



NKETOANA LOCAL MUNICIPALITY
(REGISTRATION NUMBER :DEMARCATION NUMBER:FS 193)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Providing municipal service and maintain the best interests of the local community mainly in the Reitz area.
Mayoral committee	New councillors - (Term started) 18 May 2011
Councillors	M. Molapisi (Mayor) P. Nkomo (Speaker) M. Malindi (Executive Member) M. Mphaka (Executive member) M. Blignaut (Executive member) M. Moloedi (Executive member) G. Nhlapho P. Mofokeng T. Radebe M. Nakedi M. Mosia M. Semela K. Mokoena N. Shabalala P. Sibeko P. Moshoadiba S. Du Preez S. Henning Old Councillor - (Term ended) 18 May 2011 M. Mamba (Mayor) M. Molapisi (Speaker) L. Moloedi (Executive member) M. Mokoena (Executive member) P. Nkomo (Executive member) B. Peter (Executive member) M. Blignaut (Executive member) N. Molawa J. Msimanga S. Henning T. Zwane L. Masoka A. Fume M. Moloedi J. Venter M. Malindi K. Monyatsi K.Mnguni

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General Information

Grading of local authority	Medium Capacity Grade 3 in terms of the Remuneration of Public Office Bearers Act.
Accounting Officer	SJ Thomas
Chief Finance Officer (CFO)	V Mkhafa
Registered office	Corner Church and Voortrekker Reitz 9810
Business address	Corner Church and Voortrekker Reitz 9810
Postal address	P.O. Box 26 Reitz 9810
Bankers	ABSA (Primary bank)
Auditors	Office of the Auditor-General South Africa

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
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)

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Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Accounting Officer
S.J Thomas

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	7	164,144	483,267
Trade and other receivables from exchange transactions	8	4,399,004	4,047,282
Consumer debtors	9	41,863,246	48,550,656
Cash and cash equivalents	10	10,157,600	14,880,530
		56,583,994	67,961,735
Non-Current Assets			
Biological assets	2	67,544	67,544
Investment property	3	3,195,000	3,313,333
Property, plant and equipment	4	693,475,881	724,645,575
Intangible assets	5	119,162	202
Investments	6	3,651,295	3,451,746
		700,508,882	731,478,400
Total Assets		757,092,876	799,440,135
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	14	15,367,894	8,442,322
VAT payable	15	13,200,273	10,595,905
Consumer deposits	16	1,172,068	1,186,822
Unspent conditional grants and receipts	12	944,802	2,254,484
Other financial liabilities		1,225,409	1,464,317
Current portion of Non-Current Borrowings		356,332	202,109
		32,266,778	24,145,959
Non-Current Liabilities			
Non-Current Borrowings	11	9,472,849	9,951,618
Provisions	13	3,542,327	-
		13,015,176	9,951,618
Total Liabilities		45,281,954	34,097,577
Net Assets		711,810,922	765,342,558
Net Assets			
Reserves			
Capital replacement reserve		13,823,387	13,823,387
Government grant reserve		49,421,484	29,855,754
Accumulated surplus		648,566,051	721,663,417
Total Net Assets		711,810,922	765,342,558

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Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue from exchange transactions			
Property rates	17	10,681,610	15,761,300
Service charges	18	55,896,335	45,063,739
Rental of facilities and equipment		237,667	516,970
Interest received (trading)		8,262,230	11,503,517
Revenue from non-exchange transactions			
Fines		201,569	153,231
Government grants & subsidies	19	85,041,490	81,674,076
Other income	20	4,283,483	2,005,423
Interest received - investment	25	1,272,530	1,565,477
Interest received - other	25	42,476	61,110
Total Revenue		165,919,390	158,304,843
Expenditure			
Employee related cost	23	(38,540,276)	(37,490,984)
Remuneration of councillors	24	(4,680,649)	(4,151,716)
Depreciation and amortisation		(61,168,158)	(61,483,941)
Finance costs	26	(1,018,119)	(1,049,261)
Debt impairment		(50,593,628)	(2,503,998)
Repairs and maintenance		(11,330,332)	(7,462,721)
Bulk purchases	28	(19,531,506)	(13,158,274)
Loss on disposal of assets		-	(1,078,371)
General Expenses	21	(32,625,593)	(42,434,914)
Total Expenditure		(219,488,261)	(170,814,180)
Loss on disposal of assets and liabilities		(198,500)	(1,078,371)
Fair value adjustments		31,315	-
Deficit for the year		(53,736,056)	(13,587,708)

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Statement of Changes in Net Assets

Figures in Rand	Capital replacement reserve	Government grant reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2009	-	-	-	-	-
Changes in net assets					
Net assets	13,823,387	26,922,402	40,745,789	329,358,901	370,104,690
Other items	-	-	-	2,269,044	2,269,044
Implementation of GRAP 17	-	-	-	406,556,532	406,556,532
Depreciation recycle from government reserve to accumulating surplus	-	(26,922,402)	(26,922,402)	26,922,402	-
Net income (losses) recognised directly in net assets	13,823,387	-	13,823,387	765,106,879	778,930,266
Surplus for the year	-	-	-	(13,587,708)	(13,587,708)
Total recognised income and expenses for the year	13,823,387	-	13,823,387	751,519,171	765,342,558
Transfer to/from accumulated surplus/deficit to government reserve	-	29,945,178	29,945,178	(29,945,178)	-
Depreciation recycle from government reserve to accumulating surplus	-	(89,424)	(89,424)	89,424	-
Total changes	13,823,387	29,855,754	43,679,141	721,663,417	765,342,558
Restated Opening balance	13,823,387	29,855,754	43,679,141	721,663,416	765,342,557
Adjustments					
Prior year adjustments	-	-	-	204,421	204,421
Total	13,823,387	29,855,754	43,679,141	721,867,837	765,546,978
Changes in net assets					
Surplus for the year	-	-	-	(53,736,056)	(53,736,056)
Transfer of capital surplus to trust capital	-	20,059,465	20,059,465	(20,059,465)	-
Depreciation recycle from government reserve to accumulating surplus	-	(493,735)	(493,735)	493,735	-
Total changes	-	19,565,730	19,565,730	(73,301,786)	(53,736,056)
Balance at 30 June 2011	13,823,387	49,421,484	63,244,871	648,566,051	711,810,922

Note(s)

Nketoana Local Municipality

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Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		31,067,471	29,060,176
Grants		85,041,490	75,241,885
Interest income		1,315,006	1,626,587
Other receipts		4,283,482	2,005,423
		<u>121,707,449</u>	<u>107,934,071</u>
Payments			
Employee costs		(43,220,925)	(42,505,255)
Suppliers		(56,223,117)	(62,416,532)
Finance costs		(1,018,119)	(1,049,261)
Other non cash item		-	(1,581,952)
		<u>(100,462,161)</u>	<u>(107,553,000)</u>
Net cash flows from operating activities	29	<u>21,245,288</u>	<u>381,071</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(29,855,597)	(37,813,593)
Proceeds from sale of property, plant and equipment	4	-	685,214
Purchase of other intangible assets	5	(143,520)	-
Proceeds from sale of financial assets		(168,234)	5,525,942
Proceeds/(loss) from sale of other asset		(198,500)	(1,078,371)
Other non-cash item		4,961,087	5,555,881
		<u>(25,404,764)</u>	<u>(27,124,927)</u>
Cash flows from financing activities			
Repayment of non-current borrowings		(324,546)	(293,398)
Movement in other financial liabilities		(238,908)	1,464,317
Increase in consumer deposits		-	65,415
		<u>(563,454)</u>	<u>1,236,334</u>
Net increase/(decrease) in cash and cash equivalents		(4,722,930)	(25,507,522)
Cash and cash equivalents at the beginning of the year		14,880,530	40,388,052
Cash and cash equivalents at the end of the year	10	<u>10,157,600</u>	<u>14,880,530</u>

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Reporting municipality

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

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

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

The following GRAP Standards have been approved and not yet effective and have not been early adopted by the municipality.

