



NKETOANA LOCAL MUNICIPALITY
(REGISTRATION NUMBER :DEMARCATON NUMBER:FS 193)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Nketoana 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 service and maintain the best interests of the local community mainly in the Reitz area.
Council	M. Molapisi (Mayor) P. Nkomo (Speaker)
Executive committee	M. Malindi (Executive Member) M. Mphaka (Executive Member) M. Blignaut (Executive Member) M. Moloedi (Executive Member)
	Councillors G. Nhlapo P. Mofokeng T. Radebe M. Nakedi M. Mosia M. Semela K. Mokoena N. Shabalala P. Sibeko P. Moshoadiba S. Du Preez S. Henning
Grading of local authority	Medium Capacity Grade 3 in terms of the Remuneration of Public Office Bearers Act.
Accounting Officer	SM Nhlapo(Acting Municipal Manager)
Chief Finance Officer (CFO)	VB Mkhafa
Registered office	Corner Church and Voortrekker Reitz 9810
Business address	Corner Church and Voortrekker Reitz 9810
Postal address	P.O. Box 26 Reitz 9810
Bankers	ABSA (Primary bank)
Auditors	Office of the Auditor-General South Africa

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
VAT	Value Added Tax
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MFMG	Municipal Finance Management Grant
LG SETA	Local Government Sector Education and Training Authority
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamated Bank of South Africa
MSIG	Municipal System Improvement Grant
SARS	South African Revenue Service

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of Nketoana Municipality which is incorporated in South Africa.

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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 was given unrestricted access to all financial records and related data.

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that 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 have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Accounting Officer
SM Nhlapo (Acting Municipal Manager)

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Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	8	80,691	164,144
Receivables from non-exchange transactions	9	3,503,583	4,399,004
VAT receivable		3,502,201	-
Consumer debtors	10	60,045,584	41,863,246
Cash and cash equivalents	11	15,982,502	10,157,600
		83,114,561	56,583,994
Non-Current Assets			
Biological assets that form part of an agricultural activity	2	11,200	67,544
Investment property	3	3,076,742	3,195,000
Property, plant and equipment	4	663,888,521	692,879,798
Intangible assets	5	717,924	119,162
Investments	6	3,500,199	3,651,295
		671,194,586	699,912,799
Total Assets		754,309,147	756,496,793
Liabilities			
Current Liabilities			
Payables from exchange transactions	15	16,243,149	15,399,065
VAT payable	16	11,715,112	13,200,273
Consumer deposits	17	1,191,285	1,172,068
Unspent conditional grants and receipts	13	5,657,957	944,802
Other financial liabilities		1,761,213	1,225,409
current portion of Non-Current borrowings		306,444	356,332
		36,875,160	32,297,949
Non-Current Liabilities			
Other financial liabilities	12	9,278,322	9,472,849
Provisions	14	10,329,757	10,033,327
		19,608,079	19,506,176
Total Liabilities		56,483,239	51,804,125
Net Assets		697,825,908	704,692,668
Net Assets			
Reserves			
Capital replacement reserve		13,823,386	13,823,387
Government grant reserve		73,764,706	49,421,483
Accumulated surplus		610,237,816	641,447,798
Total Net Assets		697,825,908	704,692,668

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Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	18	11,008,056	10,681,610
Service charges	19	74,593,511	55,896,336
Rental of facilities and equipment		323,968	237,667
Interest received (trading)		15,529,229	8,262,230
Public contributions and donations		10,441,162	-
Fines		195,850	201,569
Government grants & subsidies	20	90,909,210	85,041,490
Discount received		7,654	-
Recoveries bad debts provision		8,353,558	-
Other income	22	4,681,229	4,283,483
Interest received - investment	28	962,951	1,272,530
Interest received - other	28	-	42,476
Total Revenue		217,006,378	165,919,391
Expenditure			
Personnel	25	(45,872,856)	(38,540,277)
Remuneration of councillors	26	(4,840,012)	(4,680,649)
Depreciation and amortisation	29	(62,417,655)	(61,168,158)
Finance costs	30	(1,292,917)	(1,018,119)
Debt impairment	27	(43,155,573)	(50,593,628)
Repairs and maintenance		(11,145,238)	(11,330,332)
Bulk purchases	32	(17,392,341)	(19,531,506)
Loss on disposal of assets		(28,844)	(198,500)
General Expenses	23	(34,870,269)	(32,625,593)
Total Expenditure		(221,015,705)	(219,686,762)
Fair value adjustments		148,503	31,315
Deficit for the year		(3,860,824)	(53,736,056)

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Statement of Changes in Net Assets

Figures in Rand	Capital replacement reserve	Government grant reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	13,823,387	29,855,753	43,679,140	721,036,163	764,715,303
Adjustments					
Correction of errors	-	-	-	(6,491,000)	(6,491,000)
Prior year adjustments	-	-	-	204,421	204,421
Balance at 01 July 2010 as restated	13,823,387	29,855,753	43,679,140	714,749,584	758,428,724
Changes in net assets					
Surplus for the year	-	-	-	(53,736,056)	(53,736,056)
Transfer of income surplus to trust capital	-	20,059,465	20,059,465	(20,059,465)	-
Transfer of capital surplus to trust capital	-	(493,735)	(493,735)	493,735	-
Total changes	-	19,565,730	19,565,730	(73,301,786)	(53,736,056)
Opening balance as previously reported	13,823,386	49,421,484	63,244,870	641,477,788	704,722,658
Adjustments					
Prior year adjustments	-	-	-	(3,035,926)	(3,035,926)
Balance at 01 July 2011 as restated	13,823,386	49,421,484	63,244,870	638,441,862	701,686,732
Changes in net assets					
Surplus for the year	-	-	-	(3,860,824)	(3,860,824)
Transfer of income surplus to trust capital	-	28,044,000	28,044,000	(28,044,000)	-
Depreciation recycle from government reserve to accumulating surplus	-	(3,700,778)	(3,700,778)	3,700,778	-
Total changes	-	24,343,222	24,343,222	(28,204,046)	(3,860,824)
Balance at 30 June 2012	13,823,386	73,764,706	87,588,092	610,237,816	697,825,908

Note(s)

Nketoana Local Municipality

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		43,963,187	31,067,471
Grants		90,909,210	85,041,490
Interest income		962,951	1,315,006
Other receipts		5,744,505	4,044,574
		<u>141,579,853</u>	<u>121,468,541</u>
Payments			
Employee costs		(50,251,890)	(43,220,925)
Suppliers		(62,563,763)	(56,223,120)
Finance costs		(986,333)	(1,018,119)
		<u>(113,801,986)</u>	<u>(100,462,164)</u>
Net cash flows from operating activities	33	<u>27,777,867</u>	<u>21,006,377</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(22,709,961)	(29,855,597)
Proceeds from sale of property, plant and equipment	4	-	(198,500)
Purchase of other intangible assets	5	(755,759)	(143,520)
Proceeds from sale of financial assets		-	(168,234)
Proceeds from sale of biological assets that form part of an agricultural activity	2	27,500	-
Other cash item		-	4,961,090
		<u>(23,138,621)</u>	<u>(25,404,761)</u>
Net cash flows from investing activities		<u>(23,138,621)</u>	<u>(25,404,761)</u>
Cash flows from financing activities			
Repayment of non-current borrowings		(244,415)	(324,546)
		<u>(194,527)</u>	<u>(324,546)</u>
Net cash flows from financing activities		<u>(194,527)</u>	<u>(324,546)</u>
Net increase/(decrease) in cash and cash equivalents		5,824,902	(4,722,930)
Cash and cash equivalents at the beginning of the year		10,157,600	14,880,530
Cash and cash equivalents at the end of the year	11	<u>15,982,502</u>	<u>10,157,600</u>

Nketoana Local Municipality

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.

