



Nquthu Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Nature of business and principal activities	Local Municipality
Executive Committee	
Mayor	Cllr. EN Molefe (Mayor) Cllr. SM Kunene (Deputy Mayor) Cllr. NM Zungu Cllr. RS Nyamane Cllr. ML Dlamini Cllr. NS Mkhize Cllr. VB Ntombela (Speaker) (Ex-Officio)
Ordinary Councillors	Cllr. Z Sithole Cllr. JC Ndlovu Cllr. SM Buthelezi Cllr. GAN Buthelezi Cllr. LS Sangweni Cllr. SM Shabangu Cllr. TW Madondo Cllr. RS Langa Cllr. KS Selepe Cllr. CS Mzizi Cllr. HM Moloji Cllr. RA Ndlovu Cllr. SMC Zikode Cllr. CT Buthelezi Cllr. GH Buthelezi Cllr. LS Hoffman Cllr. IT Nhlebela Cllr. TM Ndlovu Cllr. FA Hlatshwayo Cllr. PP Khoza Cllr. EM Mkhwanazi Cllr. ME Mnguni Cllr. SP Mazibuko Cllr. SJ Mkhwanazi Cllr. ZG Ngcobo Cllr. BI Zwane Cllr. ET Zulu
Grading of local authority	Grade 2
Accounting Officer	Mr. Bonginkosi Paul Gumbi
Chief Finance Officer (CFO)	Mr. Welcome Sakhile Mpanza
Registered office	Municipal Building 83/11 Mdlalose Street Nquthu 3135
Business address	Municipal Building 83/11 Mdlalose Street Nquthu

Nquthu Local Municipality

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General Information

	3135
Postal address	Private Bag X 5521 Nquthu 3135
Bankers	ABSA South Africa
Auditors	Auditor General
Attorneys	Kevin Dass Attorneys Accutts & Worthington

Nquthu Local Municipality

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The reports and statements set out below comprise the annual financial statements presented to the Nquthu Local Municipality Council.:

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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
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officers has not been prepared as the municipality is a wholly owned controlled entity of 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 are 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 officers 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 were 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 acknowledge that they are 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 officers to meet these responsibilities, the 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, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 42, which have been prepared on the going concern basis, were approved by the Accounting Officer on 30 August 2012 and were signed on its behalf by:

Accounting Officer
Designation

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	8	99,890	64,970
Other receivables from exchange transactions	9	727,894	1,220,624
VAT receivable	10	3,311,653	840,564
Consumer debtors	11	6,899,310	10,775,985
Cash and cash equivalents	12	61,039,468	32,455,500
		72,078,215	45,357,643
Non-Current Assets			
Investment property	4	1,227,659	1,294,264
Property, plant and equipment	5	96,900,040	69,210,830
Intangible assets	6	39,028	50,405
		98,166,727	70,555,499
Non-current assets held for sale	7	1,266,451	-
Total Assets		171,511,393	115,913,142
Liabilities			
Current Liabilities			
Finance lease obligation	13	439,245	724,523
Payables from exchange transactions	17	5,766,004	3,281,244
Consumer deposits	18	90,687	90,687
Unspent conditional grants and receipts	14	12,154,802	12,516,511
Provisions	15	1,595,388	1,628,748
DBSA Loan Current portion	16	789,287	763,099
		20,835,413	19,004,812
Non-Current Liabilities			
Finance lease obligation	13	12,320	389,917
DBSA Loan - Long-term portion	16	1,693,199	2,482,480
		1,705,519	2,872,397
Total Liabilities		22,540,932	21,877,209
Net Assets		148,970,461	94,035,933
Net Assets			
Accumulated surplus		148,970,461	94,035,933

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	20	5,871,748	5,990,029
Service charges	21	11,969,381	9,456,928
Property rates - penalties imposed and collection charges		543,006	739,289
Rental of facilities and equipment		454,223	526,717
Fines		160,698	280,785
Government grants & subsidies	22	95,388,232	63,586,658
Miscellaneous other revenue		409,134	405,616
Commissions received		71,829	69,384
Interest received - investment	28	2,255,249	528,637
Total Revenue		117,123,500	81,584,043
Expenditure			
Personnel	25	(17,301,080)	(17,014,526)
Remuneration of councillors	26	(6,795,323)	(6,050,747)
Depreciation and amortisation	29	(4,814,570)	(4,132,696)
Finance costs	30	(191,942)	(272,435)
Debt impairment	27	(2,201,627)	(1,685,214)
Repairs and maintenance		(577,450)	(496,651)
Bulk purchases	34	(11,552,508)	(9,129,916)
Contracted services	32	(2,516,293)	(1,565,471)
Grants and subsidies paid	33	(2,887,987)	(3,909,119)
Loss on disposal of assets	19	-	(138,511)
General Expenses	24	(13,933,140)	(8,595,334)
Total Expenditure		(62,771,920)	(52,990,620)
Surplus for the year		54,351,580	28,593,423

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	65,442,510	65,442,510
Changes in net assets		
Surplus for the year	28,593,423	28,593,423
Total changes	28,593,423	28,593,423
Opening balance as previously reported	94,618,880	94,618,880
Adjustments		
Prior year adjustments	1	1
Balance at 01 July 2011 as restated	94,618,881	94,618,881
Changes in net assets		
Surplus for the year	54,351,580	54,351,580
Total changes	54,351,580	54,351,580
Balance at 30 June 2012	148,970,461	148,970,461
Note(s)		