GRAP 18 - Segment Reporting

GRAP 20 - Related party Disclosures

GRAP 25 - Employee benefits

GRAP 104 - Financial Instruments

GRAP 105 - Transfer of Function between Entities under Common control

GRAP 106 - Transfer of Function between Entities not under Common control

GRAP 107 - Mergers

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. The estimates and associated assumption are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the annual financial statements as well as assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustments within the next financial year are included below.

Impairment testing

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Accounting Policies

Significant judgements and sources of estimation uncertainty (continued)

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

Allowance for doubtful debts

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

1.1 Biological assets

Initial Recognition

An entity shall recognise a biological assets or agricultural produce when, and only when:

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

Subsequent Measurement

Biological assets are measured at their fair value less point-of-sale costs.

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

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

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

An unconditional government grant related to a biological assets measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

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

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.2 Investment property

INITIAL RECOGNITION

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

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

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

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

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

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

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

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Accounting Policies

1.2 Investment property (continued)

Cost model

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

Derecognition

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

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

1.3 Property, plant and equipment

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

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

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

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

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

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

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Accounting Policies

1.3 Property, plant and equipment (continued)

The cost of self-constructed assets includes the cost of material and direct labour, any other cost directly attributable to bringing the asset to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing cost (see note 1.14)

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

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

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

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

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

Depreciation and Impairment

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

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

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

Item	Average useful life
Buildings	30 years
Furniture and fixtures	7-10 years
Motor vehicles	5-7 years
Office equipment	3-5 years
Computer equipment	5 years
Computer software	5 years

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Accounting Policies

1.3 Property, plant and equipment (continued)

Infrastructure

• Roads and Paving	20 years
• Pederstrian malls	20 years
• Electricity	20-30 years
• Water	15-20 years
• Sewerage	15-20 years

Community

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

Specialised property, plant and equipment 5-15 years

Other equipment

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

Bins and containers 5 years

Specialised vehicles 5-7 years

Water network

• Watercraft	15 years
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Heritage

• Buildings	nil
• Paintings and artifacts	nil

Other property, plant and equipment 5-15 years

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

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.

Derecognition

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

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Accounting Policies

1.3 Property, plant and equipment (continued)

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.

Work in progress

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

1.4 Intangible assets

Initial Recognition

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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Accounting Policies

1.4 Heritage assets (continued)

Subsequent measurement - Cost model

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

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

Amortisation and impairment

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

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

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

Computer software, other	3 years
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Derecognition

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.

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.5 Financial instruments

Classification

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

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

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

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

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

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

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

Initial recognition and measurement

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

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

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

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

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Accounting Policies

1.5 Financial instruments (continued)

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

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

Subsequent measurement

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

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

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

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

Nketoana Local Municipality

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Accounting Policies

1.5 Financial instruments (continued)

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

Loans to councillors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

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 entity's accounting policy for borrowing costs.

Nketoana Local Municipality

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Accounting Policies

1.5 Financial instruments (continued)

Held to maturity

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

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

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

Financial liabilities and equity instruments

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

Gains and losses

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

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

Derecognition

Financial assets

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

- the rights to receive cash flows from the asset have expired;

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.5 Financial instruments (continued)

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

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

Financial liabilities

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

Impairment of financial assets

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

Assets are carried at amortised cost.

Nketoana Local Municipality

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Accounting Policies

1.5 Financial instruments (continued)

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

1.6 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.

Finance leases - lessor

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

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

MUNICIPALITY AS LESSEE

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

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

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

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

Nketoana Local Municipality

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Accounting Policies

1.6 Leases (continued)

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

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

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Accounting Policies

1.6 Leases (continued)

MUNICIPALITY AS LESSOR

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

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

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

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

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

Operating leases - lessee

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

Nketoana Local Municipality

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Accounting Policies

1.7 Inventories

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

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

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

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

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

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

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

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

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

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

1.8 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs {or surveys of work done or completion of a physical proportion of the work}.

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.8 Construction contracts and receivables (continued)

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

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

1.9 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.9 Employee benefits (continued)

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted to determine the net obligation.

Termination benefits

Termination benefits are recognised as an expense when the municipality is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the municipality has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

1.10 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.10 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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 agreement.

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

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

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Accounting Policies

1.11 Revenue from exchange transactions

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

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

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

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

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

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

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

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

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

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

Measurement

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

Nketoana Local Municipality

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest and dividends

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

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.11 Revenue from exchange transactions (continued)

- The amount of the revenue can be measured reliably.

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

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

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

Other Revenue sources:

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

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

1.12 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.

Nketoana Local Municipality

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Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

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

Revenue from property

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

Fines

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

Revenue from public contributions and donations

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

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

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

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

Nketoana Local Municipality

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Accounting Policies

1.12 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.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Government grants, Public contribution and donations

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

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

Nketoana Local Municipality

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Accounting Policies

1.13 Investment income

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

1.14 Borrowing costs

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

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

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

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

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

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

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

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.15 Comparative figures

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

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

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

1.16 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.17 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.

1.18 Irregular expenditure

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

- (a) this Act; or

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.18 Irregular expenditure (continued)

- (b) which has not been condoned in terms of section 170;.
- (c) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of Municipal Systems Act, and which has not been condoned in terms of the Act;
- (d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No.20 of 1998); or
- (e) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-laws but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

Irregular expenditure that was incurred and identified during the current financial 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, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.19 Offsetting

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.20 Internal reserves

Government grant reserve

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

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

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

2. Biological assets

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Livestock	67,544	-	67,544	67,544	-	67,544

Reconciliation of biological assets - 2011

	Opening balance	Total
Livestock	67,544	67,544

Reconciliation of biological assets - 2010

	Opening balance	Total
Livestock	67,544	67,544

Non - Financial information

Quantities of each biological asset

Horse	1	1
Donkey	1	1
Wilde Beest	1	1
Bles Bucks	67	67
	70	70

Methods and assumptions used in determining fair value

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

3. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	3,550,000	(355,000)	3,195,000	3,550,000	(236,667)	3,313,333

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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3. Investment property (continued)

Reconciliation of investment property - 2011

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

Reconciliation of investment property - 2010

	Opening balance	Depreciation	Total
Investment property	3,431,667	(118,334)	3,313,333

Pledged as security

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

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	192,354,469	-	192,354,469	192,354,469	-	192,354,469
Buildings	91,067,450	(9,102,163)	81,965,287	91,067,375	(6,066,134)	85,001,241
Infrastructure	815,852,326	(433,371,223)	382,481,103	805,754,200	(377,821,334)	427,932,866
Community	2,235,703	(763,197)	1,472,506	2,013,230	(573,102)	1,440,128
Other property, plant and equipment	15,907,562	(7,298,691)	8,608,871	13,078,100	(5,049,364)	8,028,736
Work in progress	26,593,645	-	26,593,645	9,888,135	-	9,888,135
Total	1,144,011,155	(450,535,274)	693,475,881	1,114,155,509	(389,509,934)	724,645,575

