

Nkonkobe Local Municipality



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

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

Index	Page
Cover	2
General Information	3-4
Accounting Officers' Report and Approval	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Accounting Policies	10-16
Notes to the Annual Financial Statements	17-34
Appendix A: Schedule of External Loans	35
Appendix B: Segmental Analysis of Property, Plant and Equipment	36
Appendix C: Segmental Statement of Financial Performance	37
Appendix D: Actual versus Budget	38

Annual Financial Statements

for

Nkonkobe Local Municipality

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

Province:

Eastern Cape

AFS rounding:

<i>R (i.e. only cents)</i>

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:	Makedamav@nkonkobe.gov.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 2011

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:	bganyaza@nkonkobe.co.za

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

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 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 2012 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 6 to 34, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Mr. K. C Maneli
Accounting officer

31 August 2011

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

	Note	2011 R	2010 R
ASSETS			
Current assets			
Cash and cash equivalents	1	2 558 542	9 170 546
Trade and other receivables from exchange transactions	2	26 037 508	15 926 395
Other receivables from non-exchange transactions	3	479	2 500 000
Inventories	4	565 355	549 883
VAT receivable	8	1 177 507	4 454 523
Non-current assets			
Property, plant and equipment	5	46 066 870	21 326 634
Total assets		76 406 260	53 927 981
LIABILITIES			
Current liabilities			
Trade and other payables	6	15 802 046	16 134 433
Consumer deposits	7	1 037 039	941 808
Current portion of unspent conditional grants and receipts	9	1 283 927	-
Current portion of borrowings	10	3 520 171	5 251 360
Other current financial liabilities	11	12 840	1 313
Non-current liabilities			
Non-current provisions	12	16 299 693	14 876 295
Total liabilities		37 955 716	37 205 209
Net assets		38 450 545	16 722 772
NET ASSETS			
Accumulated surplus / (deficit)		38 450 545	16 722 772
Total net assets		38 450 545	16 722 772

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

	Note	2011 R	2010 R
Revenue			
Property rates	13	15 632 871	10 099 057
Service charges	14	15 022 783	25 368 047
Rental of facilities and equipment	15	215 032	157 376
Interest earned - external investments	16	1 081 540	3 902 305
Interest earned - outstanding receivables	17	5 131 802	3 961 614
Fines		189 330	118 080
Licences and permits		2 180 958	1 733 442
Government grants and subsidies	18	97 625 611	86 568 927
Other income	20	5 157 161	5 602 899
Total revenue		142 237 087	137 511 745
Expenses			
Employee related costs	21	43 909 020	37 801 420
Remuneration of councillors	22	9 957 032	9 975 522
Bad debts		7 155 479	46 518 157
Depreciation and amortisation expense	23	-	-
Repairs and maintenance		7 415 778	5 745 428
Finance costs	24	204 248	845 423
Bulk purchases	25	18 163 361	14 639 522
Grants and subsidies paid	26	7 691 014	3 657 638
General expenses	27	26 013 381	36 461 797
Total expenses		120 509 314	155 644 907
Surplus / (deficit) for the period		21 727 773	(18 133 162)

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

	Accumulated Surplus/(Deficit)	Total: Net Assets
Note	R	R
Balance at 30 June 2009	21 021 689	21 021 689
Correction of prior period error	13 834 244	13 834 244
Restated balance	34 855 933	34 855 933
Surplus / (deficit) for the period	44 126 424	44 126 424
Correction of prior period error	(62 259 585)	(62 259 585)
Surplus / (deficit) for the period	(18 133 161)	(18 133 161)
Balance at 30 June 2010	16 722 772	16 722 772
Surplus / (deficit) for the period	21 727 773	21 727 773
Balance at 30 June 2011	38 450 545	38 450 545

Nkonkobe Local Municipality

CASH FLOW STATEMENT

as at 30 June 2011

	Note	2011 R	2010 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		132 110 719	72 558 568
Sales of goods and services		21 893 111	(4 973 848)
Grants		98 909 539	68 892 881
Interest received		1 081 540	3 902 305
Other receipts		10 226 530	4 737 231
Payments		(112 251 297)	(122 792 481)
Employee costs		(52 442 655)	(46 265 070)
Suppliers		(51 913 380)	(72 024 351)
Interest paid		(204 248)	(845 423)
Grants & Transfers		(7 691 014)	(3 657 638)
Net cash flows from operating activities	28	19 859 422	(50 233 913)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)		(24 740 236)	(21 326 634)
Change in accumulated surplus		-	66 885 730
Net cash flows from investing activities		(24 740 236)	45 559 096
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1 731 189)	(3 427 021)
Net cash flows from financing activities		(1 731 189)	(3 427 021)
Net increase / (decrease) in net cash and cash equivalents		(6 612 003)	(8 101 838)
Net cash and cash equivalents at beginning of period		9 170 546	(1 068 708)
Net cash and cash equivalents at end of period	29	2 558 542	9 170 546

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

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

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

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

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

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

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

1.2 PRESENTATION CURRENCY

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

1.3 GOING CONCERN ASSUMPTION

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

1.4 COMPARATIVE INFORMATION

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

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

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET

1.5 EFFECTIVE

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

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

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

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

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

2 PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

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

When significant components of an item of property, plan 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 revalutaion less any subsequent accumulated depreciation and impairment losses.

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

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

2.3 SUBSEQUENT MEASUREMENT - COST MODEL

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

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

2.4 DEPRECIATION AND IMPAIRMENT

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

	Years		Years
Infrastructure		Other	
Roads and Paving	10 - 30	Buildings	30
Pedestrian Malls	30	Specialist vehicles	5 - 20
Electricity	20 - 30	Other vehicles	5 - 10
Water	40	Office equipment	3 - 7
Sewerage	15 - 20	Furniture and fittings	7 - 10
		Watercraft	15
Community		Bins and containers	5
Housing	30	Specialised plant and equipment	10 - 15
Recreational Facilities	20 - 30	Other items of plant and equipment	2 - 5
Security	5	Landfill sites	30
		Improvements	30

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

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

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

2.5 DERECOGNITION

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

2.6 DIRECTIVE 4 IMPACT - PROPERTY, PLANT AND EQUIPMENT (GRAP 17)

In terms of directive 4 the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment. The Standard of GRAP on Property, Plant and Equipment was initially adopted on 1 July 2008.

Due to the fact that the municipality has taken advantage of the transitional provisions, Property, Plant and Equipment were not measured in accordance with the Standard of GRAP on Property, Plant and Equipment.