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:

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value assets.

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. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

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.

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Accounting Policies

1.2 Biological assets that form part of an agricultural activity

An entity shall recognise a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.3 Investment property

Initial Recognition

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.

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

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

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.3 Investment property (continued)

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

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

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

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 over the useful life of the property, which is as follows:

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

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.4 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.

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Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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.

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

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

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

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.4 Property, plant and equipment (continued)

Depreciation and Impairment

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Furniture and fixtures	7-10 years
Motor vehicles	5-7 years
Office equipment	3-5 years
Computer equipment	5 years
Computer software	5 years
Infrastructure	
• Roads and Paving	20 years
• Pedestrian malls	20 years
• Electricity	20-30 years
• Water	15-20 years
• Sewerage	15-20 years

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Accounting Policies

1.4 Property, plant and equipment (continued)

Community

• Building	30 years
• Recreational facilities	30 years
• Security	30 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	30 years
• Other assets	20-30 years

Specialised property, plant and equipment 5-15 years

Other equipment

• Landfill sites	30 years
• Quarries	30 years
• Emergency	5-15 years

Bins and containers 5 years

Specialised vehicles 5-7 years

Water network

• Watercraft	15 years
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Heritage

• Buildings	nil
• Paintings and artifacts	nil
Other property, plant and equipment	5-15 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.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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.

Derecognition

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.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.4 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Work in progress

Property, plant and equipment (fixed assets) shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the assets is constructed over a period of time, it shall be recorded as work in progress until it is available for use, where after it shall be appropriately capitalised as a fixed assets.

1.5 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.

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

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

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

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

Computer software, other	3 years
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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.

1.6 Financial instruments

Classification

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

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

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

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- in rare circumstances
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

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

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Financial instruments (continued)

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 .

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 dividends and interest.

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

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

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

Loans to councillors managers and employees

These financial assets are classified as loans and receivables.

Nketoana Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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.

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.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Financial instruments (continued)

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment'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 investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

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

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

Nketoana Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

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.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Financial instruments (continued)

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.7 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.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Nketoana 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 .

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 cash flow statement.

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.

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.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.8 Inventories (continued)

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 inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

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Accounting Policies

1.10 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 health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

Nketoana Local Municipality

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Accounting Policies

1.11 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Nketoana Local Municipality

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Accounting Policies

1.11 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.12 Revenue from exchange transactions

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

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

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

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

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly. Interest revenue is recognised on a time proportion basis.

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

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

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

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

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

Measurement

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential 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.

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.12 Revenue from exchange transactions (continued)

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.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Other Revenue sources:

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

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

1.13 Revenue from non-exchange transactions

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

Revenue from non-exchange transaction is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount

Revenue from property

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

Fines

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

Nketoana Local Municipality

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Revenue from public contributions and donations

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

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

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

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

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

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

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Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

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

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

Grants, transfers and donation received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an assets. 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 condition attached to the grant are met. Grants without any condition attached are recognised as revenue when the assets is recognised

Nketoana Local Municipality

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Accounting Policies

1.14 Investment income

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

1.15 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.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

1.16 Comparative figures

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

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure A to these financial statements.

Nketoana Local Municipality

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Accounting Policies

1.16 Comparative figures (continued)

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

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the cash flow statement 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 cash flow statement.

1.18 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 cash flow statement 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 cash flow statement.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) which has not been condoned in terms of section 170;

Nketoana Local Municipality

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Accounting Policies

1.19 Irregular expenditure (continued)

- (c) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of Municipality Systems Act, and which has not been condoned in terms of the Act;
- (d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No.20 of 1998); or
- (e) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-laws but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure"

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which was condoned before year end and / or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statement.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.20 Offsetting

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

1.21 Internal reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the cash flow statement in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

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2. Biological assets that form part of an agricultural activity

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Livestock	11,200	-	11,200	67,544	-	67,544

Reconciliation of biological assets that form part of an agricultural activity - 2012

	Opening balance	Disposals	Total
Livestock	67,544	(56,344)	11,200

Reconciliation of biological assets that form part of an agricultural activity - 2011

	Opening balance	Total
Livestock	67,544	67,544

Non - Financial information

Quantities of each biological asset

Horse	-	1
Donkey	-	1
Wilde Beest	1	1
Bles Bucks	9	67
	10	70

Methods and assumptions used in determining fair value

Fair value less estimated point-of-sale costs, which is determined by the selling price for livestock less value added tax.

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	3,550,000	(473,258)	3,076,742	3,550,000	(355,000)	3,195,000

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

3. Investment property (continued)

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	3,195,000	(118,258)	3,076,742

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	3,313,333	(118,333)	3,195,000

Pledged as security

No carrying value of investment property was pledged as security for loans at year end.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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	192,354,469	-	192,354,469	192,354,469	-	192,354,469
Buildings	91,067,450	(12,136,177)	78,931,273	91,067,450	(9,102,163)	81,965,287
Infrastructure	856,862,493	(490,100,782)	366,761,711	815,852,326	(433,371,223)	382,481,103
Community	2,235,703	(959,559)	1,276,144	2,235,703	(763,197)	1,472,506
Other property, plant and equipment	18,529,750	(9,481,157)	9,048,593	15,907,562	(7,298,691)	8,608,871
WIP-land rehabilitation sites	6,398,365	-	6,398,365	-	-	-
Work in progress	9,117,966	-	9,117,966	25,997,562	-	25,997,562
Total	1,176,566,196	(512,677,675)	663,888,521	1,143,415,072	(450,535,274)	692,879,798