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	192,354,469	-	-	192,354,469
Buildings	85,001,241	-	(3,035,954)	81,965,287
Infrastructure	427,932,866	10,098,125	(55,549,888)	382,481,103
Community	1,440,128	222,500	(190,122)	1,472,506
Other property, plant and equipment	8,028,736	2,829,462	(2,249,327)	8,608,871
Work in progress	9,888,135	16,705,510	-	26,593,645
	724,645,575	29,855,597	(61,025,291)	693,475,881

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Disposals non cash items at carrying value	Depreciation	Total
Land	192,354,469	-	-	-	-	192,354,469
Buildings	87,872,070	165,125	-	-	(3,035,954)	85,001,241
Infrastructure	461,874,606	21,300,103	-	(90,937)	(55,150,906)	427,932,866
Community	1,629,168	-	-	-	(189,040)	1,440,128
Other property, plant and equipment	5,911,514	6,460,230	(685,214)	(695,607)	(2,962,187)	8,028,736
Work in progress	-	9,888,135	-	-	-	9,888,135
	749,641,827	37,813,593	(685,214)	(786,544)	(61,338,087)	724,645,575

Note

Additions is classified under two components namely additions and other change/movements.

Cash component of addition	-	2,169,017
Non cash components of addition	-	4,739,016
	-	6,908,033

Disposal is classified under two components namely disposal and other change/movements.

Cash component of disposals	-	685,214
Non cash components of disposal	-	786,544
	-	1,471,758

See appendix for proper movement on the fixed assets register.

Total additions	-	6,908,272
Total disposals	-	(5,419,272)
	-	1,489,000

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.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

5. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	198,808	(79,646)	119,162	55,287	(55,085)	202

Reconciliation of intangible assets - 2011

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

Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software, other	27,723	(27,521)	202

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
6. Investments		
Held to maturity		
Other Long term investment and deposits	3,327,949	3,159,715
Listed Investments	323,346	292,031
	3,651,295	3,451,746
Non-current assets		
Longterm investments	3,651,295	3,451,746
7. Inventories		
Consumable store - at cost	164,144	483,267
8. Trade and other receivables from exchange transactions		
Trade debtors	-	1,202,508
Other debtors	4,399,004	2,844,774
	4,399,004	4,047,282
9. Consumer debtors		
Gross balances		
Rates	17,541,425	12,910,235
Electricity	5,398,552	3,760,101
Water	51,080,928	32,833,594
Sewerage	39,963,987	30,687,646
Refuse	42,658,774	32,710,520
Regional services levies	37,872,815	37,673,440
Housing rental	792,803	827,533
	195,309,284	151,403,069
Less: Provision for debt impairment		
Rates	(3,456,813)	(2,317,046)
Electricity	(486,548)	(326,125)
Water	(42,656,380)	(28,591,886)
Sewerage	(34,616,910)	(23,203,158)
Refuse	(38,748,342)	(25,972,391)
Sundry Debtors	(32,721,818)	(21,846,256)
Housing rental	(759,227)	(595,551)
	(153,446,038)	(102,852,413)

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
9. Consumer debtors (continued)		
Net balance		
Rates	14,084,612	10,593,189
Electricity	4,912,004	3,433,976
Water	8,424,548	4,241,708
Sewerage	5,347,077	7,484,488
Refuse	3,910,432	6,738,129
Sundry debtors	5,150,997	15,827,184
Housing rental	33,576	231,982
	41,863,246	48,550,656
Rates		
Current (0 -30 days)	883,177	800,435
31 - 60 days	713,631	645,511
61 - 90 days	1,807,387	1,661,547
91 - 120 days	540,204	490,589
121 - 365 days	10,140,213	6,995,107
	14,084,612	10,593,189
Electricity		
Current (0 -30 days)	1,824,374	1,391,237
31 - 60 days	300,738	225,606
61 - 90 days	184,218	112,803
91 - 120 days	128,788	97,762
121 - 365 days	2,473,886	1,606,568
	4,912,004	3,433,976
Water		
Current (0 -30 days)	3,158,469	1,590,269
31 - 60 days	5,266,079	2,651,439
	8,424,548	4,241,708
Sewerage		
Current (0 -30 days)	1,003,646	938,570
31 - 60 days	3,672,905	5,141,092
61 - 90 days	670,526	1,404,826
	5,347,077	7,484,488
Refuse		
Current (0 -30 days)	1,037,994	4,949,546
31 - 60 days	2,872,438	1,788,583
	3,910,432	6,738,129

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
9. Consumer debtors (continued)		
Sundry debtors		
Current (0 -30 days)	147,899	1,055,150
31 - 60 days	3,211,009	11,603,711
61 - 90 days	70,630	376,734
91 - 120 days	127,287	753,468
121 - 365 days	155,930	1,130,203
> 365 days	1,438,242	907,918
	5,150,997	15,827,184
Housing rental		
Current (0 -30 days)	33,576	231,982
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	7,270,988	4,733,334
31 - 60 days	17,893,736	4,024,170
61 - 90 days	4,975,741	3,195,784
91 - 120 days	3,542,788	3,432,232
121 - 365 days	150,092,371	127,092,216
	183,775,624	142,477,736
Less: Provision for debt impairment	(152,871,288)	(102,415,087)
	30,904,336	40,062,649
Industrial/ commercial		
Current (0 -30 days)	432,477	282,813
31 - 60 days	1,015,277	272,425
61 - 90 days	196,689	129,992
91 - 120 days	126,492	166,763
121 - 365 days	5,299,933	4,683,775
	7,070,868	5,535,768
Less: Provision for debt impairment	(574,752)	(437,324)
	6,496,116	5,098,444
National and provincial government		
Current (0 -30 days)	352,189	266,568
31 - 60 days	315,682	185,957
61 - 90 days	221,288	179,617
91 - 120 days	193,181	164,823
121 - 365 days	3,503,096	3,142,974
	4,585,436	3,939,939

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
9. Consumer debtors (continued)		
Total		
Current (0 -30 days)	8,055,654	5,282,715
31 - 60 days	19,224,695	4,563,163
61 - 90 days	5,393,718	3,505,393
91 - 120 days	3,862,461	3,763,818
121 - 365 days	158,772,758	134,287,980
	<u>195,309,286</u>	<u>151,403,069</u>
Less: Provision for debt impairment	(153,446,040)	(102,852,413)
	<u>41,863,246</u>	<u>48,550,656</u>
Less: Provision for debt impairment		
Current	(153,446,038)	(102,852,413)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(102,852,412)	(100,398,216)
Contributions to provision	(50,593,626)	(2,503,999)
Debt impairment written off against provision	-	49,802
	<u>(153,446,038)</u>	<u>(102,852,413)</u>
10. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1,203	-
Bank balances	4,050,419	3,915,386
Short-term deposits	6,105,978	10,965,144
	<u>10,157,600</u>	<u>14,880,530</u>
Short Term Investment included in Cash and cash Equivalents	6,105,978	10,965,144

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances			
	30 June 2011	30 June 2010	30 June 2011	30 June 2010		
ABSA Bank - Reitz Branch - 217-056-0119	332,413	232,609	-	332,413	232,609	-
First National Bank - Reitz Branch: Account Number - 620-640-82799	3,650,472	3,647,830	-	3,650,472	3,647,830	-
Absa Bank - Reitz Branch - Acc Number 2170142538	67,534	34,946	-	67,534	34,946	-
Total	4,050,419	3,915,385	-	4,050,419	3,915,385	-

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
11. Non-Current Borrowings		
Held at amortised cost		
DBSA loans Fixed interest rates of 10,35% with fixed instalments of R 96,732.62 p/m. The maturity date of this loan is 2024.	8,117,800	8,489,981
DBSA loans Fixed interest rates of 9,09% with fixed instalments of R 15,156.21 p/m. The maturity date of this loan is 2024	1,355,049	1,461,637
	9,472,849	9,951,618

The Municipality shall execute a cession to the benefit of the DBSA on its Standard Bank fixed deposit investment of R 3,327 949.49 of which its maturity date shall be extended from November 2009 to 2 November 2013.