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		11,969,381	15,446,957
Grants		95,898,186	63,586,658
Interest income		2,255,249	528,637
Other receipts		7,510,638	2,021,791
		<u>117,633,454</u>	<u>81,584,043</u>
Payments			
Employee costs		(24,096,403)	(23,065,273)
Suppliers		(29,781,432)	(24,824,803)
Finance costs		(78,171)	(91,303)
		<u>(53,956,006)</u>	<u>(47,981,379)</u>
Net cash flows from operating activities	35	<u>63,677,448</u>	<u>33,602,664</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(33,694,859)	(10,406,326)
Proceeds from sale of property, plant and equipment	5	141,118	(75)
Purchase of other intangible assets	6	-	(45,537)
		<u>(33,553,741)</u>	<u>(10,451,938)</u>
Cash flows from financing activities			
Movement in DBSA loan - long-term portion		(763,093)	(748,135)
Finance lease payments		(776,646)	(752,008)
		<u>(1,539,739)</u>	<u>(1,500,143)</u>
Net increase in cash and cash equivalents		28,583,968	21,650,583
Cash and cash equivalents at the beginning of the year		32,455,500	10,804,835
Cash and cash equivalents at the end of the year	12	<u>61,039,468</u>	<u>32,455,418</u>

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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:

Provisions

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

1.2 Investment property

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

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

Investment property is derecognised on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.”.

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

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

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of 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 by equal installments over the useful life of the property, which is as follows:

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

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Accounting Policies

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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 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.

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

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

Item	Average useful life
Land	Indefinite
Buildings	
• Office buildings	30
Plant and machinery	3-10
Furniture and fixtures	3-10
Motor vehicles	5
Office equipment	5
IT equipment	5
Computer software	5

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Accounting Policies

1.3 Property, plant and equipment (continued)

Infrastructure	
• Electricity Networks	25-30
• Street lights	25
• Taxi Ranks	20
Community	
• Cemetery	15-25
• Waste sites	25-30
Capital work in progress - Roads	
Finance leased Assets	3-5
Investment property	5-30
Heritage assets	

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.

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.

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.

1.4 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

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

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

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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Accounting Policies

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 comprise computer software and anti-virus software and are initially recognised at cost.

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

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

Amortisation is provided for intangible assets on a straight line basis over the useful life. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

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

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

1.6 Financial instruments

Classification and derecognition

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.

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Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 Financial instruments (continued)

The municipality derecognises a financial asset when and only when; the rights to the cash flows from the financial asset expire; or it transfers the financial asset and the transfer qualifies for derecognition. The municipality first needs to evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The municipality transfers a financial asset if and only if: the rights to receive cash flows from the asset have expired, or if the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the municipality has transferred substantially all the risks and rewards of the asset, or the municipality has neither transferred nor retained substantially all the risks and rewards of the asset.

The municipality removes a financial liability (or part of financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or called or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

Receivables from exchange transactions

Trade receivables are initially recognised 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 150 days overdue) are considered indicators that the trade receivable is impaired.

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. 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 surplus or deficit.

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 recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method.

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.

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 - lessee

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Accounting Policies

1.7 Leases (continued)

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

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

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

1.8 Inventories

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

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

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

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

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

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

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

The cost of 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 related to 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 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.10 Impairment of cash-generating assets

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

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

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

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.11 Impairment of non-cash-generating assets

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

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

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

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

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 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.

1.13 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 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 not recognised for future operating deficits.

If the municipality 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

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.

Nquthu Local Municipality

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Accounting Policies

1.13 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

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.

1.15 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

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

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

- 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.

Fines

Revenue from the issuing of fines is recognised when:

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

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

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.

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

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.

1.16 Interest and rental income

Interest is recognised using the effective interest rate method. Rentals are recognised on a time proportion basis.

1.17 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred since it is impractical to capitalise these as the PPE constructed though these borrowings is recognised at fair values.

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

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.18 Comparative figures

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

1.19 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.

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA 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) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government

Irregular expenditure is also any expenditure incurred in contravention of the municipality's supply chain management policy.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial 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 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 statements.

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 to be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.23 Offsetting

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

1.24 Budget information

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

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 51.

1.25 Related parties

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

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Commitments

The municipality at the end of the reporting period will have commitments in relation to the transactions in progress that will be finished after reporting date.

These will be disclosed in the commitments indicating if they are contracted or not. The property, plant and equipment note will also detail those projects that are under construction as at reporting date.

The commitment will arise either if the transaction was concluded at year-end or not in relation to the signing of the contract. If the bidding process is still under way the commitment will also be raised.

1.27 Going concern assumption

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

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

2012

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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2011 is as follows:

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2012 annual financial statements is as follows:

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

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

• GRAP 25: Employee benefits	01 April 2013	Unable to reliably estimate the impact
• GRAP 104: Financial Instruments	01 April 2012	Unable to reliably estimate the impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	Unable to reliably estimate the impact
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Unable to reliably estimate the impact
• GRAP 107: Mergers	01 April 2014	Unable to reliably estimate the impact

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

Standard/ Interpretation:

Effective date: Years beginning on or after

Expected impact:

• GRAP 18: Segment Reporting	01 April 2013	Unable to reliably estimate the impact
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The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

4. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,999,640	(771,981)	1,227,659	1,999,640	(705,376)	1,294,264

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie.