Property, Plant and Equipment acquired prior to the date of initial adoption of the Standard of GRAP are measured at provisional amounts (Nil value) in line with Directive 4. Additions to Property, Plant and Equipment since the Standard of GRAP on Property, Plant and Equipment was initially adopted are recognised at cost. No depreciation is recognised on these assets as all the related elements of the depreciation calculation could not be considered at year end.

No measurement adjustments were made for the year ending 30 June 2011.

3 INVENTORIES

3.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. 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 municipality 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.

3.2 SUBSEQUENT MEASUREMENT

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.

In general, the basis of allocating cost to inventory items is the first-in, first-out method.

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

4 FINANCIAL INSTRUMENTS

4.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

4.2 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.

4.2.1 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.

4.2.2 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.

4.2.3 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.

4.2.4 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.

5 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.

6 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.

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

7 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.

8 PROVISIONS

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

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

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

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.

9 LEASES

9.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets 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.

9.2 MUNICIPALITY AS LESSOR

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

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

10 REVENUE

10.1 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 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 the average monthly consumption of consumers.

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.

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.

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.

10.2 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.

10.3 GRANTS, TRANSFERS AND DONATIONS

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

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

11 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.

12 RETIREMENT BENEFITS

12.1 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.

12.2 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.

12.3 POST RETIREMENT HEALTH CARE BENEFITS

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover these liabilities.

13 IMPAIRMENT OF ASSETS

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

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

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

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

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

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

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

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

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

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

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

Note	2011 R	2010 R
1 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of the following:		
Cash at bank	2 481 164	(3 928 858)
Call deposits	77 378	13 099 404
	2 558 542	9 170 546
The Municipality has the following bank accounts: -		
<u>Current Account (Primary Bank Account)</u>		
FNB - Fort Beaufort: 62026192336	2 481 164	(3 928 858)
Cash book balance at beginning of year	(3 928 858)	-
Cash book balance at end of year	2 481 164	(3 928 858)
Bank statement balance at beginning of year	3 624 977	-
Bank statement balance at end of year	8 146 376	3 624 977
<u>Current Account (Other Account)</u>		
Standard Bank-Account number 082142076 (Nkonkobe Fresh Produce)		
Cashbook Balance	67 381	68 710
Bank Statement Balance	67 381	68 710
First National Bank -Account number 62055123170 (Alice Golf Area 1111)		
Cashbook Balance	(1)	37 934
Bank Statement Balance	-	37 934
First National Bank -Account number 6205512345 (Kuntselamanzi)		
Cashbook Balance	(0)	99
Bank Statement Balance	-	99
First National Bank -Account number 62217267203 (Business Money Market)		
Cashbook Balance	-	-
Bank Statement Balance	-	270 267
First National Bank -Account number 62044016922 (Coupon Upper Limits)		
Cashbook Balance	(0)	146 627
Bank Statement Balance	-	146 627
First National Bank 62083773369 (Equit/Suspense)		
Cashbook Balance	-	5 860 701
Bank Statement Balance	-	5 860 701
First National Bank - Account number 62055122940 (FB Golf Area 1177)		
Cashbook Balance	-	192 440
Bank Statement Balance	-	192 440
First National Bank -Account number 62062126555 (FBT Goma Goma)		
Cashbook Balance	-	16 768
Bank Statement Balance	-	16 768
First National Bank -Account number 62055123039 (FBT Mpolweni 500)		
Cashbook Balance	-	73 980
Bank Statement Balance	-	73 980
First Nation Bank -Account number 62026753766 (Fishing Project)		
Cashbook Balance	-	101 283
Bank Statement Balance	-	101 283
First National Bank -Account number 62118198375 (FMG/MSIG/Umsobomvu)		
Cashbook Balance	-	518 421
Bank Statement Balance	-	518 421
First National Bank -Account number 62067691975 (Kwankobonkobo Peoples Housing Project)		
Cashbook Balance	-	929 954
Bank Statement Balance	-	929 954

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

	Note	2011 R	2010 R
First National Bank -Account number 62062125482 (LG SETA)			
Cashbook Balance		(1)	-
Bank Statement Balance		-	342
First National Bank -Account number 62067692303 (MacFarlan Housing)			
Cashbook Balance		1	181 284
Bank Statement Balance		-	181 284
First National Bank -Account number 62068501115 (MacFarlan Housing)			
Cashbook Balance		-	315
Bank Statement Balance		-	211
First National Bank -Account number 62026753815 (Middledrift Housing)			
Cashbook Balance		1	20 788
Bank Statement Balance		-	20 788
First National Bank -Account number 62035011519 (MIG 2)			
Cashbook Balance		-	-
Bank Statement Balance		-	15 422
First National Bank -Account number 62111847854 (MIG Funding)			
Cashbook Balance		10 001	2 692 715
Bank Statement Balance		10 001	2 692 715
First National Bank -Account number 62085681594 (MIG)			
Cashbook Balance		-	56 521
Bank Statement Balance		-	56 587
First National Bank -Account number 62055132189 (NER ELECTRICITY ACC)			
Cashbook Balance		0	924 869
Bank Statement Balance		-	924 869
First National Bank -Account number 62075807465 (Primary Health Care)			
Cashbook Balance		-	3 294
Bank Statement Balance		-	3 294
First National Bank -Account number 62067691735 (Erhoxeni Housing Project)			
Cashbook Balance		-	240 004
Bank Statement Balance		-	240 004
First National Bank -Account number 62068499188 (Roxeni Housing Project)			
Cashbook Balance		(4)	23 328
Bank Statement Balance		-	23 332
First National Bank -Account number 62055123112 (Seymour Ext 6-465)			
Cashbook Balance		0	22 266
Bank Statement Balance		-	22 266
First National Bank -Account number 62035502287(Ward Committees)			
Cashbook Balance		-	2 630
Bank Statement Balance		-	2 630
First National Bank -Account number 62075807689 (Valuation Grant Fund)			
Cashbook Balance		-	-
Bank Statement Balance		-	1 772
First National Bank -Account number 74277113152 (Bus Fixed Maturity Notice)			
Cashbook Balance		(0)	-
Bank Statement Balance		-	-
First National Bank -Account number 74278533672 (Bus Fixed Maturity Notice)			
Cashbook Balance		-	-
Bank Statement Balance		-	-

