance			
Government grants and subsidies			(96,926,677)
Repairs and maintenance			7,415,778
General expenses			25,105,748
Statement of Financial Position			
Trade and other receivables from exchange transactions			19,796,173
Trade and other payables			(15,581,707)
Current portion of unspent conditional grants and receipts			(1,283,927)
<u>Restatement movements:</u>			
Statement of Financial Performance			
Government grants and subsidies			1,706,695
Repairs and maintenance			(34,408)
General expenses			18,401
Net effect on accumulated surplus			1,690,689
Restatement to opening balance of accumulated surplus of comparative period			(4,444,946)
Statement of Financial Position			
Trade and other receivables from exchange transactions			2,985,173
Trade and other payables			16,007
Current portion of unspent conditional grants and receipts			(246,923)
			<u><u>-</u></u>

Nkonkobe Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

Note	2012 R	2011 R
43 RESTATEMENT OF COMPARATIVE INFORMATION (Cont.)		
<u>Restated balances:</u>		
<u>Statement of Financial Performance</u>		
Government grants and subsidies		(98,633,372)
Repairs and maintenance		7,450,186
General expenses		25,174,895
<u>Statement of Financial Position</u>		
Trade and other receivables from exchange transactions		16,811,000
Trade and other payables		(15,597,714)
Current portion of unspent conditional grants and receipts		(1,037,004)
44 CHANGE IN ACCOUNTING POLICY		
Accounting Policies have been consistently applied, except as indicated below: The municipality changes an accounting policy only if the change: a) is required by a Standard of GRAP; or b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the		
The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2012 (Retrospectively) is as follows:		
Property, Plant and Equipment / Intangible Assets / Investment property		
Previously stated		46,066,870
Recognition of standards previously not applied - GRAP Statements relating to assets		246,295,936
		<u><u>292,362,806</u></u>
Provisions (current and non-current)		
Previously stated		(16,299,693)
Recognition of Provision for Landfill Site previously not recorded - GRAP 19		(8,043,327)
		<u><u>(24,343,020)</u></u>
Depreciation and amortisation		
Previously stated		-
Recognition of Depreciation and Amortisation		21,546,619
		<u><u>21,546,619</u></u>
Other		
Gain / (loss) on sale of assets		125,458
<u>Statement of Financial Position - Previously</u>		
Property, plant and equipment		46,066,870
Intangible assets		-
Investment Property		-
Non-current provisions		(16,299,693)
<u>Restatement movements:</u>		
Depreciation and amortisation expense - Recognition of Depreciation previously not recorded - GRAP 16-17		21,546,619
Gain / (loss) on sale of assets - Recognition of Gain/Loss on sale of assets previously not recorded - GRAP 16-17		125,458
Net effect on accumulated surplus		<u><u>21,672,077</u></u>
Cumulative changes to opening balance of accumulated surplus		<u><u>(259,924,682)</u></u>
Recognition of standards previously not applied - GRAP Standards relating to assets		246,295,933
Non-current provisions - Recognition of Provision for Landfill Site previously not recorded - GRAP 19		(8,043,327)
Total movement in Statement of Financial Position		<u><u>-</u></u>
<u>Restated balances:</u>		
<u>Statement of Financial Performance</u>		
Depreciation and amortisation expense		21,546,619
Gain / (loss) on sale of assets		125,458
<u>Statement of Financial Position</u>		
Property, plant and equipment		290,301,781
Intangible assets		121,418
Investment Property		1,961,758
Non-current provisions		(24,343,020)

Nkonkobe Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2012

Note

2012
R

2011
R

44 CHANGE IN ACCOUNTING POLICY (Cont.)

The changes in accounting policy resulted from the application of GRAP Directive 4 which exemption municipalities from valueing assets for a period of 3 years after initial adoption of the GRAP reporting framework. Nkonkobe is a low capacity municipality and first time adoption of the GRAP framework was done during 2009/10, hence the full implementation of all asset related GRAP standards during 2011/12 retrospectively.

The retrospective restatement to years preceding the comparative period is virtually impracticable as the restatement relates to valuation of infrastructure assets which have been in existence from a number of years prior to implementation of the GRAP accounting framework. As such the municipality adopted acceptable models such as Directive 4, Directive 7 and Asset Management Guidelines (2008) to retrospectively value and restate to periods before the opening balance of the comparative year (1 July 2011). The impact of deemed values in tose prior periods does not impact on the usefulness of the annual financial statements to the users thereof.

