

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
5 OTHER NON-CURRENT PROVISIONS		
Provision for Rehabilitation of Land-fill Sites	7 761 367	6 968 371
Provision for Long Service Awards	4 404 672	3 322 662
Provision for Environmental Clean-ups	-	965 208
Total Other Non-current Provisions	<u>12 166 039</u>	<u>11 256 241</u>
The movement on other non-current provisions are reconciled as follows:		
<i>Provision for Rehabilitation of Land-fill Sites:</i>		
Balance at beginning of year	6 968 371	6 342 830
Contributions to provision	-	-
Increase due to discounting	1 308 541	3 647 664
Transfer to current provisions	(515 545)	(3 022 123)
Balance at end of year	<u>7 761 367</u>	<u>6 968 371</u>
Comparative year has been restated due to the correction of an error (refer to note 39.1 (a))		
<i>Provision for Long Service Awards</i>		
Balance at beginning of year	3 322 662	2 716 000
Contributions to provision	1 284 472	640 000
Increase due to discounting	380 866	386 000
Transfer to current provisions	(583 327)	(419 338)
Balance at end of year	<u>4 404 672</u>	<u>3 322 662</u>
Comparative year has been restated due to the correction of an error (refer to note 39.1 (a))		
	4 404 673	
<i>Provision for Environmental Clean-ups</i>		
Balance at beginning of year	965 208	-
Contributions to provision		1 065 958
Increase due to discounting	106 173	
Transfer to current provisions	(1 071 381)	(100 750)
Balance at end of year	<u>-</u>	<u>965 208</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

5.1 Rehabilitation of Landfill sites

The municipality has an obligation to rehabilitate its land-fill sites in terms of its licence stipulations. The net present value of the rehabilitation cost of land-fill sites has been determined as at 30 June 2010 by a technical specialist, Mr C Liebenberg, (Pr Eng, PrCPM) the divisional director of the Environmental & Waste Management Division of Kwezi V3 Engineers. The provision is the best estimate of the net present value of future rehabilitation costs of the land-fill sites to restore the sites at the end of their useful lives. The payment dates of the total closure and rehabilitation are uncertain, but are currently expected to be between 2011 and 2028. The cost factors derived from the study have been applied and projected at an annual inflation rate of 7% (2009: 7%) and discounted to present value at a rate of 10% (2009: 11%). The provision will be determined on an annual basis and actual rehabilitation costs will be debited against the provision.

The increase during the year ended 30 June 2010 in the discounted amount arising from the passage of time, amounted to R 1,441,874 (refer to notes 5 & 7). The discount rate used is annually adjusted based on the average borrowing cost calculated for Kouga Municipality.

Major assumptions concerning future events

The cost estimate for construction works to be performed for the closure and rehabilitation of an existing disposal site include the following assumptions made by the technical specialist:

- a) The consolidation of "old" waste in the cell and filling of voids with builders rubble or other waste permissible for disposal at the site.
- b) Doming the entire site in such a way to prevent the formation of pools due to rain, to ensure free surface runoff of rain
- c) Capping the site in accordance with the capping design requirements as stipulated in the Minimum Requirements for Closure for the various classes of disposal sites;
- d) Rehabilitating the site in accordance with the end-use plan e.g. grassing, sport field etc.

5.2 Long Service Awards

A long-service bonus is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited to his/her vacation leave accrual. The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2010 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2010 by Jacques Malan Consultants and Actuaries (Pty) Ltd a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other long service benefits are provided by the municipality.