Non-current liabilities

At amortised cost	9,472,849	9,951,618
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12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MISG	433,311	845,853
MFMG	511,491	435,166
DWAF drought relief	-	500,000
MIG Grants	-	473,465
	944,802	2,254,484

Movement during the year

Balance at the beginning of the year	2,254,484	9,062,193
Additions during the year	83,181,343	74,802,639
Income recognition during the year	(84,491,025)	(81,610,348)
	944,802	2,254,484

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 controlling entity has directly benefited; and

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

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
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13. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	-	3,542,327	3,542,327

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

The landfill site are located at Mamafubedu and Ntha.

14. Trade and other payables from exchange transactions

Trade payables	11,349,270	5,141,519
Accrued leave pay	2,812,994	2,418,209
Accrued bonus	1,081,132	857,846
Finance portion of trade payables	124,498	24,748
	15,367,894	8,442,322

Fair value of trade and other payables

Trade payables	11,349,274	5,141,519
Finance portion of trade payables	122,253	24,748
Finance portion of accruals	2,245	-
	11,473,772	5,166,267

15. VAT payable

Tax refunds payables	13,200,273	10,595,905
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VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors and claimed from SARS once suppliers have been paid.

VAT accounted on cash basis

Receivable from SARS - Cash basis	(3,024,817)	(686,088)
VAT - Invoice basis	16,225,090	11,281,993
	13,200,273	10,595,905

16. Consumer deposits

Electricity	1,140,932	1,155,332
Other deposits	31,136	31,490
	1,172,068	1,186,822

No interest accrued or paid on consumer deposits.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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17. Property rates

Rates received

Residential, commercial and state	10,681,610	15,761,300
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Valuations

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

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

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

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

18. Service charges

Sale of electricity	15,508,508	11,424,398
Sale of water	21,716,048	21,010,956
Sewerage and sanitation charges	9,215,378	6,699,782
Refuse removal	9,456,401	5,928,603
	<hr/>	<hr/>
	55,896,335	45,063,739

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
19. Government grants and subsidies		
Equitable share	62,145,342	49,942,885
MSIG	1,162,542	569,981
FMG	1,123,676	1,152,305
LG SETA	50,465	63,728
Drought Relief	500,000	-
MIG Grants	20,059,465	29,945,177
	85,041,490	81,674,076

Equitable Share

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

There were no delay or withholding of the subsidy.

MSIG Grant

Balance unspent at beginning of year	845,853	680,835
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(1,162,542)	(569,982)
	433,311	845,853

Conditions still to be met - remain liabilities (see note 12)

MFMG Grants

Balance unspent at beginning of year	435,166	837,471
Current-year receipts	1,200,000	750,000
Conditions met - transferred to revenue	(1,123,675)	(1,152,305)
	511,491	435,166

Conditions still to be met - remain liabilities (see note 12)

LG SETA

Balance unspent at beginning of year	-	780
Current-year receipts	50,465	62,948
Conditions met - transferred to revenue	(50,465)	(63,728)
	-	-

Conditions still to be met - remain liabilities (see note 12)

DWAF drought relief

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

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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19. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 12)

MIG Grant

Balance unspent at beginning of year	473,465	6,605,001
Current-year receipts	19,586,000	23,814,000
Conditions met - transferred to revenue	(20,059,465)	(29,945,536)
	<u>-</u>	<u>473,465</u>

Conditions still to be met - remain liabilities (see note 12)

20. Other income

Sundries	<u>4,283,483</u>	<u>2,005,423</u>
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The above sundries include R 2,500 000 cooperative governance assistance money to assist the municipality to implement a recruitment process to employ temporal employees and give assistance to the retrenchment of other employees.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
21. General expenses		
Advertising	312,755	263,606
Assessment rates & municipal charges	35,817	207,228
Assets expensed	81,245	31,920
Auditors remuneration	1,716,372	1,151,685
Bank charges	330,175	232,163
Chemicals	999,323	772,628
Cleaning	76,103	193,730
Commission paid	1,102	7,158
Consulting and professional fees	6,933,479	6,907,927
Consumables	400,255	842,123
Debt collection	20,454	-
Donations	347,112	373,677
Electricity	3,158,011	6,260,850
Entertainment	1,189,902	1,127,547
Fuel and oil	2,655,502	3,998,313
Insurance	423,064	647,927
Lease rentals on operating lease	499,277	620,961
License applications	-	3,986
Magazines, books and periodicals	18,144	35,202
Membership fees	492,287	32,247
Other expenses	2,628,128	14,240,277
Postage and courier	506,445	473,305
Printing and stationery	821,819	907,992
Promotions	527,603	166,350
Refuse	36,096	37,289
Solid waste rehabilitation expense	3,857,327	-
Restructuring	-	131,232
Sewerage and waste disposal	30,439	28,723
Staff welfare	-	759,727
Subscriptions and membership fees	91,888	-
Telephone and fax	1,155,411	1,131,814
Title deed search fees	8,240	11,108
Training	1,422,671	524,978
Travel - local	1,404,830	1,141,795
Uniforms	374,674	178,352
Water	69,643	69,465
	32,625,593	43,513,285

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
22. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Equipment		
• Contractual amounts	499,277	620,961
Loss on sale of property, plant and equipment	(198,500)	(1,078,371)
Amortisation on intangible assets	24,561	27,521
Depreciation on property, plant and equipment	61,025,264	61,338,087
Depreciation on investment property	118,333	118,333
Employee costs	43,220,925	41,642,700
Solid waste rehabilitation expense	3,857,327	-

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
23. Employee related costs		
Basic	24,530,840	23,913,129
Bonus	2,153,767	1,623,383
Medical aid - company contributions	1,065,960	1,853,387
UIF	312,606	256,338
WCA	228,884	221,244
SDL	268,997	224,885
Leave pay provision charge	618,070	279,240
Salga	31,316	15,734
Travel, motor car, accommodation, subsistence and other allowances	1,098,067	1,230,580
Overtime payments	1,613,647	1,853,580
Acting allowances	118,131	313,261
Housing benefits and allowances	172,307	116,151
Pension fund contribution	4,194,435	3,954,681
Standby allowance	448,096	162,161
	36,855,123	36,017,754
Remuneration of municipal manager		
Annual Remuneration	595,874	759,471
Car Allowance	397,419	85,259
Contributions to UIF, Medical and Pension Funds	1,497	1,497
	994,790	846,227
Remuneration of chief finance officer		
Annual Remuneration	539,099	487,577
Car Allowance	149,767	137,929
Contributions to UIF, Medical and Pension Funds	1,497	1,497
	690,363	627,003
Salga contributions		
Current contributions	31,316	15,734