45 COMPARISON WITH THE BUDGET

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

Nkonkobe Local Municipality
APPENDIX A
SCHEDULE OF EXTERNAL LOANS
as at 30 June 2012

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2011	Received during the period	Redeemed / written off during the period	Balance at 30 June 2012
			R	R	R	R
LONG-TERM LOANS						
DBSA : @ 16% (Loan Accrual)	61,001,114	30.09.1998	5,483.99	-	5,483.99	-
DBSA : @ 11%	61,003,978	30.09.2014	2,138,027.16	290,535.20	1,847,491.95	0.01
DBSA : @ 11% (Loan accrual)	61,003,978	30.09.2014	1,376,659.95	321,200.98	1,703,491.57	-5,630.64
Total long-term loans			3,520,171	611,736	3,556,468	(5,631)
Transferred to Sundry Debtors			-	-	-	5,631
TOTAL EXTERNAL LOANS			3,520,171	611,736	3,556,468	-

Nkonkobe Local Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2012

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value	
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance				
	R	R	R	R	R	R	R	R	R	R				R
Land														
Land	17,701,400	1,778,800	-	-	19,480,200	-	-	-	-	-	-	-	-	19,480,200
Landfill Sites	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	17,701,400	1,778,800	-	-	19,480,200	-	-	-	-	-	-	-	-	19,480,200
Buildings	22,180,708	2,169,900	-	-	24,350,608	1,027,316	533,640	-	-	1,560,956	-	-	-	22,789,652
Infrastructure														
Low Voltage	28,268,180	-	-	-	28,268,180	1,608,289	804,144	-	-	2,412,433	-	-	-	25,855,747
Roads	169,638,657	1,464,031	-	-	171,102,688	30,933,276	16,204,671	-	-	47,137,947	-	-	-	123,964,741
Medium Voltage	20,781,237	-	-	-	20,781,237	1,496,389	748,194	-	-	2,244,583	-	-	-	18,536,654
Waste Site	1,557,089	-	-	-	1,557,089	236,903	118,451	-	-	355,354	-	-	-	1,201,735
Street Lighting	2,519,640	24,289	-	-	2,543,930	400,062	206,288	-	-	606,349	-	-	-	1,937,580
Signage	591,430	5,923	-	-	597,353	121,849	67,899	-	-	189,747	-	-	-	407,605
Structure	1,236,614	378,510	-	-	1,615,124	112,858	59,467	-	-	172,325	-	-	-	1,442,800
Road Kerbing	2,988,525	41,581	-	-	3,030,106	381,396	211,085	-	-	592,481	-	-	-	2,437,625
Storm Water	8,031,569	-	-	-	8,031,569	859,075	458,356	-	-	1,317,431	-	-	-	6,714,137
	235,612,942	1,914,335	-	-	237,527,277	36,150,095	18,878,556	-	-	55,028,651	-	-	-	182,498,626
Community Assets														
Parks & Gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	161,723	-	-	-	161,723	-	-	-	(161,723)
Cemetery	3,396,649	-	-	-	3,396,649	1,027,711	85,940	-	-	1,113,651	-	-	-	2,282,998
Sports Ground	10,095,649	-	-	-	10,095,649	-	513,855	-	-	513,855	-	-	-	9,581,794
Stadiums	-	-	-	-	-	15,445	-	-	-	15,445	-	-	-	(15,445)
Halls	2,619,093	13,286,409	-	-	15,905,502	-	188,642	-	-	188,642	-	-	-	15,716,860
Other	21,782,210	-	-	8,645,694	30,427,904	-	-	-	-	-	-	-	-	30,427,904
Swimming Pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	37,690,706	13,286,409	-	8,645,694	59,825,704	1,204,879	788,438	-	-	1,993,317	-	-	-	57,832,388
Heritage Assets														
Historical Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paintings & Artifacts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total carried forward	313,185,756	19,149,444	-	8,645,694	341,183,789	38,382,289	20,200,633	-	-	58,582,923	-	-	-	282,600,866

Nkonkobe Local Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2012

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance			
	R	R	R	R	R	R	R	R	R	R			
Total brought forward	313,185,756	19,149,444	-	8,645,694	341,183,789	38,382,289	20,200,633	-	-	58,582,923	-	-	282,600,866
Other Assets													
Furniture and Office Equipment	2,925,494	489,706	(74,415)	-	3,340,786	1,908,351	291,566	(17,773)	-	2,182,145	-	-	1,158,641
Furniture & Fittings	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-
Emergency Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport Assets	8,556,042	2,300,556	-	-	10,856,598	2,922,724	1,160,848	-	-	4,083,572	-	-	6,773,026
Fire engines	-	-	-	-	-	-	-	-	-	-	-	-	-
Machinery and Equipment	8,704,687	2,727,452	-	-	11,432,139	2,051,232	830,673	-	-	2,881,904	-	-	8,550,235
Computer Equipment	1,168,740	350,784	(25,029)	-	1,494,495	728,574	243,686	(12,352)	-	959,908	-	-	534,586
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
	21,354,964	5,868,498	(99,444)	-	27,124,018	7,610,882	2,526,773	(30,125)	-	10,107,530	-	-	17,016,488
Finance Lease Assets													
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	334,540,720	25,017,942	(99,444)	8,645,694	368,307,807	45,993,171	22,727,407	(30,125)	-	68,690,453	-	-	299,617,354