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	192,354,469	-	-	-	-	192,354,469
Buildings	81,965,287	-	-	-	(3,034,014)	78,931,273
Infrastructure	382,481,103	6,763,043	23,805,961	10,441,162	(56,729,558)	366,761,711
Community	1,472,506	-	-	-	(196,362)	1,276,144
Other property, plant and equipment	8,608,871	2,622,188	-	-	(2,182,466)	9,048,593
WIP-land rehabilitation sites	-	6,398,365	-	-	-	6,398,365
WIP progress	25,997,562	6,926,365	(23,805,961)	-	-	9,117,966
	692,879,798	22,709,961	-	10,441,162	(62,142,400)	663,888,521

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land	192,354,469	-	-	-	192,354,469
Buildings	90,902,250	-	165,125	(9,102,088)	81,965,287
Infrastructure	427,932,866	10,098,125	-	(55,549,888)	382,481,103
Community	1,440,128	222,500	-	(190,122)	1,472,506
Other property, plant and equipment	8,028,736	2,829,462	-	(2,249,327)	8,608,871
Work in progress	9,292,052	16,705,510	-	-	25,997,562
	729,950,501	29,855,597	165,125	(67,091,425)	692,879,798

Pledged as security

No carrying value of assets pledged as security:

Other information

Reconciliation of Work-in-Progress 2012

	Included within Infrastructure	Total
Opening balance	26,593,645	26,593,645
Additions/capital expenditure	6,926,365	6,926,365
Project in design fase	(596,083)	(596,083)
Transferred to completed items	(23,805,961)	(23,805,961)
	9,117,966	9,117,966

Nketoana 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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4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2011

	Included within Infrastructure	Total
Opening balance	9,888,135	9,888,135
Additions/capital expenditure	16,705,510	16,705,510
	26,593,645	26,593,645

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,078,433	(360,509)	717,924	198,808	(79,646)	119,162

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	119,162	755,759	(156,997)	717,924

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	202	143,520	(24,560)	119,162

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
6. Investments		
Held to maturity		
Other long term investments and deposits	3,495,199	3,327,949
Unlisted investments	5,000	323,346
	3,500,199	3,651,295
Non-current assets		
Held to maturity	3,500,199	3,651,295

Nketoana 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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7. Employee benefit obligations

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.35 %	8.35 %
Expected increase in healthcare costs	6.85 %	6.85 %
Consumer price inflation	6.40 %	6.40 %

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to 16 retired employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. There is no current policy in place governing the contributions made to these employees.

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

The total economic entity contribution to such schemes	532,000	-
The amount recognised as an expense for defined contribution plans is	(437,000)	-

8. Inventories

Consumable store - at cost	80,691	164,144
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9. Receivables from non-exchange transactions

Other debtors	1,276,779	1,341,569
ABSA Bank	1,078,004	1,078,004
Outstanding traffic fines	9,750	99,150
15 days water billing	627,858	961,344
15 days electricity billing	511,192	918,937
	3,503,583	4,399,004

10. Consumer debtors

Gross balances

Rates	17,170,777	17,541,425
Electricity	6,397,441	5,398,552
Water	35,896,044	51,080,928
Sewerage	31,919,538	39,963,987
Refuse	37,168,602	42,658,774
Other	75,980,070	37,872,815
Housing rental	605,593	792,803
	205,138,065	195,309,284

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
10. Consumer debtors (continued)		
Less: Provision for debt impairment		
Rates	(3,587,107)	(3,456,813)
Electricity	(996,998)	(486,548)
Water	(27,621,832)	(42,656,380)
Sewerage	(25,309,525)	(34,616,910)
Refuse	(29,984,337)	(38,748,342)
Other	(57,037,178)	(32,721,818)
Housing rental	(555,504)	(759,227)
	(145,092,481)	(153,446,038)
Net balance		
Rates	13,583,670	14,084,612
Electricity	5,400,443	4,912,004
Water	8,274,212	8,424,548
Sewerage	6,610,013	5,347,077
Refuse	7,184,265	3,910,432
Other	18,942,892	5,150,997
Housing rental	50,089	33,576
	60,045,584	41,863,246
Rates		
Current (0 -30 days)	915,953	883,177
31 - 60 days	345,487	713,631
61 - 90 days	277,226	1,807,387
91 - 120 days	324,007	540,204
121 - 365 days	11,720,997	10,140,213
	13,583,670	14,084,612
Electricity		
Current (0 -30 days)	1,976,038	1,824,374
31 - 60 days	242,852	300,738
61 - 90 days	198,536	184,218
91 - 120 days	169,883	128,788
121 - 365 days	2,813,134	2,473,886
	5,400,443	4,912,004
Water		
Current (0 -30 days)	1,336,107	3,158,469
31 - 60 days	393,318	5,266,079
61 - 90 days	329,998	-
91 - 120 days	367,810	-
121 - 365 days	5,846,979	-
	8,274,212	8,424,548

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
10. Consumer debtors (continued)		
Sewerage		
Current (0 -30 days)	549,410	1,003,646
31 - 60 days	170,472	3,672,905
61 - 90 days	162,569	670,526
91 - 120 days	157,671	-
121 - 365 days	5,569,891	-
	6,610,013	5,347,077
Refuse		
Current (0 -30 days)	549,410	1,037,994
31 - 60 days	170,471	2,872,438
61 - 90 days	162,569	-
91 - 120 days	157,671	-
121 - 365 days	6,144,144	-
	7,184,265	3,910,432
Sundry debtors		
Current (0 -30 days)	1,469,620	147,899
31 - 60 days	506,372	3,211,009
61 - 90 days	503,733	70,630
91 - 120 days	469,730	127,287
121 - 365 days	15,993,437	155,930
> 365 days	-	1,438,242
	18,942,892	5,150,997
Housing rental		
Current (0 -30 days)	-	33,576
121 - 365 days	50,089	-
	50,089	33,576

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
10. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	10,782,070	7,270,988
31 - 60 days	4,492,938	17,893,736
61 - 90 days	4,322,940	4,975,741
91 - 120 days	4,141,237	3,542,788
121 - 365 days	157,517,032	150,092,371
	181,256,217	183,775,624
Less: Provision for debt impairment	(141,920,915)	(152,871,288)
	39,335,302	30,904,336
Industrial/ commercial		
Current (0 -30 days)	2,566,130	432,477
31 - 60 days	439,093	1,015,277
61 - 90 days	411,076	196,689
91 - 120 days	416,510	126,492
121 - 365 days	11,771,437	5,299,933
	15,604,246	7,070,868
Less: Provision for debt impairment	(2,067,337)	(574,752)
	13,536,909	6,496,116
National and provincial government		
Current (0 -30 days)	330,560	352,189
31 - 60 days	159,628	315,682
61 - 90 days	40,156	221,288
91 - 120 days	29,550	193,181
121 - 365 days	5,956,496	3,503,096
	6,516,390	4,585,436
Less: Provision for debt impairment	(627,466)	-
	5,888,924	4,585,436
Total		
Current (0 -30 days)	13,678,761	8,055,654
31 - 60 days	5,091,659	19,224,695
61 - 90 days	4,774,169	5,393,718
91 - 120 days	4,587,298	3,862,461
121 - 365 days	177,006,178	158,772,758
	205,138,065	195,309,286
Less: Provision for debt impairment	(145,092,481)	(153,446,040)
	60,045,584	41,863,246
Less: Provision for debt impairment		
Current (0 -30 days)	(145,092,481)	(153,446,038)