5. 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	13,270,852	-	13,270,852	14,300,000	-	14,300,000
Buildings	28,109,389	(4,550,826)	23,558,563	23,284,529	(3,583,487)	19,701,042
Plant and machinery	4,159,405	(1,055,553)	3,103,852	6,038,786	(2,000,804)	4,037,982
Furniture and fixtures	2,189,056	(831,155)	1,357,901	1,890,283	(593,714)	1,296,569
Motor vehicles	3,811,708	(598,970)	3,212,738	3,331,456	(2,430,910)	900,546
IT equipment	1,080,860	(553,824)	527,036	978,097	(456,019)	522,078
Infrastructure	40,275,877	(15,750,512)	24,525,365	30,800,187	(13,729,844)	17,070,343
Community	2,412,171	(1,130,776)	1,281,395	1,948,771	(1,132,164)	816,607
Capital work in progress - Roads	21,265,157	-	21,265,157	8,084,372	-	8,084,372
Capital works in progress - community halls	4,400,008	-	4,400,008	1,504,748	-	1,504,748
Finance leased Assets	2,031,889	(1,713,604)	318,285	1,879,790	(982,135)	897,655
Heritage	78,888	-	78,888	78,888	-	78,888
Total	123,085,260	(26,185,220)	96,900,040	94,119,907	(24,909,077)	69,210,830

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand			2012	2011			
5. Property, plant and equipment (continued)							
Reconciliation of property, plant and equipment - 2012							
	Opening balance	Additions	Disposals	Classified as held for sale	Transfers	Reclassification	Depreciation
Land	14,300,000	-	-	-	-	(1,029,148)	
Buildings	19,701,042	3,011,641	-	-	784,071	1,029,148	(967,33)
Plant and machinery	4,037,982	33,619	-	(640,815)	3,500	1,973	(332,40)
Furniture and fixtures	1,296,569	316,136	-	(20,367)	21,185	3,080	(258,70)
Motor vehicles	900,546	3,176,798	-	(605,269)	-	-	(259,33)
IT equipment	522,078	153,204	-	-	-	17,031	(165,27)
Infrastructure	17,070,343	-	-	-	9,436,193	-	(1,981,17)
Community	816,607	505,673	-	-	-	-	(40,88)
Capital work in progress - Roads	8,084,372	22,616,978	-	-	(9,436,193)	-	
Capital works in progress - community halls	1,504,748	3,704,016	-	-	(808,756)	-	
Finance leased Assets	897,655	176,794	(141,118)	-	-	116,422	(731,46)
Heritage	78,888	-	-	-	-	-	
	69,210,830	33,694,859	(141,118)	(1,266,451)	-	138,506	(4,736,58)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Reclassification	Depreciation	Total
Land	14,300,000	-	-	-	-	14,300,000
Buildings	10,775,299	-	-	9,793,612	(867,869)	19,701,042
Plant and machinery	3,370,521	147,808	(1,973)	847,516	(325,890)	4,037,982
Furniture and fixtures	474,780	305,763	(13,541)	772,664	(243,097)	1,296,569
Motor vehicles	422,551	-	-	585,402	(107,407)	900,546
IT equipment	569,424	133,054	(7,969)	(17,672)	(154,759)	522,078
Infrastructure	19,780,815	-	-	(1,049,409)	(1,661,063)	17,070,343
Community	3,418,080	-	-	(2,561,712)	(39,761)	816,607
Capital work in progress - Roads	-	8,084,372	-	-	-	8,084,372
Capital works in progress - community halls	-	1,504,748	-	-	-	1,504,748
Finance leased Assets	1,562,372	230,581	(114,953)	(116,422)	(663,923)	897,655
Heritage	61,835	-	-	17,053	-	78,888
	54,735,677	10,406,326	(138,436)	8,271,032	(4,063,769)	69,210,830

Assets subject to finance lease (Net carrying amount)

Finance leased Assets	318,285	897,655
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Leased assets with a book value of R 436,590 (2011:R 1 014 077) are encumbered refer to note 10. The contract of lease of vehicles is terminating 30 September 2012 and will not be renewed any further as the municipality will buy its own fleet.

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.

For a detailed breakdown of PPE refer to Appendix B and C.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

6. 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	80,830	(41,802)	39,028	80,830	(30,425)	50,405

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software, other	50,405	(11,377)	39,028

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	7,138	45,537	(2,270)	50,405

7. Non-current assets held for sale

Name of company	Carrying amount 2012	Carrying amount 2011
Computers	20,367	-
Motor Vehicles	605,269	-
Plant and machinery	640,815	-
	1,266,451	-

A process of disposing of unused and irreparable PPE was delayed and was only approved after the year-end by Council and they were disposed thereafter. As at the reporting date assets with book value of R 1,266,451 (cost R4,726,896.10) were therefore disclosed as held for sale. On the auction held on the 14th of August the proceeds from these assets were R 1 209 600.

8. Inventories

Consumable stores	99,890	64,970
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9. Other receivables from exchange transactions

Other debtors	727,894	1,220,624
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10. VAT receivable

Value Added Tax (VAT)	3,311,653	840,564
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Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
11. Consumer debtors		
Gross balances		
Rates	3,028,458	7,109,350
Electricity	1,056,828	1,542,083
Refuse	8,780,063	5,878,234
Sundry debtors	276,428	287,159
Other (old)	-	6,986,401
	13,141,777	21,803,227
Less: Provision for debt impairment		
Rates	(1,662,041)	(856,660)
Electricity	(304,188)	(2,151,601)
Refuse	(4,273,970)	(1,030,312)
Market stalls rental	(2,268)	(2,268)
Other (old)	-	(6,986,401)
	(6,242,467)	(11,027,242)
Net balance		
Rates	1,366,417	6,252,690
Electricity	752,640	(609,518)
Refuse	4,506,093	4,847,922
Sundry debtors	274,160	284,891
	6,899,310	10,775,985
Rates		
Current (0 -30 days)	120,405	485,915
31 - 60 days	102,808	430,136
61 - 90 days	163,501	364,679
91 - 120 days	104,931	364,982
121 - 365 days	101,259	389,375
> 365 days	2,435,554	5,074,964
	3,028,458	7,110,051
Electricity		
Current (0 -30 days)	173,516	341,608
31 - 60 days	146,605	140,130
61 - 90 days	65,084	55,788
91 - 120 days	8,095	50,698
121 - 365 days	4,500	52,476
> 365 days	659,028	829,190
	1,056,828	1,469,890
Refuse		
Current (0 -30 days)	287,804	359,517
31 - 60 days	275,683	320,961
61 - 90 days	272,089	323,494
91 - 120 days	292,686	313,772
121 - 365 days	290,865	296,510
> 365 days	7,359,472	4,554,913
	8,778,599	6,169,167