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
24. Remuneration of councillors		
Mayor	687,701	575,869
Executive Council	1,112,150	695,702
Councillors	2,361,681	2,388,757
Speaker	519,117	491,388
	4,680,649	4,151,716
25. Interest revenue		
Interest revenue		
Interest on investments	1,272,530	1,565,477
Interest received - other	42,476	61,110
	1,315,006	1,626,587
26. Finance costs		
Non-current borrowings	1,018,119	1,049,261
27. Auditors' remuneration		
Fees	1,716,372	1,151,685
28. Bulk purchases		
Electricity	18,398,220	12,880,547
Water	1,133,286	277,727
	19,531,506	13,158,274

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
29. Cash generated from operations		
Deficit	(53,736,056)	(13,587,708)
Adjustments for:		
Depreciation and amortisation	61,168,158	61,483,941
Gain on sale of assets and liabilities	198,500	1,078,371
Fair value adjustments	(31,315)	-
Debt impairment	50,593,628	2,503,998
Movements land rehabilitation provision	3,857,327	-
Contribution to provision - current	-	484,255
Indigent written off	-	926,733
Contribution to/or (deduction) leave and bonus provision	618,070	-
Other non-cash items	(5,689,719)	(2,370,219)
Changes in working capital:		
Inventories	319,123	1,623,601
Trade and other receivables from exchange transactions	(351,722)	(790,394)
Consumer debtors	(43,906,218)	(33,374,580)
Trade and other payables from exchange transactions	6,925,580	4,256,966
VAT	2,604,368	1,553,979
Unspent conditional grants and receipts	(1,309,682)	(6,807,709)
Consumer deposits	(14,754)	65,415
Other financial liabilities	-	(16,665,578)
	21,245,288	381,071

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011 2010

30. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure	23,317,000	23,925,860
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Not yet contracted for and authorised by accounting officer

• Infrastructure	19,500,000	31,717,000
• Other	-	895,000
	19,500,000	32,612,000

This committed expenditure relates to infrastructure and other will be financed as followed

- Government Grants	20,083,000	21,176,324
- Own resources	9,295,000	895,000

Retention monies on capital projects

- Mamafubedu: Paving of 6km roads (MIS:164362) - Phase 1 & 2	1,160,786	589,911
Petsana: Paving of 6km roads (MIS:164359) - Phase 1 & 2	567,149	302,049
Ntha: Paving of 6km roads (MIS:163665)- Phase 1 & 2	835,851	589,911
Sewer Network at Mamafubedu, Petrus Steyn	1,206,778	-
Package Plant Providing suitable effluent at Mamafubedu Petrus Steyn	300,000	-
	4,070,564	1,481,871

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	556,799	186,593
- in second to fifth year inclusive	893,331	382,545
- later than five years	-	569,138
	1,450,130	1,138,276

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	243,000	325,180
- in second to fifth year inclusive	816,859	572,302
- later than five years	-	734,892
	1,059,859	1,632,374

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

31. Contingencies

Contingent Liabilities

Labour Matters involving the Municipality:

Mofube SJ vs Nketoana Local Municipality, case is currently in progress at the Labour Court is estimated cost of R 50,000.

Arbitration matter at their conciliation stage involving Dazzman Radebe are expected to be around R 200,461.20 and Mr LW Ntsoelikane were dismissed and resulted in a arbitration case with expected cost of R 250,000.

Civil Matters

We have also three applicants against the municipality related to farms evictions in terms of The Extension of Security of Tenure Act, 1997 (ESTA). Wessels/ Nketoana, Spes Bona/ Nketoana and Swanepol/ Nketoana. We estimate the cost to be R 60,000, collectively because municipal council will be employed and the attorney will only be preparing briefs.

Various allegations are pending against managers and employees related to their conduct while on duty or during scope of their employment. The estimated cost for the proceedings is should be around R 60,000.

Litigation against the Nketoana Municipality in their appeal stage are estimated at R 500,000.

32. Comparative figures

Certain comparative figures have been reclassified.

This year the municipality is using caseware to compile their financial statement. Caseware is a trusted accounting program that allow its users to properly classify transaction and balances in the financial statement, hence transaction and balances in the prior year is being affected to compensate for the proper classification in the current financial year.

The effects of the reclassification are as follows:

Statement of financial position (Currently presented vs previously presented in 2010 financial statement)

Trade and other receivable form exchange transaction	4,047,282	52,597,939
Consumer debtors	48,550,656	-
Biological assets	67,544	-
Investment property	3,313,333	3,550,000
Property, plant and equipment	724,712,579	1,070,238,522
Intangible assets	202	25,962
Investment - Non-current Assets	3,451,746	8,376,269
Cash and cash equivalents	14,880,530	9,956,008

Statement of financial performance (Currently presented vs previously presented in 2010 financial statement)

Rental of facilities and equipment	516,970	578,080
Depreciation	61,483,941	-
Interest earned - investments	1,565,477	1,565,653
Interest received - other	61,110	-
Other income	2,005,423	2,070,806
Government grants	81,674,076	81,610,348
Personnel - employee cost	37,490,984	38,353,538
Repairs and maintenance	7,462,721	6,062,061

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
32. Comparative figures (continued)		
General expenses	42,434,914	60,200,077
Loss on disposal of assets and liabilities	1,078,371	4,734,059
Statement of Cash Flow Statement(Currently presented vs previously presented in 2010 financial statement)	-	-
Sale of goods and service	29,060,176	42,790,860
Suppliers	62,416,532	76,147,217
Other non cash items	1,581,952	-
Purchase of intangible assets.	143,520	-
Purchase of fixed assets	37,813,593	35,653,794
Proceeds from sale of financial assets	5,525,942	2,251,242
Proceeds/(loss) of assets	1,078,371	-
Other non-cash items	5,555,881	-
Movement in other financial liabilities	1,464,317	-
Net cash and cash equivalents	40,388,052	40,202,546
Accumulating surplus/(deficit) - GRAP 17 implementation	317,138,785	-
Total	1,536,964,981	1,536,964,981

Trade and other receivable form exchange transaction

In the previous year consumer debtor and trade and other receivable were reflected as one line item on the face of Financial Position, but was split in the notes.

Consumer debt

In the previous year consumer debtor and trade and other receivable were reflected as one line item on the face of Financial Position, but was split in the notes.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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32. Comparative figures (continued)

Biological assets

As a result of GRAP 17 implementation in the current.

Investment property

As a result of GRAP 17 implementation in the current.

Property, plant and equipment

Previously the municipality used provisional amounts not depreciated as provide by directive 4. The prior period and current periods financial year includes accumulating depreciation, hence the change in the property, plant and equipment previously reported.

Intangible assets

As a result of GRAP 17 implementation in the current.

Investment - Non-current Assets

Previously the short term investments were included under long term investment and has now been allocated and reclassified as short term.

Cash and cash equivalents

Previously call accounts were classified under cash and bank, but in current separately disclose as investments.

Rental of facilities and equipment

There were change in the current year allocation to include all rental income. The amount in previous year included R 61,109.53 that was actual interest income

Depreciation

Previously there was no depreciation provided in the prior periods as stated under Property, plant and equipment above.

Interest earned - investments and interest other.

There were change in the current year allocation to include the R 61,109.53 previously showed under rental income. The other interest is disclose separately in the current year.