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
10. Consumer debtors (continued)		
Reconciliation of debt impairment provision		
Balance at beginning of the year	(153,446,038)	(102,852,412)
Contributions to provision	-	(50,593,626)
Reversal of provision	8,353,557	-
	(145,092,481)	(153,446,038)

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	1,203
Bank balances	534,795	4,050,419
Short-term deposits	15,447,707	6,105,978
	15,982,502	10,157,600

Short term investments included in cash and cash equivalents	16,075,143	6,105,978
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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 - Operating - 217-056-0119	517,211	332,413	232,609	517,211	332,413	232,609
FNB BANK - Current -620-640-82799	-	3,650,472	3,647,830	-	3,650,472	3,647,830
ABSA BANK - Banktel -217-014-2538	55,977	67,534	34,946	55,977	67,534	34,946
Total	573,188	4,050,419	3,915,385	573,188	4,050,419	3,915,385

12. Other financial liabilities

Held at amortised cost

DBSA loans Fixed interest rates of 10,35% with fixed instalments of R 96,732.62 p/m. The maturity date of this loan is 2024.	7,955,169	8,117,800
DBAS loans Fixed interest rates of 9,09% with fixed instalments of R 15,156.21 p/m. The maturity date of this loan is 2024	1,323,153	1,355,049
	9,278,322	9,472,849

The Municipality shall execute a cession to the benefit of the DBSA on its Standard Bank fixed deposit investment of R 3,495,198.59 of which its maturity date shall be extended from November 2009 to 2 November 2013]

Non-current liabilities

At amortised cost	9,278,322	9,472,849
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Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MSIG	15,938	433,311
MFMG	341,342	511,491
MIG	5,300,677	-
	5,657,957	944,802

Movement during the year

Balance at the beginning of the year	944,802	2,254,484
Additions during the year	98,402,782	83,181,343
Income recognition during the year	(93,689,627)	(84,491,025)
	5,657,957	944,802

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 20 or reconciliation of grants from National/Provincial Government.

14. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	3,542,327	201,430	3,743,757
Employee benefit cost	6,491,000	95,000	6,586,000
	10,033,327	296,430	10,329,757

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	-	3,542,327	3,542,327
Employee benefit cost	6,491,000	-	6,491,000
	6,491,000	3,542,327	10,033,327

The provision for rehabilitation of landfill site related to the constructive obligation to rehabilitate landfill sites used for waste disposal. The provision is discounted to the present value of the future cost to rehabilitate the landfill site, using the average cost of the municipality borrowing interest rate.

The landfill site are located at Mamafubedu and Ntha

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
15. Payables from exchange transactions		
Trade payables	11,861,085	11,380,441
Accrued leave pay	3,320,709	2,812,994
Accrued bonus	1,034,395	1,081,132
Deposits received	25,730	-
Finance portion of trade payables	1,230	124,498
	16,243,149	15,399,065
Fair value of trade and other payables		
Trade payables	11,861,086	11,349,274
Finance portion of trade payables	-	122,253
Finance portion of accruals	1,230	2,245
	11,862,316	11,473,772
16. VAT payable		
Tax refunds payables	11,715,112	13,200,273
VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors and claimed from SARS once suppliers have been paid		
VAT accounted on cash basis		
Receivable from SARS - cash basis	(3,520,201)	(3,024,817)
VAT invoice basis	15,235,313	16,225,090
	11,715,112	13,200,273
17. Consumer deposits		
Electricity	1,169,343	1,140,932
Other deposits	21,942	31,136
	1,191,285	1,172,068

No interest accrued or paid on consumer deposits

Nketoana 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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18. Property rates

Rates received

Residential, commercial and state	11,008,056	10,681,610
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Valuations

Valuation on property rates are performed every 4 years. The last general valuation came into effect on 1 July 2009.

Rebates of R 20,000 (2010: R 20,000) are granted to residential property owners.

Rates are levied on an monthly basis. Interest at prime plus 1% per annum is levied on outstanding rates older than 30 days.

The new general valuation will be implemented on 01 July 2013.

19. Service charges

Sale of electricity	25,656,300	15,508,509
Sale of water	26,188,237	21,716,048
Sewerage and sanitation charges	11,143,881	9,215,378
Refuse removal	11,605,093	9,456,401
	<hr/>	<hr/>
	74,593,511	55,896,336

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
20. Government grants and subsidies		
Equitable share	67,786,000	62,145,342
MSIG	1,207,372	1,162,542
MFMG	1,620,149	1,123,676
Drought Relief	-	500,000
LG SETA	332,782	50,465
MIG	19,962,907	20,059,465
	90,909,210	85,041,490

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The equitable share is an unconditional grant and is utilised to assist the local municipalities to undertake service delivery

Equitable share grant was withheld in this financial year under review, an amount of R1 781 000. National Treasury indicated that these monies are the unspent grants disclosed on the AFS since 2005/06 to 2008/09. Audited AFS 2010 were used to determine the unspent grants

MSIG

Balance unspent at beginning of year	433,311	845,853
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(1,207,373)	(1,162,542)
	15,938	433,311

Conditions still to be met - remain liabilities (see note 13).

MFMG

Balance unspent at beginning of year	511,491	435,166
Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	(1,620,149)	(1,123,675)
	341,342	511,491

Conditions still to be met - remain liabilities (see note 13).

LG SETA

Current-year receipts	332,782	50,465
Conditions met - transferred to revenue	(332,782)	(50,465)
	-	-

DWAF drought relief

Balance unspent at beginning of year	-	500,000
Conditions met - transferred to revenue	-	(500,000)
	-	-

Nketoana 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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20. Government grants and subsidies (continued)

MIG

Balance unspent at beginning of year	-	473,465
Current-year receipts	28,044,000	19,586,000
Conditions met - transferred to revenue	(22,743,323)	(20,059,465)
	5,300,677	-

Conditions still to be met - remain liabilities (see note 13).

21. Public contributions and donations

Public contributions and donations	10,441,162	-
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During the current financial year the municipality received donation in the form of infrastructure. Thabo Mofutsanyana transfer the newly contracted Paved road in Leratswana to the value of R 2,963,088.00.

The department of Rural Settlement donated a newly constructed Water and Sewer Reticulation for 330 Erven in Petsana Ext.7 to the vlaue of R 7,478,074.39.