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
11. Consumer debtors (continued)		
Sundry debtors		
Current (0 -30 days)	28,452	22,006
31 - 60 days	26,444	20,584
61 - 90 days	24,071	16,471
91 - 120 days	20,075	13,165
121 - 365 days	17,664	10,792
> 365 days	160,032	201,873
	276,738	284,891
Other (old)		
> 365 days	-	6,986,401
Reconciliation of debt impairment provision		
Balance at beginning of the year	11,023,769	9,342,028
Contributions to provision	2,201,627	1,681,741
Debt impairment written off against provision	(6,986,401)	-
	6,238,995	11,023,769
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	18,236,324	17,169,626
Short-term deposits	42,803,144	15,285,874
	61,039,468	32,455,500
Investments		
MPCC	1,195,197	-
Small Town Rehabilitation	8,282,924	-
Incubator	2,048,324	-
Grindrod Housing A/C	59,009	-
Investment - Nedbank	5,147,229	5,062,588
Investment - Grindrod Bank	5,415,657	5,113,454
FNB Investment	10,112,904	-
Investment - ABSA	10,541,902	5,109,831
	42,803,146	15,285,873

Funds not immediately available are invested with commercial banks in terms of the Cash and Investment policy and Municipal Investment Regulations.

Some other conditional grants agreements require that a separate investment (call account) be opened for them so that interest can be easily identified and accrued to the grant. These being the individual investments mentioned above and the remainder of investments is made up of own cash reserves and those grants not requiring separate investments account.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA BANK - Cheque Account - 405-3562-762	9,948,834	4,527,731	1,613,583	9,948,834	4,473,846	1,613,583
ABSA BANK - Cheque Account Semi-Dormant - 406-1817-353	-	3,938,667	47,260	-	3,938,531	48,436
ABSA BANK - Savings Account Type - 914-2845-014	8,288,079	8,761,242	10,098,931	8,288,079	8,761,242	10,098,931
ABSA BANK - Account Type - 916-8827-648 Closed Account	-	-	1,458	-	-	1,458
Total	18,236,913	17,227,640	11,761,232	18,236,913	17,173,619	11,762,408

13. Finance lease obligation

Minimum lease payments due

- within one year	412,000	891,918
- in second to fifth year inclusive	12,320	356,206

424,320 1,248,124

(27,286) (133,684)

less: future finance charges

Present value of minimum lease payments

397,034 1,114,440

Present value of minimum lease payments due

- within one year	384,714	724,523
- in second to fifth year inclusive	12,320	389,917

397,034 1,114,440

Non-current liabilities

12,320 389,917

Current liabilities

439,245 724,523

451,565 1,114,440

Interest rates are fixed on the contract date. All lease payments escalate at between 10% and 15% p.a and no arrangements have been entered into for contingent rent.

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

Interest rates are fixed at the contract date. All leases escalate at inflation % p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Government Grant	23,974	23,974
Capacity Building	40,882	94,484
Corridor Development	-	1,784,115
MPCC	500,000	500,000
MFMA	105,127	105,127
Cybercadet	105,857	118,729
IDP	4,604	4,604
MIG	(291,543)	747,455
Financial System Grant	1	(345,444)
MAP	(5)	216,498
MSIG	508,809	20,376
FMG	-	9,729
Public Participation	-	(60,438)
Synergistic	245,906	245,906
Bornem grant	630,141	46,318
Rehabilitation of CBD Roads grant	7,108,780	9,000,000
Library Volunteer	7,268	5,078
Small business incubator grant	2,000,000	-
Multi-Purpose Centre grant	1,146,608	-
Sportsfield grant (Isilonjane)	18,393	-
	12,154,802	12,516,511

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

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

See note Appendix F for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Other grants require that a separate investment account be opened and this has been complied with.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	-	-	193,766
Leave pay provision	1,434,982	62,660	(96,020)	1,401,622
	1,628,748	62,660	(96,020)	1,595,388

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	-	193,766	-	193,766
Leave pay provision	1,455,967	-	(20,985)	1,434,982
	1,455,967	193,766	(20,985)	1,628,748

Environmental rehabilitation provision

The municipality is required to provide for the rehabilitation of the landfill site after the end of its useful life. The cost to rehabilitate the landfill site has been estimated by the engineers to be R 500 000 and the remaining life is 10-12 years.

However in November the landfill site was permanently closed and no future use was permitted due to environmental regulations. The community participation on the project for the rehabilitation is being undertaken and the exact costs of such will be correctly identified after completion of the consultation.

The leave pay provision is based on the number of days each employee has accrued at year-end in terms of the South African Local Government Bargaining Agreement, and is calculated at termination rate.

Leave provision

The leave pay provision is based on the number of days each employee has accrued at year-end in terms of the South African Local Government Bargaining Agreement, and is calculated at termination rate.