Other income

The difference of R 1,655.36 was general expense because it related to expense votes and correctly allocated in the current year. LG SETA grant was of R63,727.60 was included other income previous year and now disclose under grants.

Government grants

Difference as a result of LG SETA.

Employee related cost

Travel and subsitance allocated incorrectly in previous year, this year included in the general ledger amounting to R862,554.

Repairs and maintenance

Balance change as a result of the adjustment on the fixed register.

General expenses

Previous year general expenses included the subsidies paid and the loss on assets disposals. In the current year it only general expense and the other (Subsidies & Loss) are sepereted line items.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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32. Comparative figures (continued)

Loss on disposal of assets and liabilities.

As a result of the depreciation being allocated to the items not previously depreciated.

Sale of goods

Grants and subsidies paid were previously included in other income that related to free basic service, was not correctly classified in term of GRAP 9.

Suppliers

See above sale of goods.

Proceeds from sale of property, plant and equipment.

See above property, plant and equipment.

Purchase of Intangible assets:

Balance change as a result of the adjustment on the fixed register.

Proceeds/(loss) of assets.

As a result of GRAP 17 implementation on assets not previously depreciated.

Other non-cash items

See above property, plant and equipment.

Movement in other financial liabilities

Previous year this was not separately disclose on the face financial position.

Net cash and cash equivalents at beginning of the year.

As a result of reallocation and classification to the above balances and transaction the cash and cash equivalents in the beginning of the year change from R 40,202,546 to R 40,388,052

Accumulating surplus/(deficit) - GRAP 17 implementation

The implementation of GRAP 17 resulted in the restatement of accumulating surplus/(deficit) in the current year as disclose above.

33. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 11, cash and cash equivalents disclosed in note 10, and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

33. Risk management (continued)

The gearing ratio at 2011 and 2010 respectively were as follows:

Total borrowings

Non-Current Borrowings	11	9,472,849	9,951,618
Less: Cash and cash equivalents	10	10,157,600	9,956,008
Net debt		(684,751)	(4,390)
Total equity		711,810,922	117,249,224
Total capital		711,126,171	117,244,834

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a budget and treasury department under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2011 and 2010, the municipality's borrowings at variable rate were denominated in the Rand.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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34. Events after the reporting date

The following non- adjusting event after reporting date occurred;

The municipality incurred damage to the Carports of an invoice amounting R187000, that occurred after 30 June 2011. A claim was submitted to the insurance company to recover the loss.

35. Unauthorised expenditure

Opening Balance	26,466,769	13,254,568
Unauthorised expenditure	106,271,406	13,212,201
Approved or condoned by council	(26,466,769)	-
	<hr/>	<hr/>
	106,271,406	26,466,769

The municipality exceeded its budget for the year ended 30 June 2011 due to the provision for bad debts, rehabilitation of landfill sites and depreciation that the municipality did not provide for in the budget.

36. Fruitless and wasteful expenditure

Opening Balance	137,898	136,400
Fruitless and wasteful expenditure	-	1,498
	<hr/>	<hr/>
	137,898	137,898

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
37. Irregular expenditure		
Opening balance	574,840	409,269
Add: Irregular Expenditure - current year	7,642,643	165,571
Add: Irregular Expenditure - prior year	1,279,936	-
Less: Amounts condoned	(574,840)	-
	8,922,579	574,840

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
37. Irregular expenditure (continued)		
Analysis of expenditure awaiting condonation classification		
Reitz Spar	2,144	-
Fednissan	21,566	-
Rocla	72,388	-
MNS Dawson	13,623	-
Hope 2000	92,453	-
Nkaiseng Commercial & Labour Attorney	98,430	-
JBS 01 Stationary & Office equipment	4,000	-
Majavu Inc	278,459	-
Rob Con Motors	33,828	-
Post Office	38,372	-
SUD Cheme	41,716	-
VKB	36,900	-
Greyling Broers	27,928	-
JB Mthembu Attorney	49,484	-
P N Attorneys	766,077	-
Maluleke Attorneys	33,662	-
BR Dienste	46,204	-
Scott Auto	62,323	-
Macbeth Attorneys	54,915	-
Kgatlo Training & Development	5,800	-
ELB Equipment Holdings	187,491	-
Van Zyl Staalwerke	20,355	-
Terex	39,754	-
J M Hlatswayo	300	-
Andras Findt	17,380	-
Hernel Verhuring	6,783	-
Sentrale Slaghuis	1,887	-
Sipho Vincent Nhlapo	4,000	-
MP Mkwanazi	8,730	-
MW Mahlaba	600	-
Riemland	1,150	-
Sebata	2,800	-
TTP Motloung	17,550	-
LJ Mokoena	4,900	-
Q & H Water & Sewerage Service	4,845	-
Rich Rewards	6,619	-
K Motaung	1,040	-
Z J Tshabalala	1,400	-
Makomota FMS	725,446	-
LHL Consulting Engineers	890,544	-
Rudnat	2,620,915	-
Khato Consulting Engineer	699,427	-
	19,670	-
Irregular expenditure as result of the Non-compliance with SCM regulations and policies	578,785	-
	7,642,643	-

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
37. Irregular expenditure (continued)		
Details of irregular expenditure – Previous year		
	Disciplinary steps taken/criminal proceedings	
MC Makopoi	Disciplinary action against the Manager (Acting Corporate Services)were taken and resulted in dismissal	4,000
MC Makopoi	Disciplinary action were taken against the manager which resulted in dismissal	4,224
Lawnmowers	Criminal case was opened at police station and the manager responsible was dismissed	153,896
Overpayment of s&t	the assistant manager who was involved in this irregular expenditure was dismissed	3,451
		165,571

38. Additional disclosure in terms of Municipal Finance Management Act

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

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

39. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	9,472,849	9,951,618
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Nketoana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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40. Contingent Assets

Outstanding insurance claims amounting to R 270,542 are still being assessed by the insurer. The realisation of this future fair value of revenue is uncertain and therefore not recognise as a asset. The timing and the value of this economic inflow to the entity is uncertain and not under the control of the municipality.

41. Rounding errors

Due to the utilisation of new accounting software (Caseware program) the opening balance were affected by rounding errors.

Nketoana Local Municipality
Appendix A
 June 2011

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Carrying Value of Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
101390/1		8,692,089	-	273,495	8,418,594	-	-
101390/2		1,461,636	-	51,049	1,410,587	-	-
		10,153,725	-	324,544	9,829,181	-	-
Total external loans							
		10,153,725	-	324,544	9,829,181	-	-
		10,153,725	-	324,544	9,829,181	-	-
Development Bank of South Africa							