22. Other income

Sundries	758,694	4,283,483
Other income	3,922,535	-
	4,681,229	4,283,483

Other income above include the VAT portion revenue from MIG grants

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. General expenses		
Advertising	304,051	312,755
Assessment rates & municipal charges	-	35,817
Auditors remuneration	3,386,094	1,716,372
Bank charges	330,586	330,175
Cleaning	109,705	76,103
Commission paid	13,084	1,102
Consulting and professional fees	6,067,299	6,933,479
Consumables	301,602	400,255
Debt collection	16,091	20,454
Donations	562,085	347,112
Entertainment	581,460	1,189,902
Fines and penalties	17,917	-
Insurance	455,584	423,064
Lease rentals on operating lease	1,381,994	499,277
Magazines, books and periodicals	121,952	18,144
Fuel and oil	3,615,572	2,655,502
Postage and courier	454,519	506,445
Printing and stationery	1,184,034	821,819
Promotions	625,543	527,603
Project maintenance costs	2,774,569	-
Solid Waste Rehabilitation Expense	-	3,857,327
Subscriptions and membership fees	75,468	584,175
Telephone and fax	1,254,603	1,155,411
Training	977,056	1,422,671
Travel - local	2,087,434	1,404,830
Refuse	701,541	36,096
Title deed search fees	-	8,240
Assets expensed	1,324	81,245
Electricity	4,328,779	3,158,011
Sewerage and waste disposal	-	30,439
Water	-	69,643
Refuse	1,207,237	-
Uniforms	390,032	374,674
Chemicals	861,372	999,323
Other expenses	681,682	2,628,128
	34,870,269	32,625,593

24. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Operating lease charges

Equipment		
• Contractual amounts	1,381,994	499,277

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24. Operating deficit (continued)

Loss on sale of property, plant and equipment	-	(198,500)
Loss on sale of other asset 1	(28,844)	-
Amortisation on intangible assets	156,997	24,561
Depreciation on property, plant and equipment	62,142,400	61,025,264
Depreciation on investment property	118,258	118,333
Employee costs	50,712,868	43,220,926
Solid waste rehabilitation expense	-	3,857,327

25. Employee related costs

Basic	28,583,835	24,530,840
Bonus	2,203,212	2,153,767
Medical aid - company contributions	1,863,014	1,065,960
UIF	312,088	312,606
WCA	219,089	226,441
SDL	542,371	268,997
Leave pay provision charge	460,979	618,070
Salga	4,777	33,760
Travel, motor car, accommodation, subsistence and other allowances	1,529,283	1,098,067
Overtime payments	2,134,706	1,613,647
Acting allowances	140,793	118,131
Housing benefits and allowances	152,515	172,307
Pension fund contribution	5,376,600	4,194,435
Standby allowance	641,698	448,096
	44,164,960	36,855,124

Remuneration of municipal manager

Annual Remuneration	801,506	843,526
Car Allowance	180,000	149,767
Contributions to UIF, Medical and Pension Funds	1,497	1,497
	983,003	994,790

Remuneration of chief finance officer

Annual Remuneration	639,396	539,099
Car Allowance	84,000	149,767
Contributions to UIF, Medical and Pension Funds	1,497	1,497
	724,893	690,363

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26. Remuneration of councillors		
Mayor	594,772	687,701
Executive Committee	1,022,017	1,112,150
Councillors	2,716,328	2,361,681
Speaker	506,895	519,117
	4,840,012	4,680,649
27. Debt impairment		
Contributions to debt impairment provision	-	50,593,628
Debts impaired	43,155,573	-
	43,155,573	50,593,628
28. Investment revenue		
Interest revenue		
Bank	962,951	1,272,530
Interest received - other	-	42,476
	962,951	1,315,006
29. Depreciation and amortisation		
Property, plant and equipment	62,142,400	61,025,264
Investment property	118,258	118,333
Intangible assets	156,997	24,561
	62,417,655	61,168,158
30. Finance costs		
Non-current borrowings	986,334	1,018,119
Late payment of tax	10,153	-
Long term provision finance charges	296,430	-
	1,292,917	1,018,119
31. Auditors' remuneration		
Fees	3,386,094	1,716,372
32. Bulk purchases		
Electricity	17,304,720	18,398,220
Water	87,621	1,133,286
	17,392,341	19,531,506

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Figures in Rand	2012	2011
33. Cash generated from operations		
Deficit	(3,860,824)	(53,736,056)
Adjustments for:		
Depreciation and amortisation	62,417,655	61,168,158
Gain on sale of assets and liabilities	28,844	198,500
Fair value adjustments	(148,503)	(31,315)
Debt impairment	43,155,573	50,593,628
Movements in provisions	296,430	3,857,327
Other non-cash items	4,453,373	379,162
Recoveries of Bad debts	(8,353,558)	(5,689,719)
Public Contributions & Donation	(10,441,162)	-
Changes in working capital:		
Inventories	83,453	319,123
Receivables from non-exchange transactions	895,421	(351,722)
Consumer debtors	(61,337,911)	(43,906,221)
Payables from exchange transactions	844,066	6,925,580
VAT	(4,987,362)	2,604,368
Unspent conditional grants and receipts	4,713,155	(1,309,682)
Consumer deposits	19,217	(14,754)
	27,777,867	21,006,377

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34. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure	22,684,176	23,317,000
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Not yet contracted for and authorised by accounting officer

• Infrastructure	17,373,731	19,500,000
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This committed expenditure relates to infrastructure and will be financed as followed:

Government Grants	28,044,000	20,083,000
Own resources	16,040,614	9,295,000
	44,084,614	29,378,000

Retention monies on capital projects

Mamafubedu: Paving of 6km roads (MIS:164362) - Phase 1 & 2	-	1,160,786
Petsana: Paving of 6km roads (MIS:164359) Phase 1 & 2	-	567,149
Ntha: Paving of 6km roads (MIS:163665) - Phase 1 & 2	275,950	835,851
Sewer Network Mamafubedu, Petrus Steyn	1,206,778	1,206,778
Package Plant Providing suitable effluent at Mamafubedu	300,000	300,000
Arlington: Construction of Solid waste transfer station (MIG430)	336,000	-
Lindley Water purification works (K265B)	1,552,677	-
Reitz: Construction of Solid waste disposal site (MIG420)	820,800	-
	4,492,205	4,070,564

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	292,962	556,799
- in second to fifth year inclusive	1,464,812	893,331
	1,757,774	1,450,130

Operating lease payments represents of printers and copier machine from Nashua, the leases were suppose to be cancelled in September 2011 but it was not cancelled. The municipality is on a month to month basis with Nashua. The above is assumed that the original lease contract ending term will be in 2015.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	267,106	243,000
- in second to fifth year inclusive	409,039	816,859
	676,145	1,059,859