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

	Note	2011 R	2010 R
First National Bank -Account number 74310079972 (Comm Fixed Maturity)			
Cashbook Balance		-	-
Bank Statement Balance		-	-
First National Bank -Account number 74277111891 (Business Fixed Maturity)			
Cashbook Balance		-	-
Bank Statement Balance		-	-
First National Bank -Account number 74276936373 (Business Fixed Maturity)			
Cashbook Balance		-	-
Bank Statement Balance		-	-
Cash book balance at beginning of year		13 099 404	654 104
Cash book balance at end of year		77 378	13 099 404
Cash on hand			
Total cash and cash equivalents		2 558 542	9 170 546
Total bank overdraft		-	-

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	Gross Balances	Provision for Doubtful Debts	Net Balance
<u>Trade receivables</u>	R	R	R
as at 30 June 2011			
Service debtors			
Electricity	14 531 139	-	14 531 139
Refuse	3 603 915	-	3 603 915
Rates and sundry services	14 682 190	-	14 682 190
Provision for Doubtful Debts	-	(18 866 779)	(18 866 779)
Total	32 817 244	(18 866 779)	13 950 465
Other receivables			
Sundry Debtors	130 237	-	130 237
Other Debtors	9 490 800	-	9 490 800
Bank suspense accounts	2 466 004	-	2 466 004
Other receivables	12 087 042	-	12 087 042
Total Trade and other receivables	44 904 286	(18 866 779)	26 037 508
as at 30 June 2010			
Service debtors			
Electricity	7 090 170	-	7 090 170
Refuse	2 731 434	-	2 731 434
Rates and sundry services	124 370 130	-	124 370 130
Provision for Doubtful Debts	-	(124 903 256)	(124 903 256)
Total	134 191 733	(124 903 256)	9 288 477
Other receivables			
Sundry Debtors	268 166	-	268 166
Other Debtors	5 134 250	-	5 134 250
Bank suspense accounts	1 235 502	-	1 235 502
Other receivables	6 637 918	-	6 637 918
Total Trade and other receivables	140 829 651	(124 903 256)	15 926 395
Rates & Refuse: Ageing			
Current (0 – 30 days)		892 476	487 007
31 - 60 Days		789 964	596 381
61 - 90 Days		15 562 686	579 347
Greater than 90 days		1 040 979	27 417 705
Total		18 286 105	29 080 440

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

Note	2011 R	2010 R
Electricity: Ageing		
Current (0 – 30 days)	440 471	2 049 526
31 - 60 Days	6 348 502	1 743 021
61 - 90 Days	6 915 049	1 089 711
Greater than 90 days	827 116	64 785 861
Total	14 531 139	69 668 119

Summary of Debtors by Customer Classification

	Consumers R	Industrial / Commercial R	National and Provincial Government R
as at 30 June 2011			
Current (0 – 30 days)	534 657	285 434	512 856
31 - 60 Days	2 863 303	1 528 612	2 746 551
61 - 90 Days	9 016 021	4 813 323	8 648 392
Greater than 90 days	749 310	400 029	718 757
Sub-total	13 163 290	7 027 398	12 626 556
Less: Provision for doubtful debts	(7 567 634)	(4 040 082)	(7 259 063)
Total debtors by customer classification	5 595 656	2 987 316	5 367 493
as at 30 June 2010			
Current (0 – 30 days)	1 722 483	382 244	1 342 227
31 - 60 Days	1 588 617	352 537	1 237 914
61 - 90 Days	1 133 407	251 520	883 196
Greater than 90 days	62 612 656	13 894 662	48 790 271
Sub-total	67 057 163	14 880 963	52 253 607
Less: Provision for doubtful debts	(62 415 604)	(13 850 933)	(48 636 720)
Total debtors by customer classification	4 641 560	1 030 030	3 616 888

2 Reconciliation of the doubtful debt provision

Balance at beginning of the year	124 903 256	65 372 569
Contributions to provision	18 866 779	59 530 687
Doubtful debts written off against provision	(106 036 477)	-
Reversal of provision	-	-
Balance at end of year	18 866 779	124 903 256

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).

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 332 401	-
2 months past due	7 138 466	-
3 months past due	22 477 735	-

Trade and other receivables impaired

As of 30 June 2011, trade and other receivables of R 27 533 339 (2010: R 124 903 256) were impaired and provided for.

The ageing of these receivables is as follows:

Over 4 months	18 866 779	124 903 256
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No debtors have been pledged as security.

3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Other debtors	479	2 500 000
Total Other Debtors	479	2 500 000

4 INVENTORIES

Closing balance of inventories:	565 355	549 883
Consumable stores	565 355	549 883

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

5 PROPERTY, PLANT AND EQUIPMENT

5 Reconciliation of Carrying Value	Buildings	Infrastructure	Other Assets	Total
	R	R	R	R
as at 1 July 2010	2 779 196	12 776 311	5 771 126	21 326 634
Cost/Revaluation	2 779 196	12 776 311	5 771 126	21 326 634
Accumulated depreciation and impairment losses	-	-	-	-
Acquisitions	1 509 075	2 023 984	4 850 494	8 383 553
Capital under Construction	-	16 356 683	-	16 356 683
Depreciation	-	-	-	-
Carrying value of disposals	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
Other movements*	-	-	-	-
as at 30 June 2011	4 288 271	31 156 979	10 621 621	46 066 870
Cost/Revaluation	4 288 271	31 156 979	10 621 621	46 066 870
Accumulated depreciation and impairment losses	-	-	-	-

5 Reconciliation of Carrying Value	Buildings	Infrastructure	Other Assets	Total
	R	R	R	R
as at 1 July 2009	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-
Acquisitions	2 779 196	12 776 311	5 771 126	21 326 634
Capital under Construction	-	-	-	-
Depreciation	-	-	-	-
Carrying value of disposals	-	-	-	-
Cost/Revaluation	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-
Transfers	-	-	-	-
*Other movements	-	-	-	-
as at 30 June 2010	2 779 196	12 776 311	5 771 126	21 326 634
Cost/Revaluation	2 779 196	12 776 311	5 771 126	21 326 634
Accumulated depreciation and impairment losses	-	-	-	-