The Long Service Bonus Benefit Plan is a defined benefit plan and the number of employees who qualify for the long service bonus are as follows:

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
Blue collar employees	598	444
White collar employees	377	422
Total	975	866

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2010	2009
	%	%
i) Rate of interest		
Discount rate	9.04%	10.18%
Normal Salary Increase Rate	7.54%	6.18%
Net Effective Discount Rate	1.50%	4.00%
Expected Retirement Age - Females	60	65
Expected Retirement Age - Males	65	65

ii) Mortality rates

Pre-Retirement

SA 85 - 90 mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	4 988 000	3 742 000
Fair value of plan assets		-
	4 988 000	3 742 000
Unrecognised past-service cost		-
Unrecognised actuarial gains / (losses)		-
Present value of unfunded obligations	4 988 000	3 742 000
Net Liability	4 988 000	3 742 000

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	3 742 000	3 293 000
Recognised past service cost		-
Current service cost	496 359	421 000
Interest cost	380 866	386 000
Bonuses paid	(458 818)	(577 000)
Actuarial (gain)/loss on the obligation	827 593	219 000
Balance at end of year	4 988 000	3 742 000

The amount recognised in the Statement of Financial Performance are as follows:

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Current service cost	496 359	421 000
Interest cost	380 866	386 000
Actuarial loss	827 593	219 000
Vested past service cost	-	-
Total included in staff costs (refer to note 31)	1 704 818	1 026 000

5.3 Provision for Environmental Clean-ups

- (a) In terms of section 19 of National Water Act, 36 (No. 36 of 1998), it requires the pollution prevention of a water recourse as a result of activities on land and imposes a general obligation on persons to take all reasonable measures to prevent the pollution from occurring, continuing and recurring. There are sewerage spills from the Polla Park Treatment Works and the Loerie Heuwel Informal settlement sewerage disposals, into a near by river or dam.
- (b) Illegal dumping of builders' and other rubble has also taken place on Erf 6532 across a watercourse that belongs to the municipality. Contrary to section S19A of Environmental Conservation Act, 73 (No. 73 of 1989), the municipality has not cleared the illegal dumping of builders' and other rubble.

The municipality has accounted for a provision for the cost to clean up the sewerage spills and clearing of builders' and other rubble as required by GRAP 19.20 - Provisions, contingent liabilities and contingent assets.

The net present value of the clean-up cost has been determined as at 30 June 2010 by technical specialists of the municipality. The provision is the best estimate of the net present value of future clean-up costs. The payment dates of the cost to clean up the sewerage spills and builders' and other rubble are uncertain, but are currently expected to be in the following financial years:

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Dumping in Water causeway - Jeffreys Bay	30 June 2011
Loerie Heuwel Sewer Disposal	30 June 2011
Humansdorp Waste Water Treatment Works	30 June 2011

The cost factors derived from the study have been applied and projected at an annual inflation rate of 7% and discounted to present value at a rate of 10%. The provision will be determined on an annual basis and actual clean-up costs will be debited against the provision.

6 CONSUMER DEPOSITS	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Electricity and water	7 035 217	6 314 570
Total Consumer Deposits	7 035 217	6 314 570

Consumer deposits is paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, Council can utilize the deposit as payment for the outstanding account.

No interest is paid on consumer deposits held.

Management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.

The fair value of Consumer Deposits were determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

7 PROVISIONS	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Performance Bonus	119 326	224 917
Staff leave	8 140 445	4 614 912
Current Portion of Non-Current Provisions (See Notes 4 & 5 above):		
Provision for Post-Employment Health Care Benefit Liability	1 693 000	1 693 000
Provision for Ex-Gratia Pension Benefit Liability	37 176	37 176
Provision for Rehabilitation of Land-fill Sites	4 614 479	3 886 666
Provision for Long Service Awards	583 328	419 338
Provision for Environmental Clean-ups	1 172 131	100 750
Total Provisions	16 359 885	10 976 759

Comparative year has been restated due to the correction of errors (refer to note 39.1 (b), (d) & (j))

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The movement in current provisions are reconciled as follows:

<u>30 June 2010:</u>	Land-fill Sites	Staff Leave	Performance Bonus
Balance at beginning of year	3 886 666	4 614 912	224 917
Contributions to provision	78 935	3 525 533	119 326
Transfer from non-current	515 545	-	-
Increase due to discounting	133 333	-	-
Expenditure incurred	-	-	(224 917)
Balance at end of year	4 614 479	8 140 445	119 326
	Long Service Awards	Ex-gratia Pension	Post Employment Health Care
Balance at beginning of year	419 338	37 176	1 693 000
Contributions to provision	583 327	-	-
Transfer from non-current	(419 338)	-	-
Expenditure incurred	-	-	-
Balance at end of year	583 328	37 176	1 693 000
			Environmental Clean-ups
Balance at beginning of year			100 750
Contributions to provision			-
Transfer from non-current			1 071 381
Expenditure incurred			-
Balance at end of year			1 172 131
<u>30 June 2009:</u>	Land-fill Sites	Staff Leave	Performance Bonus
Balance at beginning of year	279 130	3 427 817	311 053
Contributions to provision	544 543	1 637 092	224 917
Transfer from non-current	3 022 123	-	-
Increase due to discounting	40 870	-	-
Expenditure incurred	-	(449 997)	(311 053)
Balance at end of year	3 886 666	4 614 912	224 917
	Long Service Awards	Ex-gratia Pension	Post Employment Health Care
Balance at beginning of year	577 000	34 836	545 000
Contributions to provision	-	-	-
Transfer from non-current	419 338	37 176	1 693 000
Expenditure incurred	(577 000)	(34 836)	(545 000)
Balance at end of year	419 338	37 176	1 693 000

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

8 CREDITORS	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Trade Creditors and accruals	19 405 651	10 168 500
Payments received in Advance	8 097 040	6 327 265
Sundry Creditors	18 280 998	15 371 297
Total Creditors	<u><u>45 783 689</u></u>	<u><u>31 867 061</u></u>

The average credit period on purchases is 30 days from the receipt of the invoice (as determined by the MFMA). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Management of the municipality is of the opinion that the carrying value of accounts payables approximate their fair values.

The fair value of accounts payables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
9 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
<i>Conditional Grants from Other Spheres of Government</i>		
Cacadu District Municipality	140 321	140 321
Department of Health	504 840	504 840
Department of Water Affairs	156 064	156 064
Department Economic Development	631 500	631 500
Department. Mineral and Energy/NER	965 091	704 920
Development Bank	350 576	350 576
DPLG&TA (Housing)	5 429 479	5 429 479
DPLG&TA (Other)	5 179 902	10 608 546
Financial Support (Provincial)	125 676	125 676
Industrial Development Corporation of South Africa	-	-
Municipal Infrastructure Grant	3 313 773	3 393 335
National Treasury	-	-
Other	13 887 423	2 609 470
Skills Grant (SARS)	-	-
Spatial Studies	123 065	123 065
Total Unspent Conditional Grants and Receipts	30 807 709	24 777 791

See Note 29 for the reconciliation of grants from other spheres of government.

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
10 VAT		
Vat Refundable	5 800 873	5 772 954

Comparative year has been restated due to the correction of an error (refer to note 39.1(f))

VAT is payable on the receipts basis. Only once payment has been received from debtors is VAT paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest, for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

11 OPERATING LEASES

The Municipality as lessee

Leasing arrangements:

Operating leases relate to office equipment and cellular phone equipment with lease terms of between 2 to 3 years. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Cellular Phone Equipment	-	49 094
Up to 1 year		40 645
1 to 5 years		8 449
More than 5 years		-
Office equipment	-	218 761
Up to 1 year		218 761
1 to 5 years		-
More than 5 years		-
Motor vehicles	-	-
Up to 1 year		-
1 to 5 years		-
More than 5 years		-
Total Operating Lease Arrangements	-	267 855
The following payments have been recognised as an expense in the Statement of Financial Performance:		
Minimum lease payments		878 913
Contingent rentals		(18 314)
Total Operating Lease Expenses - as Lessee	-	860 599

Operating leases are recognized on the straight-line basis as per the requirement of GRAP 13.