16. DBSA Loan - Long-term portion

Refer to Appendix A for the reconciliation of external loans.

Instalments are paid half-yearly on equal installments on each loan.

This loan was for the construction on municipal administration buildings and contracts are available for inspection.

DBSA Loan - account number 100524/2	1,436,870	2,001,341
DBSA Loan - account number 100524/3	1,045,620	1,244,243
Less - Current Portion of DBSA Loans	(789,287)	(763,099)
	1,693,203	2,482,485

17. Payables from exchange transactions

Trade payables	4,839,804	2,015,267
Collections costs	1,621	-
Accrued bonus	852,500	852,500
Other payables	72,079	52,525
Retentions - Capital projects	-	360,952
	5,766,004	3,281,244

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
18. Consumer deposits		
Electricity	90,687	90,687
19. Revenue		
Property rates	5,871,748	5,990,029
Property rates – Penalties imposed and collection charges	543,006	739,289
Service charges	11,969,381	9,456,928
Rental of facilities & equipment	454,223	526,717
Fines	160,698	280,785
Government grants & subsidies	95,388,232	63,586,658
Miscellaneous other revenue	409,134	405,616
	114,796,422	80,986,022
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	11,969,381	9,456,928
Rental of facilities & equipment	454,223	526,717
Miscellaneous other revenue	409,134	405,616
	12,832,738	10,389,261
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	5,871,748	5,990,029
Property rates – Penalties imposed and collection charges	543,006	739,289
Fines	160,698	280,785
Transfer revenue		
Levies	95,388,232	63,586,658
	101,963,684	70,596,761
20. Property rates		
21. Service charges		
Sale of electricity	8,374,613	6,222,647
Refuse removal	3,594,768	3,234,281
	11,969,381	9,456,928

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
22. Government grants and subsidies		
Equitable share	62,778,000	47,451,442
Corridor Development Grant	1,784,115	548,384
Cybercadet Grant	224,472	663,854
Municipal Assistance Programme Grant Income	-	310,148
Financial Management Grant	1,388,999	1,196,138
Municipal System Improve Grant	230,228	734,490
Capacity Building Grant	53,603	104,649
Public Participation Income	15,000	-
Synergetic Partnership Program	-	1,544
Youth Fund	-	22,469
Municipal Governance Grant	-	576,026
Library Support grant	466,680	-
Library Volunteer Grant	15,810	6,922
Bornem Grant	31,093	101,568
Anti-Corruption Strategy Grant	-	39,085
Municipal Infrastructure Grant	22,419,951	11,829,939
Sports-field grant	821,607	-
CBD Roads Rehabilitation	4,891,220	-
Multi-purpose community center grant	20,392	-
Urban Renewal Framework Grant	247,062	-
	95,388,232	63,586,658

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All the residents with electricity get a Free Basic Electricity monthly allowance of 50 (2011: 50), which is funded from the grant.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. Other income		
24. General expenses		
Advertising	208,742	102,073
Auditors remuneration	1,695,124	1,458,316
Bank charges	79,636	69,697
Cleaning	117,522	-
Consulting and professional fees	1,475,141	1,633,085
Consumables	272,702	742,136
Donations	1,500	-
Entertainment	23,148	50,995
Fines and penalties	30,422	28,976
Hire	3,932	-
Insurance	560,938	400,765
Youth development	1,279,335	476,233
IT expenses	85,545	51,690
Lease rentals on operating lease	101,865	-
Marketing	93,992	55,532
Promotions and sponsorships	403,662	-
Motor vehicle expenses	40,095	26,659
Fuel and oil	867,320	484,934
Printing and stationery	320,198	323,094
Community Development Projects	1,659,359	1,019,157
Software expenses	358,486	245,966
Subscriptions and membership fees	400,000	147,835
Telephone and fax	433,644	364,044
Training	283,576	38,873
Travel - local	1,025,702	293,123
Electricity	420,595	167,159
Uniforms	122,457	146,110
Tourism development	104,500	55,000
Audit Committee	59,773	24,843
Indigent (FBE)	1,395,222	1,041,598
VAT adjustment	-	(880,697)
Other expenses	9,007	12,139
Environmental provisions	-	15,999
	13,933,140	8,595,334

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
25. Employee related costs		
Basic	12,717,005	12,217,958
Bonus	874,358	993,076
Medical aid - company contributions	606,830	540,873
UIF	115,530	114,184
SDL	150,759	144,692
Leave pay provision charge	62,661	72,021
Group Life Insurance	8,787	11,070
Post-employment benefits - Pension - Defined contribution plan	1,398,194	1,408,208
Overtime payments	69,240	67,546
Car allowance	886,876	1,085,150
Housing benefits and allowances	350,812	300,286
Telephone and Cellphone Allowance	60,028	59,462
	17,301,080	17,014,526
Remuneration of municipal manager		
Annual Remuneration	782,940	782,940
Contributions to UIF, Medical and Pension Funds	9,079	9,083
Cellphone Allowance	12,000	12,000
	804,019	804,023
Remuneration of chief finance officer		
Annual Remuneration	689,547	636,940
Contributions to UIF, Medical and Pension Funds	7,920	7,356
Cellphone Allowance	6,000	6,000
	703,467	650,296
Corporate and human resources (corporate services)		
Annual Remuneration	621,147	621,147
Contributions to UIF, Medical and Pension Funds	7,570	7,570
Cellphone Allowances	6,000	6,000
	634,717	634,717
Development planning and Housing		
Annual Remuneration	621,147	531,615
Contributions to UIF, Medical and Pension Funds	7,621	5,995
Cellphone Allowance	6,000	6,000
	634,768	543,610
Technical Services		
Annual Remuneration	621,147	614,367
Contributions to UIF, Medical and Pension Funds	7,242	7,112
Cellphone Allowance	6,000	6,000
	634,389	627,479

