



Nkomazi Municipality

Nkomazi Local Municipality

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services
Mayoral committee	
Executive Mayor	Khoza T S
Speaker	Macie K J
Chief whip	Mabuza S
Members of mayoral committee	Mhlanga M W (Budget and Treasury) Mkhatshwa S L (Planning and Development) Magagula P P (Corporate Services) Ngomane E M (Community and Social Services) Shongwe M R (Infrastructure)
Councillors	Cloete A Dikiza G K Hlahla B A Langa N P Letsoalo S M Luphoko P C Lusibane F N Mabuza V E Madolo S P Mahlalela S S Mahlalela E J Makamo L S Makhubela B S Makhubela J J Makhubela L S Malaza B B Mambane D S Maphanga D A Masilela D L Masilela D J Masilela T E Masuku S H Mathenjwa N D Mathonsi S S Mazibuko B C Mkhabela L A Mkhumbane M R Mkhumbane T C Mnisi D P Mnisi P M Mogiba G N Motha C M Mpofu J N (Deceased) Msithini S Z Mthombo T M Myeni N M Mziako P M Ndlala S J

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General Information

	Ngomane B D
	Ngomane G B
	Ngomane L P
	Nkambule G J
	Nkentshane M E
	Nkosi J M
	Ntuli S J
	Preddy M M S
	Shabangu V T
	Shongwe M D
	Shongwe W H
	Shungube Z I
	Sibiya S C
	Silombo S R
	Thumbathi B P
	Vuma L T
	Zitha M A
	Zitha-Dlamini S
Grading of local authority	5
Accounting Officer	Ngwenya M D
Chief Finance Officer (CFO)	Khoza B T
Business address	Civic Centre 9 Park Street Malelane 1320
Postal address	Private Bag X101 Malelane 1320
Contact no	013 790 0245
Bankers	ABSA Bank Nelspruit
Auditors	The Auditor-General, Mpumulanga

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
CR	Capitalization Reserve
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
GGR	Government Grant Reserve
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
IFRS	International Financial Reporting Standards
ME's	Municipal Entities

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Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places 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 in 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 to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the municipality's external auditors and their report is expected before 30 November 2012.

The accounting officer is responsible for the preparation of these Annual Financial Statements, which are set out on the attached pages, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the notes of the attached Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act. The annual financial statements set out on pages 6 to 58, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012.

MD Ngwenya

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

The municipality is a medium capacity municipality, engaged in providing municipal services. It delivers basic services such as water, electricity and refuse removal services to the Malelane, Komaitpoort, Marloth Park and Hectorspruit region. The municipal provides free water and refuse removal services to rural areas within the local sphere of Nkomazi.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 39,409,183 (2011: deficit R 6,337,056).

2. Going concern

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

3. Subsequent events

The accounting officer is not aware of any material matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality at the date of this report is mentioned on page 2.

6. Auditors

The Auditor-General, Mpumulanga will continue in office for the next financial period.

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Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	5	880,629	623,075
Operating lease asset	14	30,394	10,650
Receivables from exchange transactions	6	145,205	-
VAT receivable	7	4,916,979	9,360,306
Consumer debtors	8	28,122,124	29,678,398
Deposits made	15	540,778	540,778
Cash and cash equivalents	9	17,506,057	9,945,961
		52,142,166	50,159,168
Non-Current Assets			
Investment property	3	37,937,199	37,937,199
Property, plant and equipment	4	1,232,673,909	1,179,611,825
Intangible assets	10	191,249	152,428
Heritage assets	16	5,613,947	5,613,947
		1,276,416,304	1,223,315,399
Total Assets		1,328,558,470	1,273,474,567
Liabilities			
Current Liabilities			
Other financial liabilities	12	1,159,104	1,374,575
Finance lease obligation	13	1,195,620	1,063,952
Operating lease liability	14	39,223	178,909
Trade and other payables	17	73,171,537	56,090,063
Unspent conditional grants and receipts	18	7,811,230	16,975,435
Provisions	19	8,873,608	9,019,155
Bank overdraft	9	16,024,667	12,986,347
		108,274,989	97,688,436
Non-Current Liabilities			
Other financial liabilities	12	3,022,585	3,263,429
Finance lease obligation	13	666,998	1,862,618
Operating lease liability	14	139,686	229,281
		3,829,269	5,355,328
Total Liabilities		112,104,258	103,043,764
Net Assets		1,216,454,212	1,170,430,803
Net Assets			
Accumulated surplus		1,216,454,212	1,170,430,803

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Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	23	36,457,554	29,014,752
Service charges	24	57,127,509	54,033,636
Rental of facilities and equipment		2,517,920	3,420,226
Interest earned - debtors		2,171,282	1,310,986
Licences and permits		7,871,326	7,071,112
Government grants & subsidies	27	386,079,923	292,264,662
Recoveries	28	799,547	630,693
Donations received	28	1,162,800	-
Other income	29	3,887,234	5,178,242
Interest revenue	26	2,308,609	4,531,503
Total Revenue		500,383,704	397,455,812
Expenditure			
Personnel	30	(182,920,557)	(167,691,663)
Remuneration of councillors	31	(12,787,445)	(11,256,185)
Depreciation and amortisation	32	(58,847,423)	(39,582,653)
Impairment loss	33	(1,129,105)	-
Finance costs	34	(2,371,494)	(3,109,187)
Debt impairment	35	(7,690,616)	1,541,772
Repairs and maintenance		(21,674,668)	(25,668,430)
Bulk purchases	37	(52,803,717)	(35,758,651)
Contracted services	36	(1,935,153)	(4,219,346)
General expenses	38	(118,814,343)	(118,048,525)
Total Expenditure		(460,974,521)	(403,792,868)
Surplus / (Deficit) for the year		39,409,183	(6,337,056)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	729,503,482	729,503,482
Adjustments		
Adjustment - PPE & Investment property	432,179,274	432,179,274
Prior year adjustments	16,783,765	16,783,765
Balance at 01 July 2010 as restated	1,178,466,521	1,178,466,521
Changes in net assets		
Deficit for the year	(6,337,056)	(6,337,056)
Total changes	(6,337,056)	(6,337,056)
Opening balance as previously reported	1,172,129,463	1,172,129,463
Adjustments		
Correction of errors	1,274,314	1,274,314
Prior year adjustments - PPE	(2,972,976)	(2,972,976)
Balance at 01 July 2011 as restated	1,170,430,801	1,170,430,801
Changes in net assets		
Adjustment - prior period accruals	1,948,433	1,948,433
Adjustment - VAT previously disallowed by SARS	4,665,795	4,665,795
Net income (losses) recognised directly in net assets	6,614,228	6,614,228
Surplus for the year	39,409,183	39,409,183
Total recognised income and expenses for the year	46,023,411	46,023,411
Total changes	46,023,411	46,023,411
Balance at 30 June 2012	1,216,454,212	1,216,454,212
Note(s)		

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Delivery of services and other revenue		129,435,711	85,407,179
Grants		386,075,899	292,264,662
Interest income		2,308,609	4,531,503
Other receipts		-	930,580
		<u>517,820,219</u>	<u>383,133,924</u>
Payments			
Employee and councillors related cost		(192,734,665)	(178,947,848)
Suppliers		(204,757,386)	(133,696,944)
Finance costs		(2,002,729)	(2,580,233)
		<u>(399,494,780)</u>	<u>(315,225,025)</u>
Net cash flows from operating activities	40	<u>118,325,439</u>	<u>67,908,899</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(112,985,800)	(119,235,607)
Purchase of other intangible assets	10	(91,631)	-
Other non-cash item - Assets		1,162,800	2,523,160
		<u>(111,914,631)</u>	<u>(116,712,447)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(456,315)	(738,769)
Finance lease payments		(1,432,717)	(1,717,716)
		<u>(1,889,032)</u>	<u>(2,456,485)</u>
Net increase/(decrease) in cash and cash equivalents		4,521,776	(51,260,033)
Cash and cash equivalents at the beginning of the year		(3,040,386)	48,219,647
Cash and cash equivalents at the end of the year	9	<u>1,481,390</u>	<u>(3,040,386)</u>

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, unless explicitly stated otherwise.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

The municipality used an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows. Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of financial instruments, revenue and expenses at initial recognition. The adjustments requires a degree of estimation around the discount rates and periods used.

Allowance for doubtful debts

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

Useful lives and residual values

The municipality re-assesses the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of property, plant and equipment - management considers the conditions and use of individual assets, to determine the remaining period over which the asset can and will be used.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value on a straight line method over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

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Accounting Policies

1.2 Investment property (continued)

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

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.