In respect of non-cancellable Operating Leases the following **liability** has been recognised:

KOUGA LOCAL MUNICIPALITY
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Accrual as at 30 June (current liability):		
Balance at beginning of year	36 197	54 511
Operating expenses recorded		860 599
Operating lease payments effected		(878 913)
Total Operating Lease Liabilities	36 197	36 197

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:
 - Office Equipment

No restrictions have been imposed on the Municipality in terms of the operating lease agreements.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

12 PROPERTY, PLANT AND EQUIPMENT

The municipality early adopted GAMAP 17 in 2007-08. Therefore they still have 2 more years to comply with recognition criteria for assets

The Municipality has taken advantage of the transitional provision in paragraph 78 of GRAP 17, as set out in Directive 4, which allows entities a period of up to 3 years from the date of initial adoption of GRAP 17 to comply in full with its measurement requirements. The municipality aims to fully comply with GRAP 17 by 30 June 2011.

Progress made regarding the measuring of PPE:

All infrastructure assets were valued as at 30 June 2009 using the depreciated replacement cost approach.

30 June 2010 - KOUGA LOCAL MUNICIPALITY:

Reconciliation of Carrying Value

Description	Community	Heritage	Housing	Infrastructure	Investment	Other	Capitalised Leased assets	Total
	R	R	R	R	R	R	R	R
Carrying values at 1 July 2009	33 169 225	(0)	1 703 286	176 769 060	(0)	61 384 347	5 128 515	278 154 433
Cost	64 849 788	(0)	3 462 610	298 923 332	(0)	74 289 238	10 933 033	452 457 999
Accumulated Depreciation:	(31 680 563)	-	(1 759 324)	(122 154 271)	-	(12 904 891)	(5 804 517)	(174 303 566)
Adjustments to carrying values as at 1 July 2009	4 459 364		254 044	57 853 602	5 133 103	(31 248 327)	-	36 451 785
Cost	(18 788 163)	-	(1 350 444)	(22 781 499)	5 133 103	(35 884 074)	-	(73 671 077)
Accumulated Depreciation:	23 247 527	-	1 604 488	80 635 101	-	4 635 747	-	110 122 862
Acquisitions	457 642			1 100 585		12 628 723	21 626 635	35 813 585
Disposals							(6 212 323)	(6 212 323)
Depreciation:								
Carrying values at 30 June 2010	38 086 231	-0	1 957 330	235 723 247	5 133 103	42 764 743	20 542 827	344 207 480
Cost	46 519 267	-0	2 112 166	277 242 418	5 133 103	51 033 887	26 347 344	408 388 184
Accumulated Depreciation:	(8 433 036)	-	(154 836)	(41 519 170)	-	(8 269 144)	(5 804 517)	(64 180 704)

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

30 June 2009 - KOUGA LOCAL MUNICIPALITY:

Reconciliation of Carrying Value

Description	Community	Heritage	Housing	Infrastructure	Investment	Other	Capitalised Leased assets	Total
	R	R	R	R	R	R	R	R
Carrying values at 1 July 2008								
Cost	13 141 984	(0)	93 750	138 295 277	(0)	56 292 824	5 054 043	212 877 877
Accumulated Depreciation:	44 448 889	(0)	93 750	259 924 250	(0)	69 886 930	10 858 560	385 212 379
	(31 306 905)	-	-	(121 628 974)	-	(13 594 107)	(5 804 517)	(172 334 502)
Acquisitions	1 235 602	-	-	27 434 455	-	4 148 756	74 473	32 893 285
Disposals	-	-	-	-	-	-	-	-
Capital under Construction	9 509 789	-	1 444 194	61 588 861	-	-	-	72 542 844
Capital under Construction - Adjustment of work in progress	(2 899 857)	-	1 924 666	(50 024 235)	-	(1 307)	-	(51 000 733)
Assets transferred from KCC	10 980 000	-	-	-	-	39 555	-	11 019 555
Cost	12 555 365	-	-	-	-	254 858	-	12 810 223
Accumulated Depreciation	(1 575 365)	-	-	-	-	(215 303)	-	(1 790 668)
Depreciation:								
Impairment losses	(178 396)	-	-	-	-	-	-	(178 396)
Transfers	1 380 102	-	(1 759 324)	(525 297)	-	904 519	-	0
Carrying values at 30 June 2009								
Cost	33 169 225	(0)	1 703 286	176 769 060	(0)	61 384 347	5 128 515	278 154 433
Accumulated Depreciation:	64 849 788	(0)	3 462 610	298 923 332	(0)	74 289 238	10 933 033	452 457 999
	(31 680 563)	-	(1 759 324)	(122 154 271)	-	(12 904 891)	(5 804 517)	(174 303 566)

(Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.)
 Comparative year has been restated due to the correction of an error (refer to note 39.1 (c))

In terms of the transitional provisions of Directive 4, the municipality currently measures its Infrastructure Assets (excluding electricity, water and sewerage), Community Assets, Heritage Assets, Housing Rental stock and Other Assets at historical global amounts, or in cases where no cost prices are available at R nil values. During the transitional period the municipality has already finalised a process of componentisation of electricity-, water- and sewerage infrastructure assets that were recorded at global amounts and not initially measured and recorded in the significant components making up the assets.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13 INVESTMENT PROPERTY

Progress made regarding the measuring of Investment Property

All investment property have been identified and properties not previously recognised were recognised at fair value as at 30 June 2010. Provisional amounts are however disclosed until the municipality fully complies with the measurement requirements of GRAP 16. The municipality aims to fully comply with GRAP 16 by 30 June 2011.

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
<i>The movement in Investment Property is reconciled as follows:</i>		
Net Carrying value at 1 July	84 426	84 426
Cost	1 253 812	1 253 812
Accumulated Amortisation	(1 169 387)	(1 169 387)
Investment property identified during the year, previously included in PPE	-	-
Transferred to inventory	-	-
Depreciation	-	-
Net Carrying value at 30 June	84 426	84 426
Cost	1 253 812	1 253 812
Accumulated Amortisation	(1 169 387)	(1 169 387)

In terms of ASB Directive 4, the municipality is not required to measure investment properties for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 16. The municipality elects to apply ASB Directive 4 for its investment properties and does not measure its investment properties for the above-mentioned period. However, provisional amounts for investment properties are disclosed in the Annual Financial Statements in accordance with ASB Directive 4.

14 INTANGIBLE ASSETS

Progress made regarding the measuring of Intangible Assets

Intangible assets have only been identified as at 30 June 2010. Provisional amounts are however disclosed until the municipality fully complies with the measurement requirements of GRAP 102. The municipality aims to fully comply with GRAP 102 by 30 June 2011.

The movement in Intangible Assets is reconciled as follows:

Computer software:

Carrying value at 1 July	372 346	3 468
Cost	440 739	71 861
Accumulated Amortisation	(68 393)	(68 393)
Acquisitions	-	368 878
Amortisation during the Year	-	-
Transfers during the Year:	-	-
At Cost	-	-
At Accumulated Amortisation	-	-
Carrying value at 30 June	372 346	372 346
Cost	440 739	440 739
Accumulated Amortisation	(68 393)	(68 393)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see note 34).

No intangible assets had been pledged as security for any liabilities of the municipality.

In terms of ASB Directive 4, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 102. The municipality elects to apply ASB Directive 4 for its intangible assets and does not measure its intangible assets for the above-mentioned period. However, provisional amounts for intangible assets are disclosed in the Annual Financial Statements in accordance with ASB Directive 4.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
15 INVESTMENTS		
Financial Instruments		
Fixed Deposits	-	15 949 847
<u>Summary of non-current investments as at 30 June [MFMA 125 (2)(b)]:</u>		
Sanlam	-	12 836 318
Investec	-	3 113 529
	-	15 949 847

These deposits are ring-fenced and attributable to the External Financing Fund (EFF).

The Municipal Structures Act, Act 177 of 1998, requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.

Fixed Deposits are investments with a maturity period of more than 12 months and earn interest at a rate of 15.5% per annum. As at 30 June 2010 the Sanlam and Investec investments had maturity periods of less than 12 months and therefore transferred to short-term investment deposits.