Nkonkobe Local Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value	
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance				
	R	R	R	R	R	R	R	R	R	R				R
Land														
Land	17,701,400	-	-	-	17,701,400	-	-	-	-	-	-	-	-	17,701,400
Landfill Sites	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	17,701,400	-	-	-	17,701,400	-	-	-	-	-	-	-	-	17,701,400
Buildings	21,932,000	248,708	-	-	22,180,708	511,312	516,005	-	-	1,027,317	-	-	-	21,153,391
Infrastructure														
Low Voltage	28,268,180	-	-	-	28,268,180	804,144	804,144	-	-	1,608,289	-	-	-	26,659,892
Roads	155,242,532	14,396,125	-	-	169,638,657	15,281,194	15,652,082	-	-	30,933,276	-	-	-	138,705,381
Medium Voltage	20,781,237	-	-	-	20,781,237	748,194	748,194	-	-	1,496,389	-	-	-	19,284,849
Waste Site	1,557,089	-	-	-	1,557,089	118,451	118,451	-	-	236,903	-	-	-	1,320,186
Street Lighting	2,327,899	191,741	-	-	2,519,640	198,563	201,499	-	-	400,062	-	-	-	2,119,579
Signage	499,564	91,866	-	-	591,430	58,776	63,073	-	-	121,849	-	-	-	469,581
Structure	1,236,614	-	-	-	1,236,614	56,429	56,429	-	-	112,858	-	-	-	1,123,757
Road Kerbing	2,380,038	608,487	-	-	2,988,525	184,697	196,699	-	-	381,396	-	-	-	2,607,129
Storm Water	7,016,007	1,015,561	-	-	8,031,569	422,221	436,854	-	-	859,075	-	-	-	7,172,494
	219,309,161	16,303,781	-	-	235,612,942	17,872,670	18,277,425	-	-	36,150,095	-	-	-	199,462,847
Community Assets														
Parks & Gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemetery	3,396,649	-	-	-	3,396,649	75,783	85,940	-	-	161,723	-	-	-	3,234,926
Sports Ground	10,095,649	-	-	-	10,095,649	513,855	513,855	-	-	1,027,711	-	-	-	9,067,938
Stadiums	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Halls	-	2,619,093	-	-	2,619,093	-	15,445	-	-	15,445	-	-	-	2,603,648
Other	-	-	-	21,782,210	21,782,210	-	-	-	-	-	-	-	-	21,782,210
Swimming Pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	13,492,298	2,619,093	-	21,782,210	37,893,601	589,638	615,240	-	-	1,204,879	-	-	-	36,688,722
Heritage Assets														
Historical Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paintings & Artifacts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total carried forward	272,434,860	19,171,582	-	21,782,210	313,388,651	18,973,620	19,408,670	-	-	38,382,290	-	-	-	275,006,361

Nkonkobe Local Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2011

	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value
	Opening Balance	Additions	Disposals	Under	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment	Closing Balance			
	R	R	R	R	R	R	R	R	R	R			
Total brought forward	272,434,860	19,171,582	-	21,782,210	313,388,651	18,973,620	19,408,670	-	-	38,382,290	-	-	275,006,361
Other Assets													
Furniture and Office Equipment	2,165,891	802,648	(43,044)	-	2,925,494	1,494,082	425,265	(10,996)	-	1,908,351	-	-	1,017,143
Furniture & Fittings	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-
Emergency Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport Assets	7,178,395	1,650,298	(272,651)	-	8,556,042	2,353,731	787,641	(218,648)	-	2,922,724	-	-	5,633,318
Fire engines	-	-	-	-	-	-	-	-	-	-	-	-	-
Machinery and Equipment	7,075,329	1,642,516	(13,158)	-	8,704,687	1,334,950	727,329	(11,048)	-	2,051,232	-	-	6,653,456
Computer Equipment	841,085	396,167	(68,513)	-	1,168,739	623,474	136,316	(31,216)	-	728,574	-	-	440,166
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-
	17,260,700	4,491,629	(397,365)	-	21,354,963	5,806,237	2,076,552	(271,908)	-	7,610,881	-	-	13,744,082
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	289,695,559	23,663,210	(397,365)	21,782,210	334,743,614	24,779,857	21,485,223	(271,908)	-	45,993,171	-	-	288,750,443

Nkonkobe Local Municipality
APPENDIX C
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2012