Nketoana Local Municipality
Nketoana Local Municipality
Appendix B

June 2011

Analysis of property, plant and equipment as at 30 June 2011
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Depreciation Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Additions Rand	Disposals Rand	Depreciation Rand	Other changes, movements Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	192,354,468	-	-	-	-	-	192,354,468	-	-	-	-	-	-	192,354,468
Buildings (Separate for AFS purposes)	87,872,070	165,125	-	(3,035,954)	-	-	85,001,241	-	-	-	(3,035,954)	-	(3,035,954)	81,965,287
	280,226,538	165,125	-	(3,035,954)	-	-	277,355,709	-	-	-	(3,035,954)	-	(3,035,954)	274,319,755
Infrastructure														
Roads	314,230,945	14,293,238	-	(42,360,594)	-	-	286,163,589	-	10,032,456	-	(42,518,661)	-	(32,486,225)	253,677,364
Water main & purification	52,012,215	502,054	-	(3,972,806)	-	-	48,541,463	-	56,530	-	(3,985,232)	-	(3,928,702)	44,612,761
Sewerage purification	72,628,755	4,296,669	-	(9,956,377)	-	-	69,969,047	-	-	-	(7,103,903)	-	(7,103,903)	62,865,144
Electricity mains	23,002,691	2,208,143	(225,000)	(1,861,130)	-	134,063	23,256,767	-	9,140	-	(1,942,073)	-	(1,932,933)	21,323,834
Work in progress	-	9,888,134	-	-	-	-	9,888,134	-	16,705,510	-	-	-	16,705,510	26,593,644
	461,874,606	31,188,238	(225,000)	(55,150,907)	-	134,063	437,821,000	-	26,803,636	-	(55,549,869)	-	(28,746,253)	409,074,747
Community Assets														
Sportsfields and stadium	1,629,168	-	-	(189,040)	-	-	1,440,128	-	222,500	-	(190,122)	-	32,378	1,472,506
	1,629,168	-	-	(189,040)	-	-	1,440,128	-	222,500	-	(190,122)	-	32,378	1,472,506

Nketoana Local Municipality
Nketoana Local Municipality
Appendix B
 June 2011

Analysis of property, plant and equipment as at 30 June 2011
Cost/Revaluation
Accumulated depreciation

	Opening Balance		Additions		Disposals		Depreciation		Revaluations		Other changes, movements		Closing Balance		Other changes, movements		Closing Balance		Carrying value		
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	
Other assets																					
Other	5,911,514	6,460,230	(685,214)	(2,962,186)	-	-	(695,607)	8,028,737	-	2,829,462	-	(2,249,327)	-	580,135	-	-	580,135	8,608,872			8,608,872
Total property plant and equipment	5,911,514	6,460,230	(685,214)	(2,962,186)	-	-	(695,607)	8,028,737	-	2,829,462	-	(2,249,327)	-	580,135	-	-	580,135	8,608,872			8,608,872
Land and buildings	280,226,538	165,125	-	(3,035,954)	-	-	-	277,355,709	-	-	-	(3,035,954)	-	(3,035,954)	-	-	(3,035,954)	274,319,755			274,319,755
Infrastructure	461,874,606	31,188,238	(225,000)	(55,150,907)	-	-	134,063	437,821,000	-	26,803,636	-	(55,549,889)	-	(28,746,253)	-	-	(28,746,253)	409,074,747			409,074,747
Community Assets	1,629,168	6,460,230	(685,214)	(189,040)	-	-	(695,607)	1,440,128	-	222,500	-	(190,122)	-	32,378	-	-	32,378	1,472,506			1,472,506
Other assets	5,911,514	6,460,230	(685,214)	(2,962,186)	-	-	(695,607)	8,028,737	-	2,829,462	-	(2,249,327)	-	580,135	-	-	580,135	8,608,872			8,608,872
	749,641,826	37,813,593	(910,214)	(61,338,087)	-	-	(561,544)	724,645,574	-	29,855,598	-	(61,025,292)	-	(31,169,694)	-	-	(31,169,694)	693,475,880			693,475,880
Agricultural/Biological assets																					
Agricultural	67,543	-	-	-	-	-	-	67,543	-	-	-	-	-	-	-	-	-	67,543			67,543
	67,543	-	-	-	-	-	-	67,543	-	-	-	-	-	-	-	-	-	67,543			67,543
Intangible assets																					
Computers - software & programming	27,723	-	-	(27,521)	-	-	-	202	-	143,521	-	(24,561)	-	118,960	-	-	118,960	119,162			119,162
	27,723	-	-	(27,521)	-	-	-	202	-	143,521	-	(24,561)	-	118,960	-	-	118,960	119,162			119,162
Investment properties																					
Investment property	3,431,667	-	-	(118,333)	-	-	-	3,313,334	-	-	-	(118,333)	-	(118,333)	-	-	(118,333)	3,195,001			3,195,001
	3,431,667	-	-	(118,333)	-	-	-	3,313,334	-	-	-	(118,333)	-	(118,333)	-	-	(118,333)	3,195,001			3,195,001
Total	753,168,759	37,813,593	(910,214)	(61,483,941)	-	-	(561,544)	728,026,653	-	29,999,119	-	(61,168,186)	-	(31,169,667)	-	-	(31,169,667)	696,857,586			696,857,586

Nketoana Local Municipality

Appendix D

June 2011

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

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
339,529	16,040,376	(15,700,847)	Executive & Council/Mayor and Council	66,557	14,098,945	(14,032,388)
109,937,724	26,178,522	83,759,202	Finance & Admin/Finance	108,001,980	75,459,784	32,542,196
-	-	-	Planning and Development/Economic Development/Plan	8,000	1,639,468	(1,631,468)
371,980	10,327,602	(9,955,622)	Comm. & Social/Libraries and archives	13,393,537	19,638,895	(6,245,358)
146,277	1,704,690	(1,558,413)	Public Safety/Police	198,194	2,345,994	(2,147,800)
467,137	3,146,985	(2,679,848)	Sport and Recreation	-	234,197	(234,197)
12,687,443	9,921,055	2,766,388	Waste Water Management/Sewerage	5,702,522	12,227,919	(6,525,397)
15,766	48,547,419	(48,531,653)	Road Transport/Roads	5,010	47,403,270	(47,398,260)
18,372,485	10,936,553	7,435,932	Water/Water Distribution	22,293,388	9,047,716	13,245,672
14,244,360	26,229,622	(11,985,262)	Electricity /Electricity Distribution	16,218,381	21,824,805	(5,606,424)
1,722,142	18,859,726	(17,137,584)	Other/Air Transport	31,820	15,734,455	(15,702,635)
158,304,843	171,892,550	(13,587,707)		165,919,389	219,655,448	(53,736,059)
Municipal Owned Entities Other charges						
158,304,843	171,892,550	(13,587,707)	Municipality	165,919,389	219,655,448	(53,736,059)
158,304,843	171,892,550	(13,587,707)	Total	165,919,389	219,655,448	(53,736,059)

Nketoana Local Municipality
Appendix E(1)
 June 2011

Yearly

Current year 2010		Current year 2011		Variance		Var	
Act. Bal.	Bud. Amt	Bud. Amt	Act. Bal.	Rand	Rand	Rand	Var
15,761,300	7,153,000	8,608,300	120.3	Property rates			
45,063,738	49,601,858	(4,538,120)	(9.1)	Service charges			
516,970	341,314	175,656	51.5	Rental of facilities and equipment			
11,503,517	4,976,894	6,526,623	131.1	Interest received (trading)			
153,231	-	153,231	-	Fines			
-	60,000	(60,000)	(100.0)	Licences and permits			
81,674,076	51,428,000	30,246,076	58.8	Government grants & subsidies			
2,005,423	743,500	1,261,923	169.7	Other income			
1,565,477	350,000	1,215,477	347.3	Interest received - investment			
61,110	-	61,110	-	Interest received - other			
158,304,842	114,654,566	43,650,276	38.1				