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

Note	2011 R	2010 R
6 TRADE AND OTHER PAYABLES		
Trade creditors	9 125 888	11 862 702
Staff leave accrual	1 118 070	2 321 823
Staff bonus accrual	3 261 759	1 737 732
Other creditors	2 296 328	212 176
Total creditors	15 802 046	16 134 433
The fair value of trade and other payables approximates their carrying amounts.		
7 CONSUMER DEPOSITS		
Electricity Deposits	1 037 039	941 808
Total consumer deposits	1 037 039	941 808
No guarantees are held in lieu of Electricity Deposits.		
8 VAT RECEIVABLE		
VAT receivable	1 177 507	4 454 523
	<u>1 177 507</u>	<u>4 454 523</u>
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
9 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
9.1 Unspent Conditional Grants from other spheres of Government		
Other Grants	1 283 927	-
Total Unspent Conditional Grants and Receipts	1 283 927	-
Non-current unspent conditional grants and receipts	-	-
Current portion of unspent conditional grants and receipts	1 283 927	-
See Note 19 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.		
10 BORROWINGS		
Development Bank of South Africa	3 520 171	5 251 360
	<u>3 520 171</u>	<u>5 251 360</u>
Less : Current portion transferred to current liabilities	(3 520 171)	(5 251 360)
Total Non-Current borrowings	-	-
Refer to Appendix A for more detail on borrowings.		
11 OTHER FINANCIAL LIABILITIES		
11.1 OTHER NON-CURRENT FINANCIAL LIABILITIES		
Other non-current financial liabilities	-	-
11.2 OTHER CURRENT FINANCIAL LIABILITIES		
Other current financial liabilities	12 840	1 313
12 NON-CURRENT PROVISIONS		
Post Retirement Healthcare Liability	14 253 000	12 841 000
Provision for long-service awards	2 046 693	2 035 295
Provision for rehabilitation of landfill sites	-	-
Total Non-Current Provisions	16 299 693	14 876 295

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

Note	2011 R	2010 R
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>	9.10%	9.50%
<i>Healthcare cost inflation</i>	7.80%	7.86%
<i>Net discount rate</i>	1.21%	1.52%
<i>Pre-retirement mortality</i>	SA 85-90 Light for males and females	SA 85-90 Light for males and females
<i>Post-retirement mortality</i>	PA (90) rated down 1 year with a 1% p.a. Future mortality improvement for males and females	PA (90) rated down 1 year with a 1% p.a. Future mortality improvement for males and females
<i>Expected retirement age - Males</i>	63 years	63 years
<i>Expected retirement age - Females</i>	63 years	63 years
<i>Spouse and principal member age difference</i>	Male 3 years older than female	Male 3 years older than female
<i>Continuation percentage (employees)</i>	100%	100%
<i>Continuation percentage (widows)</i>	100%	100%

Sensitivity Analysis - changes in healthcare cost

Post Retirement Healthcare Liability	CPI + 3%	Base (CPI + 2%)	CPI + 1%
<i>Defined benefit obligation</i>	17 043 000	14 253 000	12 059 000
<i>Service Cost</i>	1 114 000	878 000	700 000
<i>Interest Cost</i>	1 330 000	1 319 000	1 311 000

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 2010/11:

<i>Discount rate</i>	7.57%	7.57%
<i>General Salary Inflation (long-term)</i>	6.22%	6.22%
<i>Net effective discount rate</i>	1.27%	1.27%
<i>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.</i>		
<i>Average retirement age</i>	63 years	
<i>Mortality during employment</i>	SA 85-90	

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

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

Note	2011 R	2010 R
The movement in the non-current provision is reconciled as follows: -		
Post Retirement Healthcare Liability		
Balance at the beginning of year	12 841 000	11 578 000
Contributions to provision	302 629	294 333
Expenditure incurred	(135 629)	(110 333)
Increase in provision due to discounting	1 245 000	1 079 000
Transfer to current provisions	-	-
Balance at the end of year	14 253 000	12 841 000
Provision for long-service awards:		
Balance at the beginning of year	2 035 295	1 786 423
Contributions to provision	(95 610)	119 470
Expenditure incurred	(40 634)	-
Increase in provision due to discounting	147 642	129 402
Transfer to current provisions	-	-
Balance at the end of year	2 046 693	2 035 295

Provision for rehabilitation of landfill sites

The provision for the rehabilitation of the landfill sites operated in the municipality's demarcations was not recognised in line with Directive 4 due to the application of the transitional provisions in the Standards of GRAP on Property, Plant and Equipment also being applied.

The municipality has the following 6 landfill sites:

Middledrift Waste Disposal Site	Operational and continue 2011/12
Alice Waste Disposal Site	Operational and continue 2011/12
Fort Beaufort Transfer Station	Operational, but to be closed down 2011/12
Seymour	Operational, but to be closed down 2011/12
Hogsback	Operational, but to be closed down 2011/12
Fort Beaufort	Operational, but to be closed down 2011/12

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

The present value of the landfill site provision amounts to R 332 850 for Alice and R 306 350 for Middledrift site.

The estimated obligation on cleaning and covering non operational sites amount to R 82 320. This valuation only includes the Fort Beaufort Transfer station.

The four sites to be closed down are operated without permits. Penalties of R 1 million per site can be imposed but have not been shown as a contingent liability as the Department has not enforced these penalties. The municipality will apply to have these sites closed down to avoid potential penalties.

13 PROPERTY RATES

Actual

Residential	1 997 939	5 046 616
Commercial	8 167 633	1 119 918
State	4 868 588	806 669
Agricultural	533 622	3 048 142
Other	65 089	77 712
Total property rates	15 632 871	10 099 057
Property rates - penalties imposed and collection charges	-	-
Total	15 632 871	10 099 057

Valuations

Residential	1 030 066 874	1 328 930 951
Commercial	549 914 950	294 909 160
State	336 576 643	212 421 082
Municipal	38 349 202	-
Agricultural	571 574 023	802 670 795
Other	41 565 948	20 463 948
Total Property Valuations	2 568 047 640	2 659 395 936

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.

A general rate of R 0.71 (2010: R 0.65) is applied to property valuations to determine assessment rates. Rebates of R 35 000 are granted to residential and 20% to state property owners. Rates are levied on an annual basis on property owners.

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.