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
26. Remuneration of councillors		
Executive Major	326,869	313,268
Deputy Executive Mayor	263,845	253,595
Mayoral Committee Members	992,356	970,721
Speaker	263,845	254,097
Councillors	4,910,116	4,174,079
Contributions to UIF and SDL	38,292	84,987
	6,795,323	6,050,747
In-kind benefits		
The Mayor, Deputy Mayor, Speaker are part-time. Each is provided with an office and the Mayor is provided with secretarial support at the cost of the Council.		
The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.		
The Mayor have the use of Council owned vehicle for official duties.		
The Mayor has one full-time driver.		
27. Debt impairment		
Provision for bad debts	2,201,627	1,685,214
28. Investment revenue		
Interest revenue		
Bank	2,255,249	528,637
29. Depreciation and amortisation		
Property, plant and equipment	4,803,193	4,130,426
Intangible assets	11,377	2,270
	4,814,570	4,132,696
30. Finance costs		
Non-current borrowings	78,171	91,303
Finance leases	113,771	181,132
	191,942	272,435
31. Auditors' remuneration		
Fees	1,695,124	1,458,316
32. Contracted services		
Specialist Services	1,101,377	1,044,479
Security	1,414,916	520,992
	2,516,293	1,565,471

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
33. Grants and subsidies paid		
Municipal Systems Improvement Grant	318,462	660,463
Cybercadet Grant	221,593	656,815
Corridor Development Grant	-	481,100
Synergistic Partnership	-	1,544
Management Assistance Program	359,367	278,415
Municipal Finance Management Grant	1,430,616	958,022
Bornem Grant	68,587	96,363
Library grant	468,970	-
Youth Fund Grant (NYDA)	-	22,469
Municipal Governance Grant	-	576,026
Anti-Corruption Strategy	-	39,085
Capacity Building	-	138,817
MPCC Grant expenditure	20,392	-
	2,887,987	3,909,119
34. Bulk purchases		
Electricity	11,552,508	9,129,916
35. Cash generated from operations		
Surplus	54,351,580	28,593,423
Adjustments for:		
Depreciation and amortisation	4,814,570	4,132,696
Gain on sale of assets and liabilities	-	138,511
Fair value adjustments	-	(8,271,107)
Finance costs - Finance leases	113,771	181,132
Debt impairment	2,201,627	1,685,214
Movements in provisions	(33,360)	172,781
Prior year adjustment	444,433	7,152,876
Changes in working capital:		
Inventories	(34,920)	146,139
Other receivables from exchange transactions	492,730	(676,183)
Consumer debtors	1,675,048	(5,788,898)
Payables from exchange transactions	2,484,767	(2,235,328)
VAT	(2,471,089)	123,923
Unspent conditional grants and receipts	(361,709)	8,242,471
Consumer deposits	-	5,014
	63,677,448	33,602,664
36. Commitments		
Authorised capital expenditure		
Already contracted		
• Property, plant and equipment	-	1,735,256
• Property, plant and equipment (Work in progress)	29,880,842	28,750,505
	29,880,842	30,485,761

This committed expenditure relates to plant and equipment and will be financed by retained surpluses, unspent grants, existing cash resources, funds internally generated, etc.

Nquthu 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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37. Contingencies

The Municipality has the following contingent liabilities:

A middle-income housing developer contracted by the municipality is suing the municipality for an alleged breach of the contract and the municipality is defending the matter and is awaiting legal advice of the Senior Counsel (there are also various cases linked to this case, which maybe treated as one which were lodged by prospective buyers), exact amounts cannot be determined because the developer has been refusing to handover all the information to the municipality.

Litigation is in the process against the municipality relating to a dispute with an ex-staff member who is claiming accumulated leave of approximately R308 000, 00 together with interest of 15, 5 %. The matter is still under litigation.

The ex-staff member has referred an application for review to the labour court claiming he was unfairly dismissed. The matter is still under litigation.

A supplier instituted action in the High Court claiming approximately R2 500 000 plus interest. The municipality has raised a counterclaim of R750 000, 00. The supplier's claim is contrary to the agreed contract with the municipality and the matter is still under litigation.

A cession holder is co-suing the municipality for the unpaid cession that was entered into with a contractor appointed by the municipality for an amount of R 170 000, the municipality is defending this claim as the contractor never submitted the notice to pay the cession holder.

38. Related parties

The salaries of members of key management and councilors are disclosed under the employee costs note.

Related party transactions

The municipality did not have any related party transactions.

39. Prior period errors

Construction cost related to an upgrade of taxi rank was incorrectly treated as operational expenses under the Corridor grant instead of being capitalised.

Statement of financial position

Increase in Property, plant and equipment	-	413,316
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Statement of Financial Performance

Corridor grant expenses	-	413,316
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40. Comparative figures

The reporting period is longer/shorter than a year, therefore comparative amounts are not comparable to the current balances.

Certain comparative figures have been reclassified.

The provision for landfill site rehabilitation was previously classified as long-term, however when the site was closed before the estimated useful life the whole provision was changed to short-term as the site will be rehabilitated in the short-term.