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35. Contingencies

PARTY AND PARTICULARS	ACTUAL AMOUNT INVOLVED	CONTINGENC Y AMOUNT INVOLVED	CONTINGENC Y NLM LEGAL FEES	SUING PARTY CONTINGENC Y	TOTAL CONTINGENC Y PLUS COST
Mothei Construction, Company appointed for MIG project suing for professional fees, services and disbursement.	2,104,255	-	526,064	526,064	3,156,383
PAVEMENTS					
Telkom, Damage Telkom cables at 36 1st Street, Reitz	133,394	-	33,350	33,350	200,094
Khovongo Construction	49,324	-	12,331	12,331	73,986
Nketoana Development, Services rendered: Tennis Court	50,740	-	12,685	12,685	76,110
Telkom, Damage Telkom Cables at Steyn Street	66,982	-	16,745	16,745	100,472
Telkom, Damage Telkom Cables at Cnr Swart/Walker Street	17,473	-	4,368	4,368	26,209
Mering CJ, Legal fees on Postponement	5,420	-	-	-	5,420
T.L.W.G. Lekota: Personal Injury, speed hump with no signs Portgieter Street, PS.	310,100	-	77,525	77,525	465,150
Ramulelwa ML: Unfsir Dismissal	458,226	-	114,557	114,557	687,340
Underman T.E: Unfair Dismissal	458,226	-	114,557	114,557	687,340
Telkom: Damage Telkom Cables at 19 Eeufees Street, Petrusteyn	-	50,000	12,500	12,500	75,000
Two Bells Sercurity: Cancellation of appointment for provision of Security Council Res: 011/07	6,555,467	-	1,638,867	1,638,867	9,833,201
Servilinx: Cancellation of appointment for lease of photocopy machines Council Res: 011/07	458,839	-	114,709	114,709	688,257
Radebe DD: Unfair dismissal	724,416	-	181,104	181,104	1,086,624
	11,392,862	50,000	2,859,362	2,859,362	17,161,586

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35. Contingencies (continued)

NOTES: SOURCE OF CONTINGENCY CALCULATIONS: SUBORDINATE LEGISLATION IN TERMS OF THE CONTINGENCY FEES ACT, 1997(ACT 66 OF 1997)

(a) Section 1(vi)(b) and 5: Determination of Professional Controlling Body and designation of a body published in Government Notice No. R. 546 of 23 April 1999(Government GazetteNo. 20009) and amended by Government

Notice No.R. 1110 of 3November 2000 (Government Gazette no 21719). LIMIT AT 25% OF CLAIM AMOUNT. Actual amount represent the actual amount as it appears on the letter of demand, summons or claim in other tribunial such as bargain council as calculated amount on contract or legislation .

Contingency of amount involved refers to amount where the demand does not specify the amount claim pending quotations or actual repairs costs, or other costs,

Suing Party Contingency on Legal on Legal Fees refers to costs of party suing municipality legal costs as calculated based on Contingency Fees Act 66 of 1997.

Contingency on NLM legal fees refers to legal fees contingency that municipality pays its legal representation.

36. Related parties

Relationships

Accounting Officer
Chief Financial Offer
Councillors

Refer to accounting officer's report note
VB Mkhafa
Radebe Teboho Patrick (Vis a Vis Trading)
Tshabalala Ncani Selina (Dexpro Construction and)
Mosia Mokete Jeremiah (Mahatammoho Reteng)
Mokoena Kgaketla Abram (Re Bonahatse
construction
Blignaut Marthinus -
NG Welsyn Reitz-Tehuis
Monaufic Belegging
NG Welsyn Reitz Wooneenhede

The above members of council has active business during the financial year under review, however did not trade with the municipality either directly or indirectly.

37. Prior period errors

Post medical contribution benefit are being given to 16 retired employees of the municipality. In the past there were no provision made under GRAP 25, hence this omission result in the retrospective restatement of the provision of employee benefit cost. The municipality appointed actural to calculate the municipalities liability as at 2012.

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

Statement of financial position

Employee benefit cost	-	(6,491,000)
Opening Accumulated Surplus or Deficit	-	6,491,000

Nketoana 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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38. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position

Work in progress	25,997,562	26,593,645
Provisions	10,033,327	3,542,327
Payables from exchange transactions	15,399,065	15,367,895

Cash Flow Statement

Other receipts	4,044,574	4,283,482
Movement in other financial liabilities	-	(238,908)

Work in progress

Design cost of a project were capitalised to working in progress. The amount capitalised to WIP was R596,083.

Provisions

Included in the provision amount of last year is a provision for post employee benefits for current retired employees (See note 37)

Payables from exchange transaction

Creditors not accounted for in the previous year, but included in the opening balance of the new systems creditors control account of R31,170.21.

Other financial liabilities consisted the following , debtors with credit balances and was not shown as receipts from operating activities as reflected on the cashflow.

39. Unauthorised expenditure

Opening Balance	106,271,406	26,466,769
Unauthorised expenditure	20,650,852	106,271,405
Approved or condoned by council	(106,271,405)	(26,466,769)
	20,650,853	106,271,405

40. Fruitless and wasteful expenditure

Opening balance	137,898	137,898
Interest charged on outstanding invoices	29,521	-
	167,419	137,898

41. Irregular expenditure

Opening balance	8,922,579	574,840
Add: Irregular Expenditure - current year	5,954,931	7,642,643
Add: Irregular Expenditure - prior year	7,642,643	1,279,936
Less: Amounts condoned	(7,642,643)	(574,840)
	14,877,510	8,922,579

Nketoana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011
41. Irregular expenditure (continued)		
Analysis of expenditure awaiting condonation classification		
Anquet Construction Solutions	1,742,969	-
LHL Consulting Engineers	1,281,087	890,544
LMV Consulting Engineers	874,086	-
Rudnat	943,560	2,620,915
Makomota Investment Holding	970,989	725,446
	5,812,691	4,236,905

Details of irregular expenditure – previous year

Irregular expenditure as result of the Non-compliance with SCM regulations and policies		3,405,738
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42. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the surplus/deficit in the cash flow statement:

Net deficit per the cash flow statement	(3,860,824)	(53,736,056)
Adjusted for:		
Fair value adjustments	(148,503)	(31,315)
Impairments recognised / reversed	43,155,573	50,593,628
Gain/(loss) on the sale of assets	(28,844)	198,500
Increases / decreases in provisions landfill sites	201,430	3,542,327
Increases / decreases in leave and bonus provisions	460,979	618,070
Increases / decreases in post employment benefit	95,000	-
Net surplus per approved budget	39,874,811	1,185,154

43. Additional disclosure in terms of Municipal Finance Management Act

VAT

VAT receivable	3,502,201	-
VAT payable	11,715,112	13,200,273
	15,217,313	13,200,273

VAT output payables and VAT input receivables are shown in note 16.

All VAT returns have been submitted by the due date throughout the year.