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

	Note	2011 R	2010 R
14 SERVICE CHARGES			
Sale of electricity		9 231 427	20 641 362
Refuse removal		5 791 356	4 726 685
Total Service Charges		15 022 783	25 368 047
15 RENTAL OF FACILITIES AND EQUIPMENT			
Rental of facilities		215 032	155 866
Other rentals		-	1 510
Total rentals		215 032	157 376
16 INTEREST EARNED - EXTERNAL INVESTMENTS			
Bank		1 081 540	3 902 305
Total interest		1 081 540	3 902 305
17 INTEREST EARNED - OUTSTANDING RECEIVABLES			
Interest on outstanding consumer debtors		5 131 802	3 961 614
Total interest		5 131 802	3 961 614
18 GOVERNMENT GRANTS AND SUBSIDIES			
Equitable share		72 656 160	59 152 109
MIG Grant		-	-
Other Government Grants and Subsidies		24 969 451	27 416 818
Total Government Grant and Subsidies		97 625 611	86 568 927
19.1 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 R 95 (2010; R 92), which is funded from the grant.</p>			
19.2 Other Government Grants and Subsidies			
Balance unspent at beginning of year		-	-
Current year receipts		26 253 379	27 416 818
Conditions met - transferred to revenue		(24 969 451)	(27 416 818)
Conditions still to be met - remain liabilities (see note 9)	Notes15-61!A124	1 283 927	-
19.4 Changes in levels of government grants			
<p>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.</p>			
20 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS			
20.1 Other income			
Other income		5 157 161	5 602 899
Total Other Income		5 157 161	5 602 899

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

Note	2011 R	2010 R
21 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	29 320 478	23 008 257
Employee related costs - Contributions for UIF, pensions and medical aids	5 227 324	4 770 613
Travel, motor car, accommodation, subsistence and other allowances	2 226 161	1 659 538
Housing benefits and allowances	550 677	385 076
Overtime payments	1 334 850	805 282
Performance and other bonuses	1 099 884	1 492 010
Other employee related costs	2 549 986	4 058 440
PRMA - Service Cost	891 000	757 000
PRMA - Interest Cost	1 245 000	1 079 000
PRMA - Actuarial Gains/Losses	(588 371)	(462 668)
LSA - Service Cost	319 326	222 363
LSA - Interest Cost	147 642	129 402
LSA - Actuarial Gains/Losses	(414 936)	(102 893)
Employee Related Costs	43 909 020	37 801 420

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	443 031	407 976
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	295 354	177 056
Contributions to UIF, Medical and Pension Funds	1 497	101 792
Total	739 882	686 824

Remuneration of the Chief Finance Officer

Annual Remuneration	369 185	343 435
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	246 123	227 414
Contributions to UIF, Medical and Pension Funds	1 497	1 497
Total	616 806	572 346

Remuneration of the LED Manager

Annual Remuneration	369 185	343 435
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	246 123	201 400
Contributions to UIF, Medical and Pension Funds	1 497	28 357
Total	616 806	573 192

Remuneration of Individual Executive Managers

	Technical Services R	Corporate Services R	Community Services R
2011			
Annual Remuneration	369 185	369 185	369 185
Performance- and other bonuses	-	-	-
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

	Technical Services R	Corporate Services R	Community Services R
2010			
Annual Remuneration	342 509	343 435	343 435
Performance- and other bonuses	-	-	-
Travel, motor car, accommodation, subsistence and other allowances	228 339	204 439	140 613
Contributions to UIF, Medical and Pension Funds	1 497	24 473	94 688
Total	572 346	572 346	578 736

22 REMUNERATION OF COUNCILLORS

Mayor	539 656	556 562
Councillors	61 374	136 487
Councillors' pension and medical aid contributions	322 079	531 484
Councillors' allowances	9 033 924	8 750 990
Total Councillors' Remuneration	9 957 032	9 975 522

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.

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

Note	2011 R	2010 R
23 DEPRECIATION AND AMORTISATION EXPENSE		
The municipality has applied the exemptions as granted under directive 4 and as such no depreciation is provided.		
24 FINANCE COSTS		
Borrowings	204 248	845 423
Total Finance Costs	204 248	845 423
25 BULK PURCHASES		
Electricity	18 163 361	14 639 522
Total Bulk Purchases	18 163 361	14 639 522
26 GRANTS AND SUBSIDIES PAID		
Grant paid to Nkonkobe Economic Development Agency	936 913	290 000
Indigent Subsidy	2 981 691	1 352 189
Free basic electricity	3 772 410	2 015 448
	7 691 014	3 657 638
<p><i>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.</i></p> <p><i>Debtors are subsidised at a rate of R 30 for electricity and R 65 for refuse per debtor. Equitable share is used to subsidise the indigent subsidy.</i></p>		
27 GENERAL EXPENSES		
Included in general expenses are the following:-		
Advertising	434 705	357 767
Audit fees	2 600 214	3 079 425
Bank charges	167 950	114 914
Bursaries	66 638	-
CBP Expenses	612 924	808 587
Clean-up campaigns	207 662	487 670
Conferences and delegations	1 597 816	822 241
Consulting fees	3 674 940	917 945
Consumables	473 355	940 401
Entertainment	191 809	124 514
Fuel and oil	999 857	331 170
Insurance	875 929	550 698
Legal expenses	591 150	773 267
Licence fees - vehicles	114 102	93 438
Licence fees - computers	2 350	-
Membership fees	7 114	405
Postage	325 030	415 936
Printing and stationery	518 016	408 153
Rental of office equipment	1 444 714	887 141
Rental of computer equipment	72 320	(75 895)
Other rentals	59 458	128 485
Security costs	173 974	179 442
Subscription & publication	824 527	926 574
Telephone cost	1 887 264	1 598 848
Training	1 310 238	426 776
Travel and subsistence	7 406	-
Uniforms & overalls	129 922	144 018
Valuation costs	415 138	657 891
Water and Sanitation	2 167 408	-
Ward committee activities	2 246 677	523 266
Other	1 812 772	20 837 544
	26 013 381	36 461 797

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

Note	2011 R	2010 R
28 CASH GENERATED BY OPERATIONS		
Surplus/(deficit) for the year	21 727 773	(18 133 162)
Adjustment for:-		
Depreciation and amortisation	-	-
Contribution to provisions - non-current	1 423 398	1 511 872
Operating surplus before working capital changes:	23 151 171	(16 621 290)
(Increase)/decrease in inventories	(15 472)	(374 566)
(Increase)/decrease in trade receivables	(10 111 113)	5 628 307
(Increase)/decrease in other receivables	2 499 521	(2 500 000)
(Increase)/decrease in VAT receivable	3 277 016	(4 454 523)
Increase/(decrease) in conditional grants and receipts	1 283 927	(17 676 046)
Increase/(decrease) in trade payables	(332 387)	(3 786 457)
Increase/(decrease) in consumer deposits	95 231	941 808
Increase/(decrease) in VAT payable	-	(11 391 146)
Increase/(decrease) in other current financial liabilities	11 527	-
Cash generated by/(utilised in) operations	19 859 422	(50 233 913)

29 CASH AND CASH EQUIVALENTS

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

Bank balances and cash	2 558 542	9 170 546
Net cash and cash equivalents (net of bank overdrafts)	2 558 542	9 170 546

30 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term liabilities (see Note 10)	3 520 171	5 251 360
Used to finance property, plant and equipment – at cost	-	-
Sub- total	3 520 171	5 251 360
Cash set aside for the repayment of long-term liabilities	-	-
Cash invested for repayment of long-term liabilities	-	-

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

31 DISALLOWED

31.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	6 324 221	5 766 037
Unauthorised expenditure current year	-	558 184
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	6 324 221	6 324 221

Incident	Disciplinary steps/criminal proceedings
----------	---

No current period unauthorised expenditure incurred.