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

Item	Average useful life
Land	Indefinite
Buildings	10 - 30 years
Plant and machinery	5 - 20 years
Furniture and fixtures	5 - 20 years
Transport assets	7 - 20 years
Office equipment	5 - 10 years
IT equipment	5 - 10 years

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.3 Property, plant and equipment (continued)

Infrastructure assets

- | | |
|------------------------|----------------|
| • Roads and paving | 10 - 100 years |
| • Electricity | 5 - 80 years |
| • Water | 10 - 100 years |
| • Sewerage | 15 - 60 years |
| • Solid waste disposal | 15 - 55 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

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

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

1.4 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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Accounting Policies

1.4 Intangible assets (continued)

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

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

Item	Useful life
Computer software	2 - 5 years

Intangible assets are derecognised:

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

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

1.5 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

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

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Item	Useful life
Heritage assets	Indefinite

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Accounting Policies

1.6 Financial instruments

Classification

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

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

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

Initial recognition and measurement

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

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

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

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Nkomazi Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Impairment of financial assets

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

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

Impairment losses are recognised in surplus or deficit.

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

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

Investments

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at 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.

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.

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

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

Nkomazi Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Bank overdraft and borrowings

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

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.7 Leases

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

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Nkomazi Local Municipality

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Accounting Policies

1.7 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

When the straight-lined lease payments recognised as an expense is less than the contractual payments, the difference is accounted as operating lease asset. When the straight-lined lease payments recognised as an expense is more than the contractual payments, the difference is accounted as operating lease liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of water inventories is assigned using the weighted average cost formula. The FIFO cost formula is used for all other inventories of the municipality.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.8 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

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

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.10 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.10 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

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

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

1.11 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

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

Other post retirement obligations

The entity provides post-retirement medical scheme benefits upon retirement to some retirees. Payments to medical aid schemes are charged as an expense as they fall due.

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.12 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Nkomazi Local Municipality

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Services Charges

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

Service charges relating to refuse removal are recognised on a monthly basis 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 points per property

Service charges relating to sewerage are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category.

Revenue from Agency services

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.

Interest, royalties and dividends

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

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

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

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

1.15 Investment income

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

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

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

Nkomazi Local Municipality

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Accounting Policies

1.17 Comparative figures (continued)

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

Where accounting errors have been identified in the current financial year the correction is made retrospectively as far as it is practical 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 it is practical and the prior year comparatives are restated accordingly. The comparative figures (accounting policy and disclosures) may not be consistent with the current year accounting policies and disclosures due to the implementation of the new GRAP standards.

1.18 Unauthorised expenditure

Unauthorized 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 56 of 2003).

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

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

1.21 Use of estimates

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

1.22 Offsetting

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

1.23 Conditional grants and receipts

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

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Nkomazi Local Municipality

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Accounting Policies

1.25 Related parties

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.26 Value Added Tax

The municipality accounts for Value Added Tax on payment basis.

1.27 Prior period errors

The municipality shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by, restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2012 2011

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the standards and interpretations listed below:

All the standards listed below were early adopted in prior year. Their continued use will not have any impact that is material with the prior year.

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	N/A
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	N/A
• GRAP 103: Heritage Assets	01 April 2012	N/A
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	N/A
• GRAP 26: Impairment of cash-generating assets	01 April 2012	N/A

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	N/A
• GRAP 25: Employee benefits	01 April 2013	Unlikely to have material impact - possibly additional disclosures
• GRAP 104: Financial Instruments	01 April 2012	Unlikely to have material impact - possibly additional disclosures
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013	Not expected to have an impact
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	N/A
• GRAP 107: Mergers	01 April 2014	N/A
• GRAP 20: Related parties	01 April 2013	Not expected to have an impact

3. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	37,937,199	-	37,937,199	37,937,199	-	37,937,199

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	37,937,199	37,937,199

Reconciliation of investment property - 2011

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Notes to the Annual Financial Statements

Figures in Rand 2012 2011

3. Investment property (continued)

	Opening balance	Total
Investment property	37,937,199	37,937,199

Other disclosures

There were no operating costs incurred related to the investment property.

Investment property consist out of land only and is kept for capital appreciation.

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	434,822,303	-	434,822,303	434,822,303	-	434,822,303
Buildings	101,992,908	(20,280,668)	81,712,240	94,070,370	(13,372,420)	80,697,950
Plant and machinery	21,734,310	(8,907,417)	12,826,893	19,476,448	(7,271,194)	12,205,254
Furniture and fixtures	7,913,396	(4,522,813)	3,390,583	7,679,712	(3,453,242)	4,226,470
Motor vehicles	33,552,297	(17,863,363)	15,688,934	32,937,487	(14,006,594)	18,930,893
IT equipment	13,303,817	(9,850,718)	3,453,099	12,958,446	(7,810,290)	5,148,156
Infrastructure - Electricity	56,519,067	(8,864,470)	47,654,597	56,508,428	(6,923,868)	49,584,560
Infrastructure - Roads	185,478,529	(44,081,265)	141,397,264	131,039,565	(24,277,635)	106,761,930
Capital work in progress	103,965,754	-	103,965,754	77,362,173	-	77,362,173
Infrastructure - Waste & Sewerage	18,502,462	(784,746)	17,717,716	12,836,042	(463,986)	12,372,056
Infrastructure - Water	453,192,674	(83,148,148)	370,044,526	438,300,741	(60,800,661)	377,500,080
Total	1,430,977,517	(198,303,608)	1,232,673,909	1,317,991,715	(138,379,890)	1,179,611,825

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers - WIP completed	Depreciation	Impairment loss	Total
Land	434,822,303	-	-	-	-	434,822,303
Buildings	80,697,950	4,264,641	3,657,897	(6,471,396)	(436,852)	81,712,240
Plant and machinery	12,205,254	2,257,862	-	(1,636,223)	-	12,826,893
Furniture and fixtures	4,226,470	233,683	-	(1,069,570)	-	3,390,583
Motor vehicles	18,930,893	614,809	-	(3,856,768)	-	15,688,934
IT equipment	5,148,156	345,371	-	(2,040,428)	-	3,453,099
Infrastructure - Electricity	49,584,560	10,639	-	(1,940,602)	-	47,654,597
Infrastructure - Roads	106,761,930	31,906,063	22,532,901	(19,111,377)	(692,253)	141,397,264
Capital work in progress	77,362,173	63,075,740	(36,472,159)	-	-	103,965,754
Infrastructure - Waste & Sewerage	12,372,056	3,339,752	2,326,668	(320,760)	-	17,717,716
Infrastructure - Water	377,500,080	6,937,240	7,954,693	(22,347,487)	-	370,044,526
	1,179,611,825	112,985,800	-	(58,794,611)	(1,129,105)	1,232,673,909

Reconciliation of property, plant and equipment - 2011

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

4. Property, plant and equipment (continued)

	Opening balance	Additions	Transfers - WIP completed	Depreciation	Total
Land	434,822,303	-	-	-	434,822,303
Buildings	79,029,130	5,051,453	-	(3,382,633)	80,697,950
Plant and machinery	7,581,762	6,120,321	-	(1,496,829)	12,205,254
Furniture and fixtures	4,019,460	1,121,342	-	(914,332)	4,226,470
Motor vehicles	15,129,506	7,031,948	-	(3,230,561)	18,930,893
IT equipment	6,596,722	763,942	-	(2,212,508)	5,148,156
Infrastructure - Electricity	50,165,172	1,186,346	-	(1,766,958)	49,584,560
Infrastructure - Roads	110,931,898	4,843,884	-	(9,013,852)	106,761,930
Capital work in progress	34,380,113	60,672,836	(17,690,776)	-	77,362,173
Infrastructure - Waste & Sewerage	7,050,288	5,507,779	-	(186,011)	12,372,056
Infrastructure - Water	367,958,437	26,935,756	-	(17,394,113)	377,500,080
	1,117,664,791	119,235,607	(17,690,776)	(39,597,797)	1,179,611,825

Impairment of assets

Buildings	436,852	-
Infrastructure Roads	692,253	-

Pledged as security

No assets were pledged as security.

Assets subject to finance lease (Net carrying amount)

IT equipment	1,509,037	2,684,619
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Details of properties

The fixed asset register is available for more details on Property, Plant and Equipment.