The management of the municipality is of the opinion that the carrying value of Investments recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Investments was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

16 LONG-TERM RECEIVABLES

Staff debtors	660 692	417 345
	660 692	417 345
Less: Current Portion transferred to Current Receivables		
Staff debtors	(123 204)	(120 312)
Less: Provision for Bad Debts	537 488	297 033
	(423)	(21 624)
Total Long-term receivables	537 065	275 409

Comparative year has been restated due to the correction of an error (refer to note 39.1(h))

Long-term receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets.

In determining the recoverability of a long-term receivables, the municipality considers any change in the credit quality of the receivable from the date the credit was initially granted up to the reporting date

The provision for doubtful debts on long-term receivables exists due to the possibility that not all these debts will be recovered. Staff debtors were assessed individually for impairment.

Reconciliation of Provision for Bad Debts:

Balance at beginning of year	21 624	12 222
Contribution to provision	-	9 402
Bad Debts written off / recovered	(21 201)	-
Balance at end of year	423	21 624

STAFF LOANS

Staff loans are not granted to officials of the municipality. The outstanding amount relates to prior years and is still collectable.

Reconciliation of the Kouga Cultural Centre loan account:

Balance at beginning of year	-	1 965 555
Transactions during the year	-	951 027
Impairment loss (See note 33)	-	(2 916 582)
Balance at end of year	-	-

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
17 INVENTORY		
Consumable Stores - at cost	1 374 867	1 212 289
Maintenance Materials - at cost	3 920 360	3 931 580
Spare Parts - at cost	302 599	261 386
Medical stock	204 985	453 382
Water	194 728	211 720
Unsold Properties held for resale - at cost	-	-
	5 997 539	6 070 357
Less: Provision for obsolete stock	(27 223)	(1 301 545)
Total Inventory	5 970 316	4 768 812

In terms of ASB Directive 4, the municipality is not required to measure inventory for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 12. The municipality elects to apply ASB Directive 4 for its unsold properties held for resale and does not measure it for the above-mentioned period. However, provisional amounts for unsold properties held for resale are disclosed in the Annual Financial Statements in accordance with ASB Directive 4.

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
19 TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Service Debtors:	81 982 582	53 144 287
Rates	29 061 849	17 411 274
Electricity	21 728 624	15 123 517
Water	16 562 153	10 564 702
Sewerage	6 978 235	4 574 929
Refuse	7 651 721	5 469 865
Housing	5 605	4 266
Other Consumer Debtors	10 397 072	2 667 909
Gross balances	92 385 259	55 816 462
Add: Debtors with credit balances	8 582 970	6 633 137
Less: Debtors written off (See note 53)	-	(3 415 404)
Less: Staff debtors included in other consumer debtors	(660 269)	(359 922)
	100 307 960	58 674 274
Less: Provision for doubtful debts	(35 761 729)	(14 223 596)
Total consumer Debtors	64 546 231	44 450 678

Comparative year has been restated due to the correction of errors (refer to note 39.1 (e))

Reconciliation of gross consumer debtors:

Rates: Ageing

Current (0 - 30 days)	(1 875 667)	6 054 912
31 - 60 days	859 399	904 709
61 - 90 days	536 719	473 768
91 - 120 days	515 215	264 386
More than 120 Days	29 026 183	9 713 498
Total	29 061 849	17 411 274

Electricity: Ageing

Current (0 - 30 days)	11 141 430	8 983 123
31 - 60 days	1 950 956	1 388 877
61 - 90 days	1 131 445	589 634
91 - 120 days	801 558	517 305
More than 120 Days	6 703 236	3 644 578
Total	21 728 624	15 123 517

Water: Ageing

Current (0 - 30 days)	3 598 773	3 417 717
31 - 60 days	1 693 297	786 440
61 - 90 days	882 666	505 796
91 - 120 days	810 243	400 060
More than 120 Days	9 577 174	5 454 690
Total	16 562 153	10 564 702