31.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance -	119 813	-
Fruitless and wasteful expenditure current year	165 294	119 813
Condoned or written off by Council	-	-
To be recovered – contingent asset (see note 35)	-	-
Fruitless and wasteful expenditure awaiting condonement	285 106	119 813

Incident	Disciplinary steps/criminal proceedings
----------	---

During 09/10 the municipality bought a clocking system to be used for recording time worked by employees. Subsequently, trade unions refused for their members to use the system.

During 10/11, the 10/11 financial year the municipality was uncertain of who should pay the Auditor General between them and dept of local government. Interest on long outstanding invoices was incurred.

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

	Note	2011 R	2010 R
31.3 Irregular expenditure			
Reconciliation of irregular expenditure			
Opening balance		2 377 374	-
Irregular expenditure current year		1 722 703	2 377 374
Condoned or written off by Council		-	-
Transfer to receivables for recovery – not condoned		-	-
Irregular expenditure awaiting condonement		<u>4 100 077</u>	<u>2 377 374</u>

Incident	Disciplinary steps/criminal proceedings		
Supplier			
PROPCOM INTERNET		722 847	239 606
BRM		999 857	55 153
Auditor General Findings		-	2 082 615
TOTAL		<u>1 722 703</u>	<u>2 377 374</u>
<i>Limited suppliers within the region resulted in the municipality transacting with the above mentioned suppliers who had not tax clearance certificates. No disciplinary proceedings instituted.</i>			

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE
32 MANAGEMENT ACT

32.1 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)	<u>-</u>	<u>-</u>

32.2 Audit fees

Opening balance	1 974 370	1 105 054
Current year audit fee	2 600 214	1 974 370
Amount paid - current year	(1 972 998)	-
Amount paid - previous years	(1 974 370)	(1 105 054)
Balance unpaid (included in payables)	<u>627 216</u>	<u>1 974 370</u>

The balance unpaid represents the audit fee for an interim audit conducted during May and June 2011.

32.3 VAT

VAT input receivables and VAT output payables are shown in note 8.

32.4 PAYE and UIF

Opening balance	-	-
Current year payroll deductions	6 158 822	4 998 726
Amount paid - current year	(6 158 822)	(4 998 726)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>

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

32.5 Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and Council Contributions	8 072 614	6 950 157
Amount paid - current year	(8 072 614)	(6 950 157)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	<u>-</u>	<u>-</u>

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

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

Note	2011 R	2010 R	
32.6 Councillor's arrear consumer accounts			
The following Councillors had arrear accounts outstanding for more than 90 days as at: -	Total	Outstanding less than 90 days	Outstanding more than 90 days
	R	R	R
as at 30 June 2011			
AR KGANEDI	164	164	-
N W NXAWE	130	130	-
J H NDLEBE	130	130	-
JM PAPU	1 714	1 714	-
Total Councillor Arrear Consumer Accounts	2 138	2 138	-
as at 30 June 2010			
AR KGANEDI	2 437	2 297	140
JM PAPU	4 491	4 442	49
Total Councillor Arrear Consumer Accounts	6 928	6 739	189

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

	Highest Amount Outstanding R	Ageing Days
as at 30 June 2011		
No councillor in arrears over 90 days		
as at 30 June 2010		
AR KGANEDI	140	90+ days
JM PAPU	49	90+ days

33 CAPITAL COMMITMENTS

33.1 Commitments in respect of capital expenditure

	4 949 705	1 750 419
- Approved and contracted for		
Property, plant and equipment	-	1 750 419
Community	2 846 677	-
Other	2 103 028	-
Total	4 949 705	1 750 419

This expenditure will be financed from:

- External Loans	-	-
- Government Grants	4 949 705	1 750 419
- Own resources	-	-
- District Council Grants	-	-
	4 949 705	1 750 419

33.2 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	779 088	53 352
In the second to fifth year inclusive	747 966	75 582
After five years	-	-
Total	1 527 054	128 934

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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

Note	2011 R	2010 R
34 CONTINGENT LIABILITY		
34.1 Claim for damages	512 960	
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	
Ndlebe & Other vs Nkonkobe Municipality - Former Council Speaker, C/r Ndlebe applied for an interdict against Council for removing him as the speaker. Other councillors also applied for an interdict for being suspended. An interim order was granted by the High Court in Grahamstown.	150 000	
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	
John Kanie vs Nkonkobe Municipality - The plaintiff is claiming for damages caused to his vehicle after it collided with one belonging to the municipality.	55 000	
Ass Security vs Nkonkobe Municipality - The plaintiff has instituted proceedings against the municipality alleging unfair labor practices	87 960	
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.	70 000	
		Estimated inflow nett of legal costs
35 CONTINGENT ASSET		
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.	25 000	
36 EMPLOYEE BENEFIT INFORMATION		
The municipality contributes to the following funds: Government Employee Pension Fund, Verso Pension Fund, Cape Joint Pension Fund, Cape Joint Provident Fund, Sala 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 2011, 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.		
The contributions of R 5 043 699 (30 June 2010: R 4 425 050) were expensed in the current year.		
37 RELATED PARTIES		
Nkonkobe Economic Development Agency		<i>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.</i>
Associates		<i>None identified</i>
Members of key management		<i>None identified</i>
Close family member of key management		<i>None identified</i>
Post employment benefit plan for employees of municipality and/or other related parties		<i>None identified</i>
Other related party relationships		<i>None identified</i>
Compensation to councillors and other key management (refer to note 21 & 22)		

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

	Note	2011 R	2010 R
Related party balances			
<i>No related party balances at year-end</i>			
Related party transactions			
Subsidy paid to Nkonkobe Economic Development Agency		500 000	290 000
Audit Fees paid by municipality on behalf of Nkonkobe Economic Development Agency		436 913	-

38 EVENTS AFTER THE REPORTING DATE

No events have occurred after 30 June 2011 which necessitates adjustment or disclosure within the annual financial statements.