5. Inventories

Consumable stores	788,292	551,006
Water inventory	92,337	72,069
	880,629	623,075

6. Receivables from exchange transactions

Interest receivable - Investments	145,205	-
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7. VAT receivable

VAT	4,916,979	9,360,306
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VAT is payable on the receipts basis. Only once payment is received from debtors, the VAT portion of the receipt is paid over to SARS with input VAT only claimed when payment is made to creditors.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
8. Consumer debtors		
Gross balances		
Rates	23,082,686	16,590,684
Electricity, Water, Sewerage & Other	19,246,641	23,117,638
Fair value adjustment	(7,691)	(102,813)
	42,321,636	39,605,509
Less: Provision for bad debts		
Rates	(6,837,714)	(4,357,903)
Electricity, Water, Sewerage & Other	(7,361,798)	(5,569,208)
	(14,199,512)	(9,927,111)
Net balance		
Rates	16,244,972	12,232,781
Electricity, Water, Sewerage & Other	11,884,843	17,548,430
Fair value adjustment	(7,691)	(102,813)
	28,122,124	29,678,398
Net Rates		
Current (0 - 30 days)	3,929,200	1,715,488
31 - 60 days	2,148,059	1,171,366
61 - 90 days	1,300,051	(115,046)
91+ days	8,867,662	9,460,973
	16,244,972	12,232,781
Net Electricity, Water, Sewerage & Other		
Current (0 - 30 days)	3,109,529	4,481,729
31 - 60 days	960,526	1,644,798
61 - 90 days	650,655	(118,031)
91+ days	7,164,133	11,539,934
	11,884,843	17,548,430
Fair value adjustment		
Fair value adjustment	(7,691)	(102,813)
Summary of debtors by customer classification		
Residential		
Current	3,136,625	2,514,479
31 - 60 days	1,458,442	1,451,915
61 - 90 days	1,192,269	(162,071)
91+ days	7,370,140	6,820,418
	13,157,476	10,624,741
Less: Provision for debt impairment	(3,876,619)	(2,605,663)
	9,280,857	8,019,078

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
8. Consumer debtors (continued)		
Industrial/ commercial		
Current	5,185,252	4,408,423
31 - 60 days	2,091,714	1,265,412
61 - 90 days	887,277	(101,219)
91+ days	10,404,693	9,390,513
	18,568,936	14,963,129
Less: Provision for bad debts	(4,734,489)	(3,669,630)
	13,834,447	11,293,499
National and provincial government		
Current	478,838	346,147
31 - 60 days	295,618	328,562
61 - 90 days	256,499	(717)
91+ days	3,517,309	3,144,197
	4,548,264	3,818,189
Less: Provision for bad debts	1,340,066	(936,391)
	5,888,330	2,881,798
Schools, Churches, Hospitals & Clinics and Handovers		
Current	657,778	898,756
31 - 60 days	292,313	686,490
61 - 90 days	266,090	(45,857)
91+ days	4,718,470	8,654,532
	(1,748,541)	(2,525,221)
Less: Provision for bad debts		
	4,186,110	7,668,700
Total		
Current	9,458,494	8,167,805
31 - 60 days	4,138,087	3,732,379
61 - 90 days	2,602,135	(309,865)
91+ days	26,122,920	28,015,190
	42,321,636	39,605,509
Less: Provision for bad debts	(14,199,512)	(9,927,111)
	28,122,124	29,678,398
Provision for bad debts		
Current (0 -30 days)	-	(2,111,732)
31 - 60 days	-	(981,851)
61 - 90 days	-	82,289
91+ days	(14,199,512)	(6,915,817)
	(14,199,512)	(9,927,111)
Reconciliation of bad debt provision		
Balance at beginning of the year	(9,927,111)	(11,468,882)
Contributions to provision	(4,272,401)	1,541,771
	(14,199,512)	(9,927,111)
Fair value of consumer debtors		
The fair value of consumer debtors approximates their carrying amounts.		
Consumer debtors impaired		

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
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8. Consumer debtors (continued)

As of 30 June 2012, consumer debtors were impaired and provided for.

The amount of the provision was R 14,199,512 as of 30 June 2012 (2011: R 9,736,904).

The ageing of these debtors are as follows:

1 month past due	-	589,594
2 and more months past due	14,199,512	9,147,310

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,000	2,000
Bank balances	12,504,057	4,943,961
Short-term deposits	5,000,000	5,000,000
Bank overdraft	(16,024,667)	(12,986,347)
	1,481,390	(3,040,386)
Current assets	17,506,057	9,945,961
Current liabilities	(16,024,667)	(12,986,347)
	1,481,390	(3,040,386)

Additional disclosure:

The municipality has a cession of R5,000,000.00 as security in respect of ABSA investment for the guarantees that have been issued to Eskom by Absa bank.

The remaining cash and cash equivalent balances held by the municipality is available for use by the municipality.

Short term fixed deposits

Short term fixed deposits consists of :

ABSA - Account 2068718251	5,000,000	5,000,000
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA BANK, Malelane branch - Primary Account - Account number 1650 000 087	706,311	1,138,220	13,934,350	(16,024,667)	(12,986,347)	13,105,126
ABSA BANK, Malelane branch - MIG Account - Account number 4077034870	5,046,570	742,687	-	12,504,057	4,943,961	-
ABSA BANK - Cheque Account - 4078501159	-	-	-	1	1	-
Total	<u>5,752,881</u>	<u>1,880,907</u>	<u>13,934,350</u>	<u>(3,520,609)</u>	<u>(8,042,385)</u>	<u>13,105,126</u>

10. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	286,186	(94,937)	191,249	194,555	(42,127)	152,428

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	152,428	91,631	(52,810)	191,249

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software	191,312	(38,884)	152,428

Pledged as security

No intangible assets were pledged as security:

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
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11. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Loans and receivables	Total
Cash and cash equivalents	17,506,057	17,506,057
Other Receivables	540,778	540,778
Trade and other receivables	28,122,124	28,122,124
	46,168,959	46,168,959

2011

	Loans and receivables	Total
Cash and cash equivalents	9,945,961	9,945,961
Other receivables	540,778	540,778
Trade and other receivables	29,868,605	29,868,605
	40,355,344	40,355,344

12. Other financial liabilities

Held at amortised cost

Annuity loan - DBSA	4,181,689	4,638,004
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These loans from DBSA bear interest between 13,4% and 17,5% per annum are repayable in equal bi-annual repayments. Refer to Appendix A for more detail on borrowings

Long term borrowings have been utilised in accordance with the Municipal Finance Management Act.

Above borrowings from external parties were utilised in order to finance Property, Plant and Equipment.

There were no default on principal and interest repayments. None of the terms were renegotiated.

Non-current liabilities

At amortised cost	3,022,585	3,263,429
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Current liabilities

At amortised cost	1,159,104	1,374,575
	4,181,689	4,638,004

Refer to Appendix A for more detail on long-term liabilities.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
13. Finance lease obligation		
Minimum lease payments due		
- not later than one year	1,398,672	1,432,717
- later than one year and not later than five years	697,256	2,095,928
	<hr/>	<hr/>
	2,095,928	3,528,645
Less: future finance charges	(233,310)	(602,075)
	<hr/>	<hr/>
Present value of minimum lease payments	1,862,618	2,926,570
	<hr/>	<hr/>
Present value of minimum lease payments due		
- not later than one year	1,195,620	1,063,952
- later than one year and not later than five years	666,998	1,862,618
	<hr/>	<hr/>
	1,862,618	2,926,570
	<hr/>	<hr/>
Non-current liabilities	666,998	1,862,618
Current liabilities	1,195,620	1,063,952
	<hr/>	<hr/>
	1,862,618	2,926,570
	<hr/>	<hr/>

It is the municipality's policy to lease certain computer and office equipment under finance leases.

The average lease term was 3 - 5 years and the effective borrowing rate was 12% (2011: 12%).

Interest rates on some contracts are fixed while others are linked to prime at the contract date. Some leases have fixed repayments while others escalate between 7.5% and 10% per annum.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

Defaults and breaches

There were no default on principal and interest repayments. None of the terms and conditions were renegotiated.

14. Operating lease asset (accrual)

Current assets	30,394	10,650
Non-current liabilities	(139,686)	(229,281)
Current liabilities	(39,223)	(178,909)
	<hr/>	<hr/>
	(148,515)	(397,540)
	<hr/>	<hr/>

15. Deposits made

Eskom - electricity	540,778	540,778
	<hr/>	<hr/>
	540,778	540,778
	<hr/>	<hr/>

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

16. Heritage assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Heritage assets	5,613,947	-	5,613,947	5,613,947	-	5,613,947

Reconciliation of Heritage assets - 2012

	Opening balance	Total
Heritage assets	5,613,947	5,613,947

Reconciliation of Heritage assets - 2011

	Opening balance	Total
Heritage assets	5,613,947	5,613,947

Pledged as security

No heritage assets were pledged as security.