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

Councillors' arrear consumer accounts

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

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Du Preez SJS	593	-	593
Henning SG	488	-	488
Malindi S	914	572	1,486
Mofokeng SM	371	-	371
Mokoena KA	1,136	6,333	7,469
Moloedi PM	915	2,328	3,243
Mosia P	914	10,378	11,292
Mphaka MR	336	-	336
Nakedi MT	305	-	305
Nhlapo LG	1,073	17,087	18,160
Nkomo P	450	-	450
Radebe TP	1,113	7,000	8,113
Semela MS	1,039	10,461	11,500
Tshabalala NS	2,151	43,794	45,945
Moshoadiba P	1,290	8,772	10,062
Blignaut M	3,621	-	3,621
	16,709	106,725	123,434

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Molapisi MD	581	3,156	3,737
Nkomo P	405	-	405
Mphaka M	-	4,766	4,766
Nhlapo G	820	18,885	19,705
Moloedi M	290	3,404	3,694
Radebe T	1,334	41,902	43,236
Mofokeng P	741	7,518	8,259
Nakedi M	560	960	1,520
Mokoena K	7,169	300	7,469
Du Preez S	650	-	650
Shabalala N	252	38,069	38,321
Sibeko P	330	3,636	3,966
Moshoadiba P	781	14,251	15,032
Semela M	581	10,386	10,967
Malindi M	-	5,518	5,518
	14,494	152,751	167,245

Nketoana Local Municipality

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

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

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	9,278,322	9,472,849
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45. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

46. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

47. Rounding errors

Due to the utilisation of the rounding function of CasWare programme balances were affected by rounding off to the nearest rand.

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Appendix B

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							
DBSA @ 10.35%	101390/1	8,418,594	-	204,037	8,214,557	-	-
DBSA @ 9.09%	101390/2	1,410,587	-	40,378	1,370,209	-	-
		9,829,181	-	244,415	9,584,766	-	-
Total external loans		9,829,181	-	244,415	9,584,766	-	-

Nketoana Local Municipality
Nketoana Local Municipality
Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Depreciation Rand	Transfers Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	192,354,468	-	-	-	-	-	192,354,468	-	6,398,364	-	-	-	6,398,364	198,752,832
Landfill Sites (Separate for AFS purposes)	-	6,398,365	-	-	-	-	6,398,365	-	-	-	-	-	-	6,398,365
Buildings (Separate for AFS purposes)	85,001,241	-	-	-	(3,035,954)	-	81,965,287	-	-	(3,034,014)	-	-	(3,034,014)	78,931,273
	277,355,709	6,398,365	-	-	(3,035,954)	-	280,718,120	-	6,398,364	(3,034,014)	-	-	3,364,350	284,082,470
Infrastructure														
Roads, Pavements & Bridges	286,163,589	10,032,456	-	-	(42,518,681)	-	253,677,364	-	-	(44,024,232)	13,879,436	-	(30,144,796)	223,532,568
Water purification	48,541,463	56,530	-	-	(3,985,232)	-	44,612,761	-	-	(3,929,349)	1,844,394	-	(2,084,955)	42,527,806
Sewerage purification	69,969,047	-	-	-	(7,103,903)	-	62,865,144	-	8,898,442	(6,861,269)	8,082,131	-	10,119,304	72,984,448
Electricity mains	23,258,767	9,140	-	-	(1,942,073)	-	21,325,834	-	1,905,455	(1,912,805)	-	-	(7,350)	21,318,484
Work in progress	9,888,134	16,705,510	-	-	-	(596,083)	25,997,561	-	6,926,365	-	(23,805,961)	-	(16,879,596)	9,117,965
	437,821,000	26,803,636	-	-	(55,549,889)	(596,083)	408,478,664	-	17,730,262	(56,727,655)	-	-	(38,997,393)	369,481,271
Community Assets														
Sportsfields and stadium	1,440,128	222,500	-	(190,122)	-	-	1,472,506	-	-	(196,362)	-	-	(196,362)	1,276,144
	1,440,128	222,500	-	(190,122)	-	-	1,472,506	-	-	(196,362)	-	-	(196,362)	1,276,144

Nketoana Local Municipality
Nketoana Local Municipality
Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2012
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Depreciation Rand	Transfers Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets														
Other	8,028,737	2,829,462	-	(2,249,327)	-	-	8,608,872	-	2,622,188	(2,182,466)	-	-	439,722	9,048,594
	8,028,737	2,829,462	-	(2,249,327)	-	-	8,608,872	-	2,622,188	(2,182,466)	-	-	439,722	9,048,594
Total property plant and equipment														
Land and buildings	277,355,709	6,398,365	-	-	(3,035,954)	-	280,718,120	-	6,398,364	(3,034,014)	-	-	3,364,350	284,082,470
Infrastructure	437,821,000	26,803,636	-	-	(55,549,889)	(596,083)	408,478,664	-	17,730,262	(56,727,655)	-	-	(38,997,393)	369,481,271
Community Assets	1,440,128	222,500	-	(190,122)	-	-	1,472,506	-	-	(196,362)	-	-	(196,362)	1,276,144
Other assets	8,028,737	2,829,462	-	(2,249,327)	-	-	8,608,872	-	2,622,188	(2,182,466)	-	-	439,722	9,048,594
	724,645,574	36,253,963	-	(2,439,449)	(58,585,843)	(596,083)	699,278,162	-	26,750,814	(62,140,497)	-	-	(35,389,683)	663,888,479
Agricultural/Biological assets														
Agricultural	67,543	-	(56,343)	-	-	-	11,200	-	-	-	-	-	-	11,200
	67,543	-	(56,343)	-	-	-	11,200	-	-	-	-	-	-	11,200
Intangible assets														
Computers - software & programming	202	143,521	-	(24,521)	-	-	119,202	-	755,760	(156,997)	-	-	598,763	717,965
	202	143,521	-	(24,521)	-	-	119,202	-	755,760	(156,997)	-	-	598,763	717,965
Investment properties														
Investment property	3,313,334	-	-	(118,333)	-	-	3,195,001	-	-	(118,258)	-	-	(118,258)	3,076,743
	3,313,334	-	-	(118,333)	-	-	3,195,001	-	-	(118,258)	-	-	(118,258)	3,076,743
Total														
Land and buildings	277,355,709	6,398,365	-	-	(3,035,954)	-	280,718,120	-	6,398,364	(3,034,014)	-	-	3,364,350	284,082,470
Infrastructure	437,821,000	26,803,636	-	-	(55,549,889)	(596,083)	408,478,664	-	17,730,262	(56,727,655)	-	-	(38,997,393)	369,481,271
Community Assets	1,440,128	222,500	-	(190,122)	-	-	1,472,506	-	-	(196,362)	-	-	(196,362)	1,276,144
Other assets	8,028,737	2,829,462	-	(2,249,327)	-	-	8,608,872	-	2,622,188	(2,182,466)	-	-	439,722	9,048,594
Agricultural/Biological assets	67,543	-	(56,343)	-	-	-	11,200	-	-	-	-	-	-	11,200
Intangible assets	202	143,521	-	(24,521)	-	-	119,202	-	755,760	(156,997)	-	-	598,763	717,965
Investment properties	3,313,334	-	-	(118,333)	-	-	3,195,001	-	-	(118,258)	-	-	(118,258)	3,076,743
	728,026,653	36,397,484	(56,343)	(2,582,303)	(58,585,843)	(596,083)	702,603,565	-	27,506,574	(62,415,752)	-	-	(34,909,178)	667,694,387