The effects of the reclassification are as follows:

Statement of financial position

Decrease in Long-term provisions	-	193,766
Increase in short-term provisions	-	193,766

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
41. Risk management		
Financial risk management		
The municipality's activities expose it to a variety of financial risks: the current global economic crisis may have effect whereby businesses closes and fail to pay their debts due, also the unemployment levels will increase and more debts maybe written-off.		
42. Going concern		
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.		
43. Events after the reporting date		
Disclose for each material category of non-adjusting events after the reporting date:		
<ul style="list-style-type: none">• nature of the event.• estimation of its financial effect or a statement that such an estimation cannot be made.		
44. Unauthorised expenditure		
Unauthorised expenditure	377,100	-
The unauthorised expenditure is resulting from the over-spending of votes which condonation will be requested from the Council.		
45. Fruitless and wasteful expenditure		
Interest paid - overdue payables	30,436	19,974
SARS - penalties on late payments	-	289,652
	30,436	309,626
The matter is being investigated by the office of the Accounting Officer for possible disciplinary action against the official who caused the municipality to suffer loss.		
46. Irregular expenditure		
Add: Irregular Expenditure - current year	3,101,978	-
Details of irregular expenditure – current year		-
47. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Amount paid - current year	400,000	134,395
Audit fees		
Current year subscription / fee	940,922	913,073
Amount paid - current year	(940,922)	(913,073)
	-	-

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
47. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE and UIF		
Current year deductions and council contributions	3,524,383	3,449,567
Amount paid - current year	(3,524,383)	(3,449,567)
	-	-
Pension and Medical Aid Deductions		
Current year deductions and council contributions	2,797,232	3,378,744
Amount paid - current year	(2,797,232)	(3,378,744)
	-	-
VAT		
VAT receivable	3,311,653	840,564

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

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

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	Outstanding more than 90 days	Total
Councilor IT Nhlebela	738	2,287	3,025
Councilor IT Nhlebela	747	2,606	3,353
Councilor IT Nhlebela	731	2,056	2,787
Councilor LS Holfman	342	-	342
	2,558	6,949	9,507
30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor IT Nhlebela	765	5,108	5,873
Councillor IT Nhlebela	765	5,111	5,876
Councillor IT Nhlebela	758	4,687	5,445
	2,288	14,906	17,194

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

48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

49. Material Losses - Electricity

Electricity losses	kWh	R
Purchased	17,883,398	11,598,974
Sold	(6,617,080)	(8,862,220)
Own consumption	(106,865)	(89,985)
Free Basic Electricity	(44,800)	(46,467)
	11,114,653	2,600,302

The municipality is licensed by the National Electricity Regulator of South Africa to distribute electricity within the proclaimed area of Nquthu Town.

The municipality has investigated the causes of the losses and the major contributing factors are illegal connections and tampering.

50. Indigent support

Free Basic Electricity		
Indigent Support(FBE)	1,395,222	1,041,598

All Eskom customers qualify for Free Basic Electricity (FBE) which is 50kWh per month

Households amounting to 779 are subsidized for alternative energy per month on the solar panels projects for those areas without electricity as yet, installations to other households is proceeding.

Electricity customers serviced by our licence also get a 50kWh every month. The management has been tasked to develop a policy where only deserving households benefits in all these rather than the current blanket approach.

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

2012

2011

51. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	9,814,409	9,814,409	9,814,409	6,414,754	3,399,655	65 %	
Service charges	15,312,084	15,312,084	15,312,084	11,969,381	3,342,703	78 %	
Investment revenue	432,000	432,000	432,000	2,255,249	(1,823,249)	522 %	
Transfers recognised - operational	65,766,600	65,766,600	65,766,600	66,988,000	(1,221,400)	102 %	
Other own revenue	1,191,057	1,191,057	1,191,057	1,095,884	95,173	92 %	
Total revenue (excluding capital transfers and contributions)	92,516,150	92,516,150	92,516,150	88,723,268	3,792,882	96 %	
Employee costs	(23,487,427)	(23,487,427)	(23,487,427)	(17,301,080)	(6,186,347)	74 %	
Remuneration of councillors	(7,337,610)	(7,337,610)	(7,337,610)	(6,795,323)	(542,287)	93 %	
Debt impairment	(2,500,000)	(2,500,000)	(2,500,000)	(2,201,627)	(298,373)	88 %	
Depreciation and asset impairment	(4,900,000)	(4,900,000)	(4,900,000)	(4,814,570)	(85,430)	98 %	
Finance charges	(290,692)	(290,692)	(290,692)	(191,942)	(98,750)	66 %	
Bulk purchases - electricity	(11,676,892)	(11,676,892)	(11,676,892)	(11,552,508)	(124,384)	99 %	
Transfers and grants	(24,000,600)	(24,000,600)	(24,000,600)	(2,887,987)	(21,112,613)	12 %	
Other expenditure	(29,416,723)	(29,416,723)	(29,416,723)	(17,026,883)	(12,389,840)	58 %	
Total expenditure	(103,609,944)	(103,609,944)	(103,609,944)	(62,771,920)	(40,838,024)	61 %	
Surplus/(Deficit)	(11,093,794)	(11,093,794)	(11,093,794)	25,951,348	(37,045,142)	(234)%	

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

51. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	30,699,000	-	-	28,400,232	(28,400,232)	DIV/0 %	93 %
Surplus (Deficit) after capital transfers and contributions	19,605,206	(11,093,794)	(11,093,794)	54,351,580	(65,445,374)	(490)%	277 %
Surplus/(Deficit) for the year	19,605,206	(11,093,794)	(11,093,794)	54,351,580	(65,445,374)	(490)%	277 %

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand

51. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	24,500,000	-	-	21,265,157	(21,265,157)	DIV/0 %	87 %
Sources of capital funds							
Transfers recognised - capital	17,477,000	-	-	-	-	DIV/0 %	- %
Internally generated funds	23,000	-	-	-	-	DIV/0 %	- %
Total sources of capital funds	17,500,000	-	-	-	-	DIV/0 %	- %