17. Trade and other payables

Trade payables	50,774,993	37,262,652
Salary suspense accounts	5,939,139	5,159,395
Deposits received	2,399,542	2,307,826
Accrued interest payable on external borrowings	185,977	167,742
Staff leave accrual	13,871,886	11,192,448
	73,171,537	56,090,063

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
18. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	3,478,320	16,975,435
Electrification Grant	4,248,310	-
LG SETA Grant	84,600	-
	7,811,230	16,975,435
Movement during the year		
Balance at the beginning of the year	16,975,435	3,565,000
Current-year receipts	144,020,000	109,087,000
Conditions met - transferred to revenue	(153,184,205)	(95,676,565)
	7,811,230	16,975,435

The municipality utilised MIG conditional funds amounting to R15,589,865.71 and INEG conditional funds amounting to R7,587,066.83 for other operational purposes as they are not cash backed. These funds were replaced by the equitable share received after year end.

The municipality has complied with all the conditions set by the transferring organ of State or the conditions set by the other institutions who made allocations to the municipality, except for the funds which were utilised for operational purpose as mentioned above. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

19. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Reversed during the year	Total
Landfill Site Provision	2,523,160	692,600	-	3,215,760
Audit Fees Provision	1,256,335	811,952	(1,256,335)	811,952
Annual Bonus Provision	4,164,333	4,689,223	(4,164,333)	4,689,223
Performance Bonus Provision	108,447	57,149	(108,447)	57,149
Long Service Award Provision	966,880	99,524	(966,880)	99,524
	9,019,155	6,350,448	(6,495,995)	8,873,608

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Landfill Site Provision	-	2,523,160	-	2,523,160
Audit Fees Provision	-	1,256,335	-	1,256,335
Annual Bonus Provision	3,776,141	4,164,333	(3,776,141)	4,164,333
Performance Bonus Provision	206,393	108,447	(206,393)	108,447
Long Service Award Provision	361,009	966,880	(361,009)	966,880
	4,343,543	9,019,155	(4,343,543)	9,019,155

Long service awards to eligible employees are paid for services rendered by employees of 10 years and longer in five year intervals. These employees are awarded proportionally every five years based on 10 days's basic salary for 10 years service.

Performance bonuses are paid in arrears as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

The municipality has provided R1,919,300.00 for the rehabilitation of Steenbok landfill site in 2011 financial year. This cost of rehabilitating the landfill site was provided by SKC Masakhizwe Engineers (Pty) Ltd. The estimated useful life of the landfill site is expected to be 20 years.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

20. Employee benefit obligations

Retirement benefits

Personnel and Councillors are members of the following funds:

Joint Municipal Pension Fund (JMPF)
 Municipal Gratuity Fund (MGF)
 Municipal Employees Pension Fund (MEPF)
 Municipal Councillors Pension Fund (MCPF)
 Government Employees Pension Fund
 National Fund for Municipal Workers (NFMW)

Valuations

Last known actuarial valuations is as follows:

	Actuarial	Interim	Level
The Municipal Gratuity Fund is a defined benefit governed under the Pension Fund Act of 1956. The most recent actuarial valuation indicated that the fund was financially sound.	30-Jun-02	30-Jun-04	Fully Funded
The NFMW is a fixed contribution fund and there is no statutory requirement to do an actuarial valuation	30-Jun-04	30-Jun-05	Fully Funded
The MEPF is a fixed contribution fund.	28-Feb-02	28-Feb-05	Fully Funded

All Councillors and employees belong to the 5 defined benefit retirement funds administered by the Provincial Pension Fund as disclosed above. These funds are subject to a triennial actuarial valuation.

An amount of R31,119,325 (2011: R28,424,640) was contributed by Council in respect of Councillor and employees retirement funding. These contributions have been expensed.

Defined benefit plan

The Municipal Employees Gratuity Fund is a defined benefit plan. This is not treated as defined benefit plan as defined by IAS19, but is accounted for as a defined contribution plan. This is in line with the exemption in IAS19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The defined benefit funds are administered on a provincial basis, but the specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration thereof. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

The Municipality is contributing 60% of medical aid benefit for retired municipal employees. The calculated present value of the medical aid benefit for 10 years is R1,864,425.90

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Other financial liabilities	4,367,666	4,367,666
Trade and other payables	67,232,398	67,232,398
Bank overdraft	16,024,667	16,024,667
	87,624,731	87,624,731

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	4,638,004	4,638,004
Trade and other payables	50,930,668	50,930,668
Bank overdraft	12,986,347	12,986,347
	68,555,019	68,555,019

22. Revenue

Property rates	36,457,554	29,014,752
Service charges	57,127,509	54,033,636
Rental of facilities & equipment	2,517,920	3,420,226
Interest earned – debtors	2,171,282	1,310,986
Licences and permits	7,871,326	7,071,112
Government grants & subsidies	386,079,923	292,264,662
	492,225,514	387,115,374

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	57,127,509	54,033,636
Rental of facilities & equipment	2,517,920	3,420,226
Interest earned – debtors	2,171,282	1,310,986
Licences and permits	7,871,326	7,071,112
	69,688,037	65,835,960

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	36,457,554	29,014,752
Government grants & subsidies	386,079,923	292,264,662
	422,537,477	321,279,414

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. Property rates		
Rates received		
Residential	18,585,461	37,461,090
Business	14,505,996	2,274,254
Government	1,338,244	2,065,241
Agricultural	2,027,853	-
Less: Income forgone	-	(12,785,833)
	36,457,554	29,014,752

Rates are levied on monthly basis and repayable in twelve equal payments with the final date of payment being the municipality 's year end. Interest equal to the prime rate as determined by the South African Reserve bank per annum is levied on outstanding rates.

In cents

Assessment rates are levied as follows

Unimproved Residential Stands	3	3
Improved Residential Stands	1	1
Business	16	15
State Owned	1	1
PSI	4	4
	25	24

Rebates are granted to pensioners, permanent disables persons, consolidated and notarial tide accounts as follow in %:

Consolidated or Notarial tide	-	-
- 2 stands	20	20
- 3 stands	30	30
- 4 stands or more	40	40
Pensioners or Permanent medically disabled	-	-
- income less than R1,200 per month	40	40
- income more than R1,200 less than R2,000 per month	20	20
	150	150

Valuations

Residential	3,726,305,372	2,741,641,945
Business	1,237,966,867	1,498,167,513
Government	406,493,997	521,085,651
Municipal	1,414,627	1,414,627
Provincial	-	1,384,000
Schools	4,899,000	12,810,004
Educational	-	1,281,004
Churches	855,500	-
Industrial	8,947,786	15,430,928
Agriculture	1,087,757,211	665,314,991
Other - Unimproved and industrial	643,136,734	245,095,925
	7,117,777,094	5,703,626,588

Assessment rates are charged on the valuation roll done before demarcation.

Valuations on land are performed every three years and the last general valuation came into effect on the following dates:

- Supplementary valuations 1 May 2011
- General valuations 1 July 2009

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. Property rates (continued)		
The municipality performed a supplementary valuation roll which commenced on 1 May 2011 and completed on 30 April 2012.		
The entity performed the general valuations on 1 July 2009 for the year ending 2009/2010 in all areas of Nkomazi Municipality.		
24. Service charges		
Sale of electricity	43,326,838	32,894,829
Sale of water	7,540,483	16,241,960
Sewerage and sanitation charges	2,753,653	3,948,487
Refuse removal	3,506,535	948,360
	57,127,509	54,033,636
25. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	2,481,183	3,386,509
Rental of equipment	36,737	33,717
	2,517,920	3,420,226
26. Interest revenue		
Interest revenue		
Bank	400,900	4,011,543
Investment	1,291,634	-
Fair value adjustment: Notional interest	616,075	519,960
	2,308,609	4,531,503

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
27. Government grants and subsidies		
Disaster Relief Grant	2,863,717	-
Equitable share	230,032,000	196,588,097
Municipal Infrastructure Grant	125,705,116	74,506,565
Water Services Operating and Subsidy Grant	9,059,000	14,920,000
Electrification Grants	15,134,690	4,500,000
LG SETA Grant	1,245,400	-
Financial Management Grant	1,250,000	1,000,000
Municipal Systems Improvement Grant	790,000	750,000
	386,079,923	292,264,662

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Municipal Infrastructure Grant

Balance unspent at beginning of year	16,975,435	-
Current-year receipts	112,208,000	91,482,000
Conditions met - transferred to revenue	(125,705,115)	(74,506,565)
	3,478,320	16,975,435

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure and to eradicate the bucket sanitation system mainly in urban townships.