39 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

40 RISK MANAGEMENT

40.1 Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

Standard Bank	68 710	68 710
First National Bank	2 489 832	9 101 836
Trade and other receivables	26 037 508	15 926 395

These balances represent the maximum exposure to credit risk.

40.2 Liquidity risk

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the 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 2011			
Trade and other payables from exchange transactions	15 802 046	-	-
Current portion of borrowings	3 520 171	-	-
Other current financial liabilities	12 840	-	-
At 30 June 2010			
Trade and other payables from exchange transactions	16 134 433	-	-
Current portion of borrowings	1 731 189	3 520 171	-
Other current financial liabilities	12 840	-	-

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

Note	2011 R	2010 R
40.3 Interest rate sensitivity analysis		
The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.		
The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.		
A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.		
As the entity does not have any instruments that effect net assets directly, the disclosure only indicates the effect of the change in interest rates on		
There were no changes in the methods and assumptions used in preparing the sensitivity analysis from one year to the next.		
	2011	2010
Increase (decrease) in interest rates		
The estimated increase (decrease) in basis points	50	50
Effect on surplus	127 927	458 527

41 RESTATEMENT OF COMPARATIVE INFORMATION

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

Contributions to medical aid of R 110 333 had been incorrectly classified as speakers remuneration and corrected by transfer to employee related costs.

Interest received on external investments of R 2 654 248 had been incorrectly classified as other revenue and corrected by transfer to interest from external investments.

Bank balances held in call accounts to the value of R 13 116 807 has been incorrectly classified as short-term deposits. The comparative figure has been restated by including the total within cash and cash equivalents.

Included in the amount of trade and other receivables for 2009/10 is a total of R 61 278 which relates to unauthorised expenditure which has been reclassified as other receivables for the current and comparative years.

Repairs and maintenance to the value of R 7 061.06 had incorrectly been included as part of the retained earnings balance. The comparative figures has been restated by including the amount of R 7 061 within repairs and maintenance and adjusting retained earnings appropriately.

The provision for doubtful debts relating to the comparative year had been understated by R 46 518 157. This has been corrected by increasing bad debts expense and reducing the net total of Trade and other receivables.

For the comparative year grant revenue has been understated by R 4 207 955. This has been corrected by reducing unspent conditional grant liability from R 4 207 955 to R nil and increasing Government grants and subsidies revenue by R 4 207 955.

During the comparative year for the period of January 2010 to June 2010 underclaiming of VAT input credits have been identified amounting to R 501 042. This has been corrected by increasing VAT Receivable and crediting the related expenditure items (repairs and maintenance, general

An inventory adjustment had incorrectly been allocated directly to accumulated surplus during the prior period. This has been corrected by restating the inventory balance by R 348 332.

No provision has been made for the Post Retirement Healthcare Liability. This resulting in a comparative restatement of opening balance on retained earnings of R 11 578 000 with a total restatement of R 12 841 000 for the comparative year-end.

No provision has been made for the Long Service Award Liability. This resulting in a comparative restatement of opening balance on retained earnings of R 1 786 423 with a total restatement of R 2 035 295 for the comparative year-end.

Output VAT totalling R 171 229 had not been declared on revenue for the comparative period. A restatement had been done against VAT receivable and Other Income to correct this.

Errors within opening balance of Accumulated Surplus and Cash and Bank to the total of R 23 968 524 have been identified and corrected against opening balance of accumulated surplus for 1 July 2009.

Included in Trade and other receivables for the comparative period is an Abacus transfer suspense account amounting to R 5 878 098. This amount could not be verified and as such has been written off accumulated surplus opening balance for 2009/10.

Included in current year audit fees was an amount of R 1 974 370 that related to 30 June 2010 statement received from the Auditor General. This amount had not been accrued for in the comparative period and a correcting journal processed to increase comparative period audit fees and raise the related accrual.

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

	Note	2011 R	2010 R
<u>As previously stated:</u>			
Statement of Financial Performance			
Employee related costs			36 179 217
Remuneration of councillors			10 085 856
Interest earned - external investments			1 248 057
Other income			8 428 376
Bad debts			-
Government grants and subsidies			79 860 972
Repairs and maintenance			6 045 591
General expenses			15 683 250
Grants and subsidies paid			3 369 738
Statement of Financial Position			
Trade and other payables			69 647 466
Cash and cash equivalents			34 879 910
Short-term deposits			13 116 807
Trade and other receivables from exchange transactions			64 969 180
Other receivables from non-exchange transactions			5 173 149
Current portion of unspent conditional grants and receipts			4 207 955
VAT receivable			4 124 711
Inventories			201 550
Non-current provisions			-
<u>Restatement movements:</u>			
Statement of Financial Performance			
Employee related costs			1 622 203
Remuneration of councillors			(110 334)
Interest earned - external investments			(2 654 248)
Other income			2 825 477
Bad debts			46 518 157
Government grants and subsidies			(6 707 955)
Repairs and maintenance			(300 163)
General expenses			20 778 547
Grants and subsidies paid			287 900
Net effect on accumulated surplus			<u>62 259 585</u>
Restatement to opening balance of accumulated surplus of comparative period			<u>13 834 244</u>
Cash and cash equivalents			(25 709 364)
Short-term deposits			(13 116 807)
Trade and other payables			(52 571 225)
Trade and other receivables from exchange transactions			(49 042 785)
Other receivables from non-exchange transactions			(2 673 149)
Current portion of unspent conditional grants and receipts			(4 207 955)
VAT receivable			329 812
Inventories			348 333
Non-current provisions			14 876 295
<u>Restated balances:</u>			
Statement of Financial Performance			
Employee related costs			37 801 420
Remuneration of councillors			9 975 522
Interest earned - external investments			3 902 305
Other income			5 602 899
Bad debts			46 518 157
Government grants and subsidies			86 568 927
Repairs and maintenance			5 745 428
General expenses			36 461 797
Grants and subsidies paid			3 657 638
Statement of Financial Position			
Trade and other payables			16 134 433
Consumer Deposits			941 808
Cash and cash equivalents			9 170 546
Short-term deposits			-
Trade and other receivables from exchange transactions			15 926 395
Other receivables from non-exchange transactions			2 500 000
Current portion of unspent conditional grants and receipts			-
VAT receivable			4 454 523
Inventories			549 883
Non-current provisions			14 876 295