Nquthu Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Nquthu Local Municipality

Appendix A

June 2012

Schedule of external loans as at 30 June 2011

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 Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
DBSA Loan @ 1%	100524/2 December 2014	2,001,341	-	564,471	1,436,870	6,330,266	-
DBSA Loan @ 5%	100524/3 January 2016	1,244,243	-	198,623	1,045,620	1,604,137	-
		3,245,584	-	763,094	2,482,490	7,934,403	-
Total external loans		3,245,584	-	763,094	2,482,490	7,934,403	-

Nquthu Local Municipality
Nquthu 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	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	13,270,852	-	-	-	-	-	13,270,852	-	-	-	-	-	-	13,270,852
Dwellings	2,147,549	-	-	-	-	-	2,147,549	(84,871)	-	-	(80,779)	-	(165,650)	1,981,899
Buildings - non residential (Separate for AFS purposes)	22,166,128	805,256	-	-	-	-	22,971,384	(3,498,616)	-	-	(806,381)	-	(4,304,997)	18,666,387
Buildings - Assets under construction (Separate for AFS purposes)	1,504,748	4,017,377	-	(808,756)	-	-	4,713,369	-	-	-	-	-	-	4,713,369
	39,089,277	4,822,633	-	(808,756)	-	-	43,103,154	(3,583,487)	-	-	(887,160)	-	(4,470,647)	38,632,507
Infrastructure														
Roads, Pavements & Bridges	23,149,808	9,449,913	-	-	-	-	32,599,721	(8,913,080)	-	-	(1,727,834)	-	(10,640,914)	21,958,807
Electricity	7,650,379	-	-	-	-	-	7,650,379	(4,816,764)	-	-	(253,338)	-	(5,070,102)	2,580,277
Roads Under Construction	8,084,372	22,630,733	-	(9,449,913)	-	-	21,265,192	-	-	-	-	-	-	21,265,192
	38,884,559	32,080,646	-	(9,449,913)	-	-	61,515,292	(13,729,844)	-	-	(1,981,172)	-	(15,711,016)	45,804,276
Community Assets														
Refuse sites	1,800,465	-	-	-	-	-	1,800,465	(1,096,561)	-	-	(33,032)	-	(1,129,593)	670,872
Cemeteries	142,712	-	-	-	-	-	142,712	(30,756)	-	-	(6,464)	-	(37,220)	105,492
	1,943,177	-	-	-	-	-	1,943,177	(1,127,317)	-	-	(39,496)	-	(1,166,813)	776,364

Nquthu Local Municipality

Appendix F

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

June 2012

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance	
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun				Yes/No
Municipal Governance Grant	KZN-COGTA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Yes	
Capacity Building	KZN-COGTA	-	-	-	-	53,603	-	-	-	-	-	-	-	-	-	Yes	
MFMA	KZN-COGTA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Yes	
Corridor Development	KZN-COGTA	-	-	-	-	884,781	899,333	-	-	-	-	-	-	-	-	Yes	
MPCC	KZN-COGTA	-	1,167,000	-	-	-	-	-	20,392	-	-	-	-	-	-	Yes	
Cybercadet	KZN-Arts & Culture (Libraries)	-	-	-	211,600	54,558	57,438	57,918	54,558	-	-	-	-	-	-	Yes	
Anti-corruption strategy Grant	KZN-COGTA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Yes	
Municipal Infrastructure Grant (MIG)	COGTA-National	13,835,000	-	7,185,000	-	5,951,664	4,618,298	7,114,551	4,374,486	-	-	-	-	-	-	Yes	
Financial System Grant	KZN-COGTA	-	-	-	-	-	345,445	-	-	-	-	-	-	-	-	Yes	
Management Assistance Program	KZN-COGTA	-	-	-	-	-	216,502	-	-	-	-	-	-	-	-	Yes	
Municipal Systems Improvement Grant	COGTA-National	790,000	4,100	-	-	69,811	123,995	40,200	71,660	-	-	-	-	-	-	Yes	
Housing	KZN-Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Yes	
Financial Management Grant	National Treasury	1,500,000	-	-	8,098	468,020	550,481	288,549	210,776	-	-	-	-	-	-	Yes	
Synergistic Partnership Grant	KZN-COGTA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	Yes	

Public Participation Grant	KZN-COGTA	-	-	-	-	-	75,438	-	-	-	-	-	-	Yes
Youth Fund (Umsobomvu/NYDA)	NYDA	-	-	-	-	-	-	-	-	-	-	-	-	Yes
CBD Roass Rehabilitation	KZN-COGTA	-	-	3,000,000	-	-	1,133,579	909,491	2,848,150	-	-	-	-	Yes
Bornem Grant	Bornem (Belgium)	-	-	26,945	587,971	-	9,939	16,774	4,380	-	-	-	-	Yes
Lirbrary Volunteer	KZN-Arts & Culture (Libraries)	-	18,000	-	-	3,060	3,570	4,590	4,590	-	-	-	-	Yes
Sportfields (Isilinjane)	KZN Sports	420,000	-	420,000	-	-	418,596	-	344,408	-	-	-	-	Yes
Library Support		466,680	-	-	-	156,866	138,393	139,202	32,220	-	-	-	-	Yes
Incubator Grant	KZN COGTA	-	2,000,000	-	-	-	-	-	-	-	-	-	-	Yes
		17,011,680	3,189,100	10,631,945	807,669	7,642,363	8,591,007	8,571,275	7,965,620	-	-	-	-	

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