Financial Management Grant

Current year - receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,250,000)	(1,000,000)
	-	-

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Electrification Grant

Current-year receipts	19,383,000	4,500,000
Conditions met - transferred to revenue	(15,134,690)	(4,500,000)
	4,248,310	-

Water Services Operating and Subsidy Grant

Balance unspent at beginning of year	-	3,565,000
Current-year receipts	9,059,000	11,355,000
Conditions met - transferred to revenue	(9,059,000)	(14,920,000)
	-	-

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
27. Government grants and subsidies (continued)		
Municipal System Improvement Grant		
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	<u>-</u>	<u>-</u>
<p>This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies.</p>		
Changes in level of government grants		
<p>Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.</p>		
Disaster Relief Grant		
Current-year receipts	2,863,717	-
Conditions met - transferred to revenue	(2,863,717)	-
	<u>-</u>	<u>-</u>
LG SETA Grant		
Current-year receipts	1,330,000	-
Conditions met - transferred to revenue	(1,245,400)	-
	<u>84,600</u>	<u>-</u>
28. Other revenue		
Recovery	799,547	630,693
Donations received	1,162,800	-
Other income	3,887,234	5,178,242
	<u>5,849,581</u>	<u>5,808,935</u>
29. Other income		
Building Plan Fees	351,806	430,969
Entrance Fees	1,140,451	921,050
Fire Fighting Services	1,558	751
Library membership fees	25,398	28,847
Sale of Game	64,912	115,789
Search Fees	454,841	229,342
Seta Training Refund	920,090	112,103
Sundry	242,845	2,644,856
Tender documents	80,953	141,946
Traffic fines	604,380	552,589
	<u>3,887,234</u>	<u>5,178,242</u>

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
30. Employee related costs		
Salaries and wages	99,341,656	105,394,022
Medical aid and UIF contributions	6,974,244	5,040,826
Bonus	8,427,265	10,632,172
Overtime payments	15,058,372	10,590,090
Allowances	11,527,768	8,069,021
Housing benefits and allowances	2,830,494	1,837,287
Pension fund contributions	20,942,590	14,175,741
Other employee related costs	45,051	31,976
Standby	2,996,976	1,771,962
Temporary employees	4,391,666	12,487
Subsistence and transport	7,683,084	6,561,446
	180,219,166	164,117,030
Remuneration of Municipal Manager		
Annual Remuneration	349,432	-
Travel, car and other allowances	72,924	-
Contributions to UIF, Medical and Pension Funds	77,648	-
	500,004	-
Remuneration of Acting Municipal Manager		
Acting allowance	66,638	174,419
Remuneration of Chief Finance Officer		
Annual Remuneration	114,263	651,703
Travel, car and other allowances	24,000	118,394
Contributions to UIF, Medical and Pension Funds	25,396	131,838
	163,659	901,935
Remuneration of Acting Chief finance Officer		
Acting allowance	257,169	249,631
Remuneration of Director - Technical Services		
Annual Remuneration	82,077	133,474
Travel, car and other allowances	28,000	23,390
Contributions to UIF, Medical and Pension Funds	22,962	21,723
	133,039	178,587
Remuneration of Acting Director - Technical Services		
Acting allowance	105,086	189,020
Remuneration of Director - Community Services		
Annual Remuneration	384,624	539,381
Travel, car and other allowances	86,201	123,963
Contributions to UIF, Medical and Pension Funds	68,337	109,423
	539,162	772,767

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
30. Employee related costs (continued)		
Remuneration of Acting Director - Community Services		
Acting allowance	134,441	179,930
Remuneration of Director - Planning and Development		
Annual Remuneration	393,445	546,077
Travel, car and other allowances	47,000	64,427
Contributions to UIF, Medical and Pension Funds	86,621	137,910
	527,066	748,414
Remuneration of Acting Director - Planning and development		
Acting allowance	67,013	-
Remuneration of Director - Corporate Services		
Annual Remuneration	43,776	-
Travel, car and other allowances	12,000	-
Contributions to UIF, Medical and Pension Funds	9,759	-
	65,535	-
Remuneration of Acting Director - Corporate Services		
Acting allowance	142,579	179,930
31. Remuneration of Councillors		
Executive Mayor	678,777	577,938
Speaker	527,118	485,183
Mayoral Committee Members	2,503,531	2,292,822
Councillors	4,271,026	3,748,941
Councillors' pension and other contributions	1,440,425	1,011,595
Councillors' Allowances	3,366,568	3,139,706
	12,787,445	11,256,185
In-kind benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor has use of a Council owned vehicle for official duties and has a full time bodyguard.		
32. Depreciation and amortisation		
Property, plant and equipment	58,794,613	39,543,769
Intangible assets	52,810	38,884
	58,847,423	39,582,653

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
33. Impairment of assets		
Impairments		
Property, plant and equipment	1,129,105	-
The circumstances that led to the recognition of the impairment loss was due to physical damage to the assets. The recoverable amount of the asset was based on its fair value less costs to sell.		
The main classes of assets affected by impairment losses are:		
Buildings		
Infrastructure Roads		
Fair value less cost to sell		
Fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.		
34. Finance costs		
Finance cost - Landfill site	692,600	-
Interest paid	370,824	-
Finance leases	368,765	528,954
Non-current borrowings	939,305	2,580,233
	2,371,494	3,109,187
35. Debt impairment		
Contributions to debt impairment provision	4,272,401	(1,541,772)
Bad debts written off	3,418,215	-
	7,690,616	(1,541,772)
36. Contracted services		
Services rendered - FMS Support Services	1,664,863	3,921,781
Transport of Money	270,290	297,565
	1,935,153	4,219,346
37. Bulk purchases		
Electricity	51,861,419	35,174,823
Water	942,298	583,828
	52,803,717	35,758,651

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
38. General expenses		
Advertising	870,304	804,101
Auditors remuneration	1,782,089	3,875,696
Bank charges	408,139	470,909
Bursaries	11,651	99,946
Cleaning Material	93,676	71,027
Conferences	192,806	312,700
Consulting and professional fees	14,025,028	13,106,955
Consumables	12,627,758	7,337,008
Data cleansing	732,960	-
Debt collection commission	798,094	152,990
Disaster Management	3,788,900	480,335
Electricity consumption	14,767,934	7,470,647
Entertainment	337,780	241,399
Fuel and Oil	8,427,459	8,496,738
IT systems	3,062,704	2,784,460
Insurance	1,482,604	1,713,549
Irrecoverable VAT	-	15,279,239
License fees	30,652	23,158
Mayoral outreach	141,828	247,406
Membership Fees	946,451	1,037,773
Municipal services	5,010,860	3,529,812
Networks and substations	1,195,642	879,846
New Connections	1,959,913	2,483,395
Occupational Health and Safety	99,500	-
Other expenses	271,898	233,992
Pest control	69,649	24,539
Postage and courier	176,789	268,119
Printing and stationery	1,092,160	703,408
Projects	10,489,937	15,139,228
Public Permits Staff	5,094	69,956
Refuse bags and holders	887,136	160,364
Rehabilitation of Landfill Site	2,003,688	1,919,300
Rental of property and equipment	4,018,971	7,097,975
Security	8,979,913	6,804,196
Skills development levy	1,421,628	1,574,952
Sport Events	361,331	383,324
Stock and Material	521,555	-
Student financial aid support	61,131	-
Supplementary valuation roll	1,271,838	166,104
System development and support	161,667	188,781
Telephone and fax	1,833,088	3,334,662
Title deed search fees	10,698	17,174
Tollgate Fees	135,327	157,243
Town Planning	3,132,077	296,431
Traditional council	60,577	-
Training	3,252,685	1,130,784
Transveral unit	671,458	360,360
Travel - Local	1,446,243	1,580,368
Uniforms	1,764,758	1,996,768
Ward Committees	158,267	22,014
Water Quality Monitoring	1,760,048	3,519,394
	118,814,343	118,048,525
39. Auditors' remuneration		
Fees	1,782,089	3,875,696

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
40. Cash generated from operations		
Surplus (deficit)	39,409,183	(6,337,056)
Adjustments for:		
Depreciation and amortisation	58,847,423	39,582,653
Finance costs - Finance leases	368,765	528,954
Impairment deficit	1,129,105	-
Bad debt provision	7,690,616	(1,541,772)
Movements in operating lease assets and accruals	(249,025)	89,829
Movements in provisions	(145,547)	8,921,963
Non-cash movements made to PPE	-	16,945,313
Adjustment to Accumulated surplus	6,614,226	-
Donations received	(1,162,800)	-
Changes in working capital:		
Inventories	(257,554)	(341,051)
Receivables from exchange transactions	(145,205)	-
Other receivables	-	610,575
Consumer debtors	(6,134,342)	(6,183,366)
Deposits made	-	4,671
Trade and other payables	17,081,472	(6,116,152)
VAT	4,443,327	8,333,903
Unspent conditional grants and receipts	(9,164,205)	13,410,435
	118,325,439	67,908,899

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011
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41. Capital Commitments

Authorised capital expenditure

Approved and already contracted for but not provided for

• Infrastructure	118,292,216	123,159,801
• Orders	1,107,246	-
	119,399,462	123,159,801

Approved by accounting officer not yet contracted for

• Infrastructure	43,132,349	-
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This committed expenditure relates mainly to infrastructure development and will be financed by available government and other grants, bank facilities, and retained surpluses.