Yearly

Forecast # 1 2011		Forecast # 1 2011		Variance		Var		Explanation of Significant Variances greater than 10% versus Budget
Act. Bal.	Bud. Amt	Bud. Amt	Act. Bal.	Rand	Rand	Rand		
10,681,610	7,725,000	2,956,610	38.3	Increase in tariff and general under budgeting				
55,896,335	57,090,000	(1,193,665)	(2.1)	Increase in tariff and general under budgeting				
237,667	352,000	(114,333)	(32.5)	Over budgeted this source of income as most rental don't have escalation clauses.				
8,262,230	2,424,000	5,838,230	240.9	Outstanding debtor: interest recovered and normal interest on outstanding debtor.				
201,569	200,000	1,569	0.8					
-	-	-	-					
85,041,490	64,095,000	20,946,490	32.7	This variance as result of MIG income.				
4,283,483	712,000	3,571,483	501.6	The cooperative governance funds of R2,500,000				
1,272,530	500,000	772,530	154.5	The investment accounts reached their maturity in the current and interest were received in the current year				
42,476	-	42,476	-	Included under investments				
165,919,390	133,098,000	32,821,390	24.7					

Expenses

(37,490,984)	(31,743,000)	(5,747,984)	18.1	Personnel	3,244,035	(7.8)
(4,151,716)	(4,118,000)	(33,716)	0.8	Remuneration of councillors	(192,649)	4.3
(61,456,420)	-	(61,456,420)	-	Depreciation	(61,143,598)	(100.0)
(27,521)	-	(27,521)	-	Amortisation	(24,560)	-
(1,049,261)	(1,440,000)	390,739	(27.1)	Finance costs	(38,119)	3.9
(2,503,998)	(6,453,641)	3,949,643	(61.2)	Debt impairment	(40,593,628)	405.9
(7,462,721)	(9,554,000)	2,091,279	(21.9)	Repairs and maintenance - General	(2,850,332)	33.6
(13,158,274)	(15,450,000)	2,291,726	(14.8)	Bulk purchases	(344,506)	1.8

Nketoana Local Municipality
Appendix E(1)
 June 2011

Yearly

	Current year 2010 Act. Bal.	Current year 2010 Bud. Amt	Variance
	-	(19,477,600)	19,477,600
	(43,513,285)	(43,508,165)	(5,120)
	(170,814,180)	(131,744,406)	(39,069,774)
		29.7	
			Other revenue and costs
	(1,078,371)	-	(1,078,371)
		-	Gain or loss on disposal of assets and liabilities
	-	-	Fair value adjustments
	(1,078,371)	-	(1,078,371)
		-	Net surplus/ (deficit) for the year
	(13,587,709)	(17,089,840)	3,502,131
			(20.5)

Yearly

	Forecast # 1 2011 Act. Bal.	Forecast # 1 2011 Bud. Amt	Variance	Explanation of Significant Variances greater than 10% versus Budget
	-	-	-	
	(32,591,904)	(42,559,000)	9,967,096	(23.4) General over provision for expected consultancy fees plus legal fees.
	(219,488,261)	(127,512,000)	(91,976,261)	72.1
	(198,500)	-	(198,500)	(100.0) No budget was performed for this line items as their were no reliable information to refer to as the directive 4 were used on provisional amounts for fixed assets.
	31,315	-	31,315	100.0
	(167,185)	-	(167,185)	-
	(53,736,056)	5,586,000	(59,322,056)	(1,062.0)

Nketoana Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts			Quarterly Expenditure				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	Sep	Dec	Mar	Jun			
MIG	NKETOANA LOCAL MUNICIPALITY	8,394,000	8,394,000	2,798,000	9,968,518	7,845,915	1,082,583	1,162,449	N/A	Yes	
MSIG	NKETOANA LOCAL MUNICIPALITY	750,000	-	-	59,000	376,509	314,491	-	N/A	No	THE MUNICIPALITY FUNDS OVERSPENT ON THE CURRENT FINANCIAL GRANT, BUT THERE WAS SUFFICIENT UNSPENT GRANT FROM THE PREVIOUS FINANCIAL YEARS
EQUITABLE SHARE	NKETOANA LOCAL MUNICIPALITY	25,893,893	20,715,114	15,536,335	15,536,336	15,536,336	15,536,336	15,536,336	N/A	Yes	
MFMG	NKETOANA LOCAL MUNICIPALITY	-	1,200,000	-	114,241	262,342	625,380	121,705	N/A	No	THE MUNICIPALITY FUNDS OVERSPENT ON THE CURRENT FINANCIAL GRANT, BUT THERE WAS SUFFICIENT UNSPENT GRANT FROM THE PREVIOUS FINANCIAL YEARS
LGSETA	NKETOANA LOCAL MUNICIPALITY	15,693	34,771	-	16,822	16,822	16,822	16,822	N/A		
		35,053,586	30,343,885	18,334,335	25,694,917	24,037,924	17,575,612	16,837,312			

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

Nketoana Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts			Quarterly Expenditure			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	Sep	Dec	Mar				Jun
MIG	NKETOANA LOCAL MUNICIPALITY	8,394,000	8,394,000	2,798,000	9,968,518	7,845,915	1,082,583	1,162,449	N/A	Yes	
MSIG	NKETOANA LOCAL MUNICIPALITY	750,000	-	-	59,000	376,509	314,491	-	N/A	No	THE MUNICIPALITY FUNDS OVERSPENT ON THE CURRENT FINANCIAL GRANT, BUT THERE WAS SUFFICIENT UNSPENT GRANT FROM THE PREVIOUS FINANCIAL YEARS
EQUITABLE SHARE	NKETOANA LOCAL MUNICIPALITY	25,893,893	20,715,114	15,536,335	15,536,336	15,536,336	15,536,336	15,536,336	N/A	Yes	
MFMG	NKETOANA LOCAL MUNICIPALITY	-	1,200,000	-	114,241	262,342	625,380	121,705	N/A	No	THE MUNICIPALITY FUNDS OVERSPENT ON THE CURRENT FINANCIAL GRANT, BUT THERE WAS SUFFICIENT UNSPENT GRANT FROM THE PREVIOUS FINANCIAL YEARS
LGSETA	NKETOANA LOCAL MUNICIPALITY	15,693	34,771	-	16,822	16,822	16,822	16,822	N/A		
		35,053,586	30,343,885	18,334,335	25,694,917	24,037,924	17,575,612	16,837,312			

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Nketoana Local Municipality
Appendix F
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June 2011

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		Sep	Dec	Mar	Sep	Dec	Mar	Jun			
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MSIG	NKETOANA LOCAL MUNICIPALITY	750,000	-	-	59,000	376,509	314,491	-	N/A	No	THE MUNICIPALITY FUNDS OVERSPENT ON THE CURRENT FINANCIAL GRANT, BUT THERE WAS SUFFICIENT UNSPENT GRANT FROM THE PREVIOUS FINANCIAL YEARS
EQUITABLE SHARE	NKETOANA LOCAL MUNICIPALITY	25,893,893	20,715,114	15,536,335	15,536,336	15,536,336	15,536,336	15,536,336	N/A	Yes	
MFMG	NKETOANA LOCAL MUNICIPALITY	-	1,200,000	-	114,241	262,342	625,380	121,705	N/A	No	THE MUNICIPALITY FUNDS OVERSPENT ON THE CURRENT FINANCIAL GRANT, BUT THERE WAS SUFFICIENT UNSPENT GRANT FROM THE PREVIOUS FINANCIAL YEARS
LGSETA	NKETOANA LOCAL MUNICIPALITY	15,693	34,771	-	16,822	16,822	16,822	16,822	N/A		
		35,053,586	30,343,885	18,334,335	25,694,917	24,037,924	17,575,612	16,837,312			

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