Nketoana Local Municipality

Appendix D

June 2012

Segmental Statement of Financial Performance for the year ended
Prior Year **Current Year**

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
66,557	14,098,945	(14,032,388)	Executive & Council/Mayor and Council	-	16,281,708	(16,281,708)
108,334,993	75,792,797	32,542,196	Finance & Admin/Finance	128,150,210	40,018,503	88,131,707
8,000	1,639,468	(1,631,468)	Planning and Development/Economic Development/Plan	555,548	5,680	549,868
13,393,537	19,638,895	(6,245,358)	Comm. & Social/Libraries and archives	15,029,668	30,959,400	(15,929,732)
198,194	2,345,994	(2,147,800)	Public Safety/Police	195,850	2,712,531	(2,516,681)
-	234,197	(234,197)	Sport and Recreation	-	267,634	(267,634)
12,299,942	18,825,339	(6,525,397)	Waste Water Management/Sewerage	19,758,378	23,479,158	(3,720,780)
5,010	47,403,270	(47,398,260)	Road Transport/Roads	2,971,125	47,838,299	(44,867,174)
27,681,916	14,436,244	13,245,672	Water/Water Distribution	33,601,718	39,365,350	(5,763,632)
15,885,368	23,779,355	(7,893,987)	Electricity /Electricity Distribution	28,050,580	30,528,617	(2,478,037)
31,820	15,734,455	(15,702,635)	Other/Air Transport	-	143,513	(143,513)
177,905,337	233,928,959	(56,023,622)		228,313,077	231,600,393	(3,287,316)
Municipal Owned Entities						
Other charges						
177,905,337	233,928,959	(56,023,622)	Municipality	228,313,077	231,600,393	(3,287,316)
177,905,337	233,928,959	(56,023,622)	Total	228,313,077	231,600,393	(3,287,316)

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

	Current year 2011 Act. Bal. Rand	Current year 2011 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	11,008,056	8,189,000	2,819,056	34.4	This is due to the farm property rates that was paid at the beginning of the financial year
Service charges	74,593,512	63,033,000	11,560,512	18.3	
Rental of facilities and equipment	323,968	373,000	(49,032)	(13.1)	
Interest received (trading)	15,529,229	2,763,000	12,766,229	462.0	The municipality did not writr off bad debts as anticipated for this fiancial year, we under budgeted,
Public contributions and donations	10,441,162	-	10,441,162	-	Donation of infrastructure assests received from district municipality
Fines	195,850	212,000	(16,150)	(7.6)	
Government grants & subsidies	90,909,210	71,807,000	19,102,210	26.6	The actual balance is inclusive of MIG income, which was budgeted separately from the income statement
Discount received	7,654	-	7,654	-	This is due to the
Recoveries	8,353,558	-	8,353,558	-	This is due to to the decrease of bad debts write off for this financial year
Other income	4,681,229	755,000	3,926,229	520.0	Other income include the VAT capitalised on MIG,
Interest received - investment	962,951	336,000	626,951	186.6	Investments has increased mostly due to the interest generated from 3 call accounts we had during the fancial year
Interest received - other	-	-	-	-	
	217,006,379	147,468,000	69,538,379	47.2	
Expenses					
Personnel	(45,869,588)	(44,744,000)	(1,125,588)	2.5	
Manufacturing - Employee costs	(3,262)	-	(3,262)	-	
Remuneration of councillors	(4,840,012)	(4,758,000)	(82,012)	1.7	
Depreciation	(62,260,658)	(64,970,000)	2,709,342	(4.2)	
Amortisation	(156,997)	-	(156,997)	-	
Finance costs	(1,292,917)	(890,000)	(402,917)	45.3	Finance cost is interest on loan and the discounting of of provision of landfillsite and post employment benefits
Debt impairment	(43,155,574)	(32,600,000)	(10,555,574)	32.4	The movement that is shonw on the income statement reduces the debt impairment therefore the variance thats showing a 6.8%

Nketoana Local Municipality

Appendix A

June 2012

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

	Current year 2011 Act. Bal.	Current year 2011 Adjusted budget	Variance	Explanation of Significant Variances greater than 10% versus Budget
Repairs and maintenance - General	(11,146,161)	(9,130,000)	(2,016,161)	22.1 The variance is due to the the Repairs and Maintanace on roads, gravel roads, water networks and electrictry networks
Bulk purchases	(17,392,341)	(24,176,000)	6,783,659	(28.1) This is due to the replacement of meters that was installed in Ntha, we decreased our expenditure and so as our electricity losses
Grants and subsidies paid	-	-	-	-
General Expenses	(34,869,342)	(19,068,000)	(15,801,342)	82.9 This is due to the following expenditures,electricity charges on municipal buildings, professional fees, legal fees, Auditor General fees and operating lease of fleet and equipment.
Other revenue and costs	(220,986,852)	(200,336,000)	(20,650,852)	10.3
Gain or loss on disposal of assets and liabilities	(28,844)	-	(28,844)	-
Fair value adjustments	148,503	-	148,503	-
	119,659	-	119,659	-
Net surplus/ (deficit) for the year	(3,860,814)	(52,868,000)	49,007,186	(92.7)

Nketoana 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		Reason for delay/withhold funds	
	Jul	Oct	Dec	Mar	Jul	Oct	Jan	Apr	Jul	Oct		
MSIG	-	-	-	-	-	-	-	-	-	-	-	This shows as an over e on the grant, but there w opening balance of R433 This shows as an over e on the grant, but there w opening balance of R511 Treasury indicated that t Municipality disclosed or that there were grants un R1781000 of grant was
MFMG	1,450,000	790,000	-	-	239,773	182,916	978,572	446,748	-	-		
MIG	-	10,187,000	6,810,000	11,047,000	5,936,965	1,689,743	5,764,694	9,941,001	-	-		
EQUITABLE SHARE	28,376,000	22,018,000	-	17,392,000	-	-	-	-	610,000	1,171,000		
	<u>29,826,000</u>	<u>32,995,000</u>	<u>6,810,000</u>	<u>28,439,000</u>	<u>6,176,738</u>	<u>2,129,962</u>	<u>7,016,715</u>	<u>11,535,590</u>	<u>610,000</u>	<u>1,171,000</u>		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.