Funding sources

This expenditure will be financed from:

- Government and Other Grants	161,424,565	123,159,801
- Revenue and equitable share	1,107,246	-
	162,531,811	123,159,801

Operating leases - as lessee (expense)

Minimum lease payments due

- not later than one year	989,495	1,965,161
- later than one year and not later than five years	318,529	1,308,024
	1,308,024	3,273,185

Operating lease payments represent rentals payable by the municipality for certain of its properties. Leases are negotiated for an average term of three years to five years and rentals escalated by 10% per annum. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	159,128	166,336
- in second to fifth year inclusive	570,689	577,161
- later than five years	383,903	600,177
	1,113,720	1,343,674

Operating lease payments represent rentals receivable by the municipality for certain of its properties. Leases are negotiated for up to maximum term of 9 years 11 months and rental escalates between 0% to 10% per annum. No contingent rent is receivable.

Nkomazi Local Municipality

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42. Contingencies

Contingent liabilities

A Lubbe - Claim of R109,626.64 against unfair dismissal which might result in a possible loss of R300,000.00.

IMATU O.B.O L Lubisi - Claim of R120,270.00 for travel allowance.

SM Shabangu - challenge against alleged unfair dismissal and anticipated costs claim of R22,000,000.00

SM Shabangu - challenge against alleged unfair dismissal and anticipated costs claim of R1,020,000.00

Claim from Silinda Mokoena & Associates (Valuer) case no 64255/09 claims R1,264,063 for work done on the valuation roll for the municipality.

Biz Africa 1002 (Pty) Ltd - Claim for suffered damages caused by fire amounting to R1,500,000.00

Contingent assets

The municipality lodged a counter claim of R10,855,225.17 against Silinda Mokoena & Associates (Valuer) case no 64255/09, because the valuation roll was incorrect and the Valuer failed to make corrections as requested by the municipality. The municipality lodged its claim because it is losing possible revenue due to the incorrectness of the valuation roll.

Valor IT - Claim for recovery of amount paid to Valor IT to the value of R4,577,236.80 for breach of contract.

SM Shabangu - Claim for recovery of unauthorised expenditure amounting to R3,248,996.39

Tarfix - Claim by the Municipality of refund amounting to R3 224 678.43 paid to Mendelow-Jacobs Attorneys if Tarfix lose the case against the municipality.

Nkomazi Local Municipality

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43. Related parties

Relationships

Business entity of close family member of key management personnel

Mnyasa Trading

Business entities of municipal employees

Bilani Security (P Shongwe)

Post employment benefit plan for employees of municipality

Refer to note on Employee Retirement Benefit Plans
Refer to note on compensation to Municipal Manager,
Chief Financial Officer, Executive Directors, Mayoral
Committee and Other Councillors

Remuneration of key management personnel

As an organ of state, the municipality render normal consumer services to other organs of state like Department of Health, Department of Roads and Transport, etc.

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties

Department of Health	31,766	426,909
Department of Roads and Transport	51,074	50,246
Department of Health	(94,152)	-
Department of Roads and Transport	(5,357)	-

Related party transactions

Purchases from (sales to) related parties

Bilani Security	1,276,357	1,420,464
Department of health	51,974	-
Department of Roads and Transport	161,104	-
Bucwebe Trading	-	14,550
Mnyasa Trading	86,750	135,544

Nkomazi Local Municipality

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44. Prior period errors

Certain balances of property, plant and equipment have been changed due to correction of prior period landfill site processed to expense vote, accumulated depreciation incorrectly classified, fair value of assets that were on floor but not on asset register, assets that were disposed but still on asset register and correction of accumulated depreciation for assets still in use but fully depreciated.

Certain balances of property, plant and equipment have been changed as a result of classification errors.

Expenses relating to prior year were processed in current year.

Provision for bonuse for prior year was incorrectly calculated based on 12 months instead of 7 months.

Bad debts written off for prior year was misposted to provision for bad debts.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	2,972,979	2,972,979
Accumulated Surplus	(2,972,979)	(2,972,979)
Annual bonus provision	(2,974,524)	(2,974,524)
Accumulated Surplus	2,974,524	2,974,524
Bad debts written off	190,206	190,206
Accumulated Surplus	(190,206)	(190,206)
Plant and Machinery - cost	1,057,310	1,057,310
Transport assets - cost	(1,057,310)	(1,057,310)
Plant and Machinery - Accum dep	(298,812)	(298,812)
Transport assets - Accum Dep	298,812	298,812
Accumulated Surplus	1,510,003	1,510,003
Sundry payments accruals / Creditor control account	(1,510,003)	(1,510,003)
Creditor VAT reclaim	106,404	106,404
Sundry payments accruals / Creditor control account	(106,404)	(106,404)

45. Risk management

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.

At 30 June 2012	Less than 1 year	Between 1 and 5 years	Between 2 and 5 years	Over 5 years
Borrowings	1,159,104	3,208,562	-	-
Deposits received	2,399,542	-	-	-
Trade and other payables	50,774,995	-	-	-
Finance lease obligations	1,195,620	666,998	-	-
At 30 June 2011	Less than 1 year	Between 1 and 5 years	Between 2 and 5 years	Over 5 years
Borrowings	1,374,575	3,263,429	-	-
Deposits received	2,307,826	-	-	-
Trade and other payables	37,262,652	-	-	-
Finance lease obligations	1,063,952	1,862,618	-	-

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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Figures in Rand 2012 2011

45. Risk management (continued)

Credit Risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks. Credit Risk related to consumer debtors is managed in accordance with the Council's credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

Financial instrument	2012	2011
Cash and cash equivalents	17,506,057	9,945,961
Consumer debtors	28,122,124	29,868,605
Receivable from exchange transactions	145,205	-
Deposits made	540,778	540,778

46. Going concern

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

The 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.

47. Unauthorised expenditure

Unauthorised expenditure - Opening balance	150,097,739	101,311,364
Unauthorised expenditure - Current year	100,880,977	77,420,711
Unauthorised expenditure - Condoned by Council	(150,097,739)	(40,607,771)
MIG unauthorised expenditure	-	11,973,435
	100,880,977	150,097,739

The unauthorised expenditure of R100,880,977 is awaiting for authorisation, however there were savings on other operational expenditure votes to the value of R67,909,086.79 and capital expenditure votes to the value of R70,752,822.06

48. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Opening balance	2,359,826	88,745
Fruitless and wasteful expenditure - Current year	583,105	2,271,081
Telkom interest	41,661	-
SARS penalty and Interest	85,195	-
	3,069,787	2,359,826

Fruitless and wasteful expenditure of R3,069,787 is awaiting for authorisation.

49. Irregular expenditure

Irregular expenditure - Opening balance	36,208,849	18,425,884
Irregular expenditure - Current year	11,410,193	1,397,331
Irregular expenditure - Condoned by Council	(18,954,377)	(1,279,436)
Other irregular expenditure	-	17,665,070
	28,664,665	36,208,849

Irregular expenditure of R28,664,665 is awaiting for authorisation

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Opening balance	(1,650)	(1,650)
Current year membership fee	90,192	85,389
Amount paid - current year	(82,550)	(85,389)
Ajustment to opening balance	1,650	-
Due and payable	7,642	(1,650)
Audit fees		
Opening balance	1,256,335	(2,850)
Current year fee	811,952	1,556,335
Amount paid - current year	-	(297,150)
Amount paid - previous years	(1,256,335)	-
Due and payable	811,952	1,256,335

Nkomazi Local Municipality

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Figures in Rand 2012 2011

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	247,626	141,364
Current year deductions and contributions	19,433,608	17,821,087
Amount paid - current year	(17,870,359)	(17,714,825)
Amount paid - previous years	(247,626)	-
	1,563,249	247,626

Pension and Medical Aid Deductions

Opening balance	88,879	57,839
Current year deductions and contributions	41,152,269	37,134,790
Amount paid - current year	(37,616,413)	(37,103,750)
Amount paid - previous years	(88,879)	-
	3,535,856	88,879

VAT

VAT receivable	4,916,979	9,360,306
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VAT output payables and VAT input receivables are shown in note .