42 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 2011

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2010	Received during the period	Redeemed / written off during the period	Balance at 30 June 2011
			R	R	R	R
LONG-TERM LOANS						
DBSA : @ 16% (Loan Accrual)	61 001 114	30.09.1998	943 233	90 653	1 028 402	5 484
DBSA : @ 16%	61 001 114	30.09.1998	-	-	-	-
DBSA : @ 11%	61 003 978	30.09.2014	2 615 852	254 915	732 740	2 138 027
DBSA : @ 11% (Loan accrual)	61 003 978	30.09.2014	1 692 275	176 331	491 945	1 376 660
Total long-term loans			5 251 360	521 899	2 253 088	3 520 171
TOTAL EXTERNAL LOANS			5 251 360	521 899	2 253 088	3 520 171

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

	Cost / Revaluation					Accumulated Depreciation				Carrying value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	
Executive & Council	495 435	173 637	-	-	669 072	-	-	-	-	669 072
Finance & Admin	1 791 723	2 802 868	-	-	4 594 590	-	-	-	-	4 594 590
Planning & Development	20 522	73 850	-	-	94 372	-	-	-	-	94 372
Health			-	-	-	-	-	-	-	-
Community & Social Services	5 502 654	3 176 743	-	-	8 679 397	-	-	-	-	8 679 397
Public Safety			-	-	-	-	-	-	-	-
Sport & Recreation			-	-	-	-	-	-	-	-
Environmental Protection			-	-	-	-	-	-	-	-
Waste Management			-	-	-	-	-	-	-	-
Road Transport			-	-	-	-	-	-	-	-
Water			-	-	-	-	-	-	-	-
Electricity			-	-	-	-	-	-	-	-
Other	13 516 301	2 156 455	16 356 683	-	32 029 440	-	-	-	-	32 029 440
Total	21 326 634	8 383 553	16 356 683	-	46 066 870	-	-	-	-	46 066 870

Nkonkobe Local Municipality
APPENDIX C
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2011

2010			2011		
Actual Income	Actual Expenditure	Surplus / (Deficit)	Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R	R	R	R
5 144 211	14 832 137	(9 687 926)	6 780 018	16 576 624	(9 796 605)
105 138 727	92 980 625	12 158 102	104 099 741	46 212 124	57 887 617
-	2 214 849	(2 214 849)		3 977 485	(3 977 485)
6 581 077	19 248 534	(12 667 457)	19 182 934	20 835 672	(1 652 737)
20 647 731	26 368 762	(5 721 031)	12 174 393	32 907 409	(20 733 016)
-	-	-			
137 511 746	155 644 907	(18 133 161)	142 237 087	120 509 314	21 727 773

Nkonkobe Local Municipality

APPENDIX D

STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION

as at 30 June 2011

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
	1	2	3	4	5	6	7	8	9
	R	R	R	R	R	R	R	R	R
Financial Performance									
Property Rates	17 646 819	-10 646 819	-	7 000 000	15 632 871		8 632 871	223	89
Service Charges	14 204 957	7 845 751	-650 000	21 400 708	15 022 783		-6 377 925	70	106
Investment Revenue	54 250	145 750	650 000	850 000	1 081 540		231 540	127	1 994
Transfers Recognised - Operational	78 849 547	2 956 613	-	81 806 160	97 625 611		15 819 451	119	124
Other Own Revenue	13 960 383	2 463 375	-	13 467 145	12 874 283		-592 863	96	92
Total Revenue (Excluding Capital Transfers & Contributions)	124 715 956	2 764 670	-	124 524 013	142 237 087		17 713 074	636	114
Employee Costs	44 251 551	-1 399 814	-	42 851 737	43 909 020		1 057 283	102	99
Remuneration Of Councillors	10 952 303	-1 304 040	410 220	10 058 483	9 957 032		-101 451	99	91
Debt Impairment	7 000 000	-	-	7 000 000	-		-7 000 000	-	-
Depreciation & Asset Impairment	1 680 000	-	-	1 680 000	-		-1 680 000	-	-
Finance Charges	212 862	-82 505	50 000	180 357	204 248		23 891	113	96
Materials & Bulk Purchases	13 500 000	2 000 000	957 673	16 457 673	18 163 361		1 705 688	110	135
Transfers & Grants	500 000	-	-	500 000	7 691 014		7 191 014	1 538	1 538
Other Expenditures	38 427 208	5 862 338	-2 094 484	33 109 254	40 584 637		7 515 462	123	106
Total Expenditure	116 523 924	5 075 979	-676 591	111 837 504	120 509 314		8 711 888	2 086	103
Surplus/(Deficit)	8 192 032	-2 311 309	676 591	12 686 509	21 727 773		9 001 185	-1 450	11
Transfers Recognised - Capital				-	-				
Contributions Recognised - Capital & Contributed Assets				-	-				
Surplus/(Deficit) After Capital Transfers & Contributions	8 192 032	-2 311 309	676 591	12 686 509	21 727 773		9 001 185	-1 450	11
Share Of Surplus/(Deficit) Of Associate				-	-				
Surplus/(Deficit For The Year)	8 192 032	-2 311 309	676 591	12 686 509	21 727 773		9 001 185	-1 450	11
Capital Expenditure & Funds Sources									
Capital Expenditure									
Transfers Recognised - Capital	17 135 150	-	-	17 135 150	17 135 150		-	100	100
Public Contributions & Donations	-	-	-	-	-		-	-	-
Borrowing	1 469 519	-	786 000	2 255 519	1 988 036		-267 483	88	135
Internally Generated Funds	7 625 000	-3 708 000	-	11 333 000	11 333 000		-	100	149
Total Sources Of Capital Funds	26 229 669	-3 708 000	786 000	30 723 669	30 456 186		-267 483	288	116
Cash flows									
Net Cash From (Used) Operating	8 192 032	-	-	12 686 509	16 963 145		4 276 636	134	207
Net Cash From (Used) Investing	24 760 000	3 708 000	-	28 468 000	-24 736 772		-53 204 772	-87	-100
Net Cash From (Used) Financing	1 469 519	121 000	-	1 590 519	-1 731 189		-3 321 708	-109	-118
Cash/Cash Equivalents At The Year End	26 229 519	3 829 000	-	30 058 519	2 558 542		-27 499 977	9	10