2011			2012		
Actual Income	Actual Expenditure	Surplus / (Deficit)	Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R	R	R	R
6,780,018	16,576,624	(9,796,605)	18,922,893	19,383,936	(461,044)
104,099,741	46,212,124	57,887,617	68,796,800	57,992,350	10,804,450
	3,977,485	(3,977,485)	3,175,023	7,674,999	(4,499,976)
19,182,934	20,835,672	(1,652,737)	21,223,447	23,417,367	(2,193,920)
12,174,393	32,907,409	(20,733,016)	44,381,725	58,547,810	(14,166,085)
-	-	-			
142,237,087	120,509,314	21,727,773	156,499,888	167,016,462	(10,516,575)

Nkonkobe Local Municipality
APPENDIX D
STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (i.t.o. Council Approved By- law)	Final Budget	Actual Income	Unauthorised Expenditure	Variance	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget
	R	R	R	R	R	R	R	R	R
Financial Performance									
Property Rates	11,700,000	13,000,000	-	13,000,000	19,069,818	(6,069,818)	(6,069,818)	147%	163%
Service Charges	36,100,000	41,100,000	-	41,100,000	24,525,050	16,574,950	16,574,950	60%	68%
Investment Revenue	500,000	1,100,000	-	1,100,000	870,954	229,046	229,046	79%	174%
Transfers Recognised - Operational	87,032,171	87,377,171	-	87,377,171	106,218,163	(18,840,992)	(18,840,992)	122%	122%
Other Own Revenue	24,889,878	24,814,888	-	24,814,888	5,815,904	18,998,984	18,998,984	23%	23%
Total Revenue (Excluding Capital Transfers & Contributions)	160,222,049	167,392,059	-	167,392,059	156,499,888	10,892,171	10,892,171	93%	98%
Employee Costs	54,276,923	55,206,210	(5,236,867)	49,969,343	49,893,071	76,272	76,272	100%	92%
Remuneration Of Councillors	12,266,580	12,266,580	(380,000)	11,886,580	11,021,955	864,625	864,625	93%	90%
Debt Impairment	-	-	-	-	11,214,007	(11,214,007)	(11,214,007)	0%	0%
Depreciation & Asset Impairment	-	-	-	-	22,937,599	(22,937,599)	(22,937,599)	0%	0%
Finance Charges	180,000	200,000	477,391	677,391	677,391	(0)	(0)	100%	376%
Materials & Bulk Purchases	20,000,000	22,000,000	-	22,000,000	16,730,467	5,269,533	5,269,533	76%	84%
Transfers & Grants	600,000	600,000	10,149,961	10,749,961	10,749,961	0	0	100%	1792%
Other Expenditures	47,798,546	50,544,164	(5,469,485)	45,074,679	43,792,012	1,282,667	1,282,667	97%	92%
Total Expenditure	135,122,049	140,816,954	(459,000)	140,357,954	167,016,463	(26,658,509)	(26,658,509)	119%	124%
Surplus/(Deficit)	25,100,000	26,575,105	459,000	27,034,105	(10,516,575)	37,550,680	37,550,680	-39%	-42%
Transfers Recognised - Capital	-	-	-	-	-	-	-	-	-
Contributions Recognised - Capital & Contributed Assets	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) After Capital Transfers & Contributions	25,100,000	26,575,105	459,000	27,034,105	-	27,034,105	-	0%	0%
Share Of Surplus/(Deficit) Of Associate	-	-	-	-	-	-	-	-	-
Surplus/(Deficit For The Year)	25,100,000	26,575,105	459,000	27,034,105	-	27,034,105	-	0%	0%
Capital Expenditure & Funds Sources									
Capital Expenditure									
Transfers Recognised - Capital	20,608,350	20,608,350	10,000,000	30,608,350	27,403,635	3,204,715	3,204,715	90%	133%
Public Contributions & Donations	-	-	-	-	-	-	-	-	-
Borrowing	3,300,000	3,654,000	-	3,654,000	-	3,654,000	3,654,000	0%	0%
Internally Generated Funds	21,800,000	22,921,105	(9,541,000)	13,380,105	6,439,882	6,940,223	6,940,223	48%	30%
Total Sources Of Capital Funds	45,708,350	47,183,455	459,000	47,642,455	33,843,517	13,798,938	13,798,938	71%	74%
Cash flows									
Net Cash From (Used) Operating	-	-	-	-	-	-	-	-	-
Net Cash From (Used) Investing	42,408,350	43,529,455	-	43,988,455	-	43,988,455	43,988,455	0%	0%
Net Cash From (Used) Financing	3,300,000	3,654,000	-	3,654,000	-	3,654,000	3,654,000	0%	0%
Cash/Cash Equivalents At The Year End	45,708,350	47,183,455	-	47,642,455	-	47,642,455	47,642,455	0%	0%