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2012

30 June 2012	Outstanding more than 90 days R	Total R
Councillor MAMBANE DS	-	39,702
	39,702	39,702

No Councillors' had arrear accounts outstanding for more than 90 days for the year ended 30 June 2011.

Deviations

Incident

Deviations - Opening balance	940,265	-
Deviations - current year	12,751,347	9,790,652
Deviations noted by council	(10,940,881)	(8,850,387)
	2,750,731	940,265

Deviations of R2,750,731 is awaiting to be noted by council.

51. Distribution losses

Electricity	Year	Units purchased	Units sold	Loss in units	Loss in percentage
	2010/2011	72,111,975	50,832,024	21,279,951	29.51%
	2011/2012	77,881,518	45,800,663	32,080,855	40.36%

Electricity distribution loss calculated value amounts to R26,383,931 (2011: R10,935,754).

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

52. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	48,000,000	-	48,000,000	36,457,554	11,542,446	76 %	76 %
Service charges	59,618,850	-	59,618,850	57,127,509	2,491,341	96 %	96 %
Investment revenue	7,021,838	(5,000,000)	2,021,838	2,308,609	(286,771)	114 %	33 %
Transfers recognised - operational	245,591,000	3,509,616	249,100,616	386,079,923	(136,979,307)	155 %	157 %
Other own revenue	15,881,832	(67,353)	15,814,479	18,410,109	(2,595,630)	116 %	116 %
Total revenue (excluding capital transfers and contributions)	376,113,520	(1,557,737)	374,555,783	500,383,704	(125,827,921)	134 %	133 %
Employee costs	(171,092,584)	(607,194)	(171,699,778)	(182,920,557)	11,220,779	107 %	107 %
Remuneration of councillors	(14,637,236)	1,329,934	(13,307,302)	(12,787,445)	(519,857)	96 %	87 %
Debt impairment	(1,200,000)	(11,300,000)	(12,500,000)	(7,690,616)	(4,809,384)	62 %	641 %
Depreciation and asset impairment	(7,437,598)	(44,469,331)	(51,906,929)	(59,976,528)	8,069,599	116 %	806 %
Finance charges	(1,347,041)	-	(1,347,041)	(2,371,494)	1,024,453	176 %	176 %
Materials and bulk purchases	(56,553,631)	(181,303)	(56,734,934)	(52,803,717)	(3,931,217)	93 %	93 %
Other expenditure	(124,989,997)	(13,334,640)	(138,324,637)	(142,424,164)	4,099,527	103 %	114 %
Total expenditure	(377,258,087)	(68,562,534)	(445,820,621)	(460,974,521)	15,153,900	103 %	122 %
Surplus/(Deficit) for the year	(1,144,567)	(70,120,271)	(71,264,838)	39,409,183	(110,674,021)	(55)%	(3,443)%

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

52. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	155,896,000	-	155,896,000	49,910,063	105,985,937	32 %	32 %
Cash flows							
Net cash from (used) operating	128,365,963	(331,121)	128,034,842	118,325,439	9,709,403	92 %	92 %
Net cash from (used) investing	(140,306,400)	(34,458,092)	(174,764,492)	(111,914,631)	(62,849,861)	64 %	80 %
Net cash from (used) financing	3,851,646	-	3,851,646	(1,889,032)	5,740,678	(49)%	(49)%
Net increase/(decrease) in cash and cash equivalents	(8,088,791)	(34,789,213)	(42,878,004)	4,521,776	(47,399,780)	(11)%	(56)%
Cash and cash equivalents at the beginning of the year	10,000,000	(13,040,386)	(3,040,386)	(3,040,386)	-	100 %	(30)%
Cash and cash equivalents at year end	1,911,209	(47,829,599)	(45,918,390)	1,481,390	(47,399,780)	(3)%	78 %

Nkomazi Local Municipality

Appendix A

June 2012

Schedule of external loans as at 30 June 2012

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
Loan @ 15.26% (Electricity)	61002240	2011	13,655	-	13,655	-	-
Loan @ 15.8% (Electricity)	61002607	2010	-	-	-	-	-
Loan @ 15.8% (Roads)	61002608	2010	-	-	-	-	-
Loan @ 15.8% (Registration Authority)	61002609	2010	-	-	-	-	-
Loan @ 15.26% (Purchase of farm, Lionspruit)	61002394	2012	549,206	-	140,577	408,629	-
Loan @ 16.5% (Upgrading of Malelane Infrastructure)	61003108	2019	4,075,143	-	116,165	3,958,978	-
Loan @ 15.26%	61002393	2012	72	-	15	57	-
			4,638,076	-	270,412	4,367,664	-
INCA loan							
Lease liability							
Total external loans							
Development Bank of South Africa			4,638,076	-	270,412	4,367,664	-
			4,638,076	-	270,412	4,367,664	-

Nkomazi Local Municipality

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

Cost

Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers - WIP completed	Other movements	Closing Balance	Opening Balance	Disposals	Impairment loss	Depreciation	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Land and buildings												
Land - Undeveloped	7,563,134	-	-	-	-	7,563,134	-	-	-	-	-	7,563,134
Land - Developed	427,259,169	-	-	-	-	427,259,169	-	-	-	-	-	427,259,169
Buildings - Residential	12,753,769	229,137	-	-	-	12,982,906	(2,224,728)	-	-	(522,371)	(2,747,099)	10,235,807
Buildings - Operational	81,316,601	4,035,505	-	3,657,897	-	89,010,003	(11,147,683)	-	(436,852)	(5,949,025)	(17,533,560)	71,476,443
Work in progress	3,657,897	1,128,139	-	(3,657,897)	-	1,128,139	-	-	-	-	-	1,128,139
	532,550,570	5,392,781	-	-	-	537,943,351	(13,372,411)	-	(436,852)	(6,471,396)	(20,280,659)	517,662,692
Infrastructure												
Main: Roads and stormwater	131,039,565	31,906,063	-	22,532,901	-	185,478,529	(24,277,626)	-	(692,253)	(19,111,377)	(44,081,256)	141,397,273
Sewerage mains & purification	5,894,242	2,992,962	-	1,838,418	-	10,725,622	(356,770)	-	-	(180,091)	(536,861)	10,188,761
Main: Electricity	56,508,428	10,639	-	-	-	56,519,067	(6,923,867)	-	-	(1,940,601)	(8,864,468)	47,654,599
Main: Water and purification	438,300,741	6,937,240	-	7,954,693	-	453,192,674	(60,800,661)	-	-	(22,347,487)	(83,148,148)	370,044,526
Solid waste	6,941,619	346,791	-	488,250	-	7,776,660	(107,231)	-	-	(140,669)	(247,900)	7,528,760
Work in progress	73,704,276	61,947,601	-	(32,814,262)	-	102,837,615	-	-	-	-	-	102,837,615
	712,388,871	104,141,296	-	-	-	816,530,167	(92,466,155)	-	(692,253)	(43,720,225)	(136,878,633)	679,651,534
Other Assets												
Furniture and office equipment	7,679,712	233,685	-	-	-	7,913,397	(3,453,242)	-	-	(1,069,571)	(4,522,813)	3,390,584
Machinery and equipment	18,524,448	2,257,862	-	-	-	20,782,310	(7,271,192)	-	-	(1,636,223)	(8,907,415)	11,874,895
Computer equipment	12,958,446	345,370	-	-	-	13,303,816	(7,810,286)	-	-	(2,040,428)	(9,850,714)	3,453,102
Transport assets	33,889,487	614,810	-	-	-	34,504,297	(14,006,589)	-	-	(3,856,769)	(17,863,358)	16,640,939
	73,052,093	3,451,727	-	-	-	76,503,820	(32,541,309)	-	-	(8,602,991)	(41,144,300)	35,359,520

Nkomazi Local Municipality

Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012

Cost

Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers - WIP completed	Other movements	Closing Balance	Opening Balance	Disposals	Impairment loss	Depreciation	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Heritage assets												
Historical Assets	5,613,947	-	-	-	-	5,613,947	-	-	-	-	-	5,613,947
	5,613,947	-	-	-	-	5,613,947	-	-	-	-	-	5,613,947
Investment Property												
Investment property	37,937,199	-	-	-	-	37,937,199	-	-	-	-	-	37,937,199
	37,937,199	-	-	-	-	37,937,199	-	-	-	-	-	37,937,199
Intangible Assets												
Computer software	194,555	91,631	-	-	-	286,186	(42,127)	-	-	(52,810)	(94,937)	191,249
	194,555	91,631	-	-	-	286,186	(42,127)	-	-	(52,810)	(94,937)	191,249
Total property plant and equipment	1,361,737,235	113,077,435	-	-	-	1,474,814,670	(138,422,002)	-	(1,129,105)	(58,847,422)	(198,398,529)	1,276,416,141
Intangible assets												
Investment properties												
Total												
Land and buildings	532,550,570	5,392,781	-	-	-	537,943,351	(13,372,411)	-	(436,852)	(6,471,396)	(20,280,659)	517,662,692
Infrastructure	712,388,871	104,141,296	-	-	-	816,530,167	(92,466,155)	-	(692,253)	(43,720,225)	(136,878,633)	679,651,534
Other Assets	73,052,093	3,451,727	-	-	-	76,503,820	(32,541,309)	-	-	(8,602,991)	(41,144,300)	35,359,520
Heritage assets	5,613,947	-	-	-	-	5,613,947	-	-	-	-	-	5,613,947
Investment Property	37,937,199	-	-	-	-	37,937,199	-	-	-	-	-	37,937,199
Intangible Assets	194,555	91,631	-	-	-	286,186	(42,127)	-	-	(52,810)	(94,937)	191,249
	1,361,737,235	113,077,435	-	-	-	1,474,814,670	(138,425,245)	-	(1,129,105)	(58,847,422)	(198,401,772)	1,276,412,898

Nkomazi Local Municipality

Appendix D

June 2012

Segmental Statement of Financial Performance for the year ended 30 June 2012

Prior Year

Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
495,255	23,949,188	(23,453,933)	Executive & Council/Mayor and Council	-	26,462,329	(26,462,329)
127,559,494	74,407,321	53,152,173	Budget & Treasury Office	19,208,972	52,410,437	(33,201,465)
3,814,865	39,039,094	(35,224,229)	Corporate services	5,371,619	39,370,610	(33,998,991)
25,397,432	70,905,934	(45,508,502)	Community & Social Services	34,782,148	82,608,141	(47,825,993)
258,016	3,526,730	(3,268,714)	Planning & Development	506,219	13,530,610	(13,024,391)
3,270,368	14,197,342	(10,926,974)	Civil Administration & PMU	3,029,616	13,350,308	(10,320,692)
4,044,783	11,196,266	(7,151,483)	Waste Water Management/Sewerage	2,753,653	10,812,635	(8,058,982)
720,265	21,161,841	(20,441,576)	Road Transport/Roads	1,170,751	37,228,020	(36,057,269)
159,608,895	86,633,258	72,975,637	Water/Water Distribution	340,594,985	105,364,025	235,230,960
72,286,438	58,775,893	13,510,545	Electricity /Electricity Distribution	92,965,742	79,837,406	13,128,336
397,455,811	403,792,867	(6,337,056)		500,383,705	460,974,521	39,409,184
Other charges						
397,455,811	403,792,867	(6,337,056)	Municipality	500,383,705	460,974,521	39,409,184
397,455,811	403,792,867	(6,337,056)	Total	500,383,705	460,974,521	39,409,184

**Actual versus Budget(Revenue and Expenditure) for the year ended 30 June
2012**

	Current year 2012 Act. Bal.	Current year 2012 Bud. Amt	Variance		Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand	Var	
Revenue					
Property rates	36,457,554	48,000,000	(11,542,446)	(24.0)	There were some objections with rate payers and they withheld their payments.
Service charges	57,127,509	59,618,850	(2,491,341)	(4.2)	
Rental of facilities and equipment	2,517,920	1,507,564	1,010,356	67.0	We under budgeted and relied on historical trends
Interest received (trading)	2,171,282	-	2,171,282	-	We did not budget for the interest on outstanding debtors
Fines	604,380	1,506,174	(901,794)	(59.9)	Non-payment of traffic fines
Licences and permits	7,871,326	8,723,451	(852,125)	(9.8)	We under budgeted and collected more.
Government grants & subsidies	386,079,923	249,100,616	136,979,307	55.0	The budget amount is only for operational grants and the actual amounts includes conditions met of other grants i.e. MIG
Recoveries	799,547	-	799,547	-	There was no budget for legal fees recovered
Donations received	1,162,800	-	1,162,800	-	There was no budget for donations
Other income	3,282,854	4,078,000	(795,146)	(19.5)	We overbudgeted on other income
Interest received - investment	2,308,610	2,021,838	286,772	14.2	More interest realised than budgeted
	500,383,705	374,556,493	125,827,212	33.6	

Nkomazi Local Municipality

Appendix E(1)

June 2012

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2012 Act. Bal.	Current year 2012 Bud. Amt	Variance	Explanation of Significant Variances greater than 10% versus Budget
Expenses				
Personnel	(182,920,557)	(171,699,778)	(11,220,779)	6.5
Remuneration of councillors	(12,787,445)	(13,307,302)	519,857	(3.9)
Depreciation, amortisation and asset impairment	(59,976,529)	(51,906,929)	(8,069,600)	15.5 We under budgeted for depreciation. Some useful life of assets were revised and resulted in higher depreciation.
Amortisation	-	-	-	-
Finance costs	(2,371,494)	(1,347,041)	(1,024,453)	76.1 We did not budget for interest paid to MaxProf and finance cost on landfill site.
Debt impairment	(7,690,615)	(12,500,000)	4,809,385	(38.5) This includes current year movement of debts impairment and write off of R8 mil was done on the previous system.
Repairs and maintenance	(21,674,668)	(28,415,628)	6,740,960	(23.7) Demand for repairs less than what was expected
Bulk purchases	(52,803,717)	(56,734,934)	3,931,217	(6.9)
Contracted Services	(1,935,153)	(8,391,488)	6,456,335	(76.9) The budgeted amount includes fleet and security. actual amounts are included in general expenses.
General Expenses	(118,814,343)	(101,517,521)	(17,296,822)	17.0 Licence fees were not budgeted for separately. Security and fleet management are budgeted under contracted services. We spent more on security services than budgeted. MIG sanitation projects were budgeted under capital.
Net deficit for the year	(460,974,521)	(445,820,621)	(15,153,900)	3.4
	39,409,184	(71,264,128)	110,673,312	(155.3)
Loss for the year	39,409,184	(71,264,128)	110,673,312	(155.3)

Nkomazi Local Municipality

Appendix E(2)

June 2012

**Budget Analysis of Capital Expenditure as at 30 June
2012**

	Additions	Original	Revised	Variance	Variance	Explanation of significant
	Rand	Budget	Budget	Rand	%	variances from budget
		Rand	Rand			
Municipality						
Executive & Council/Mayor and Council	614,810	704,000	704,000	89,190	13	The vehicle cost less than what was budgeted.
Budget & Treasury	167,643	1,550,000	1,572,673	1,405,030	89	We budgeted to procure capitals goods from the surplus of which was not cash backed.
Corporate Services	1,558,485	2,260,000	2,260,000	701,515	31	We budgeted to procure capitals goods from the surplus of which was not cash backed.
Planning & Development	74,000	2,400,000	2,400,000	2,326,000	97	We budgeted some of operational expenditure under capital.
Community & Social Services	9,442,531	13,906,000	13,906,000	4,463,469	32	We budgeted to procure capitals goods from the surplus of which was not cash backed.
Infrastructure Development	101,219,966	135,076,000	153,921,819	52,701,853	34	We used some of the conditional grant funds for operational purpose.
	113,077,435	155,896,000	174,764,492	61,687,057	35	

Nkomazi Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2012

Name of Grants	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld				
EQS	36,000	55,000	41,000	-	230,032,000	-	-	-	-	-	-	-	-	-	-
MIG	04,000	51,000	53,000	-	112,208,000	-	-	-	-	-	-	-	-	-	-
DWAF	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DSAC Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FMG	50,000	-	-	-	1,250,000	-	-	-	-	-	-	-	-	-	-
MIG PMU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSIG	-	90,000	-	-	790,000	-	-	-	-	-	-	-	-	-	-
WSOG	95,000	95,000	69,000	-	9,059,000	-	-	-	-	-	-	-	-	-	-
INEG	32,000	51,000	-	-	19,383,000	-	-	-	-	-	-	-	-	-	-
DRG	63,717	-	-	-	2,863,717	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	80,717	42,000	63,000	-	375,585,717	-	-	-	-	-	-	-	-	-	-

Note : above amounts are in millions (R'000)