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Sewerage: Ageing		
Current (0 - 30 days)	1 339 924	1 135 956
31 - 60 days	455 604	306 142
61 - 90 days	352 751	192 924
91 - 120 days	305 020	151 726
More than 120 Days	4 524 936	2 788 182
Total	<u>6 978 235</u>	<u>4 574 929</u>
Refuse: Ageing		
Current (0 - 30 days)	1 091 942	1 315 539
31 - 60 days	469 844	396 908
61 - 90 days	385 068	270 391
91 - 120 days	355 006	224 436
More than 120 Days	5 349 861	3 262 591
Total	<u>7 651 721</u>	<u>5 469 865</u>
Housing: Ageing		
Current (0 - 30 days)	45	(2 419)
31 - 60 days	-	121
61 - 90 days	-	-
91 - 120 days	-	-
More than 120 Days	5 560	6 564
Total	<u>5 605</u>	<u>4 266</u>
Other Consumer Debtors: Ageing		
Current (0 - 30 days)	713 828	392 550
31 - 60 days	358 654	166 632
61 - 90 days	258 135	158 065
91 - 120 days	221 792	455 318
More than 120 Days	8 844 663	1 495 344
Total	<u>10 397 072</u>	<u>2 667 909</u>
Reconciliation of Provision for Bad Debts		
Balance at beginning of year	14 223 595	14 472 368
Contribution / (Reversal) to provision	25 901 614	204 711
Bad Debts written off / recovered	(4 363 481)	(453 483)
Balance at end of year	<u>35 761 729</u>	<u>14 223 595</u>

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

Debtors with an ageing of up to 30 days are neither past due and not impaired and debtors with an ageing of more than 30 days are past due. A significant portion of the provision for doubtful debts lies with debtors with an ageing of more than 90 days.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
20 TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Sundry Debtors	11 373 530	15 634 413
Government Subsidies and Grants (Refer to note 29)	631 666	631 666
	12 005 196	16 266 079
Less: Provision for doubtful debts	(4 273 365)	-
Total Other Debtors	7 731 830	16 266 079

Comparative year has been restated due to the correction of errors (refer to note 39.1 (f))

The average credit period for **Government Grants and Subsidies** is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies is payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

The average credit period for **Sundry Debtors** is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Other Debtors.

21 ASSETS CLASSIFIED AS HELD FOR SALE

Other Assets Held-for-Sale - at cost

Total Assets classified as Held-for-Sale

	-	-
	-	-

During the year under review, management made a resolution to dispose of vehicles. The disposal decision was based on the ageing of the vehicles /economic viability of the assets. The scheduled date of the disposal is till undetermined.

In terms of ASB Directive 4, the municipality is not required to measure non-current assets held for sale for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 100. The municipality elects to apply ASB Directive 4 for its non-current assets held for sale and does not measure it for the above-mentioned period. However, provisional amounts are disclosed in the Annual Financial Statements in accordance with ASB Directive 4.

22 OPERATING LEASE ARRANGEMENTS

KOUGA LOCAL MUNICIPALITY

2010 **2009**
R **R**

The Municipality as Lessor

At the Statement of Financial Position date, where the municipality acts as a lessor under non-cancellable operating leases, it will receive operating lease income as follows:

Up to 1 year	135 760	140 785
1 to 5 years	472 139	491 414
More than 5 years	775 581	856 425
Total Operating Lease Arrangements	1 383 480	1 488 624

This impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been an increase in current year income of R 2,342 (2009: R 4,964).

In respect of non-cancellable Operating Leases the following asset has been recognised:

	61 061	58 719
--	---------------	---------------

Operating leases relate to property owned by the municipality with lease terms of between 5 years and an indefinite period. The lessee does not have an option to purchase the property at the expiring date of the lease period.

Contingent Rentals

Property has been leased to employees of the municipality during the year under review. These rentals are classified as contingent rentals due to uncertain lease periods and uncertain tariff increases. The operating lease payments are therefore not subject to straight-lining. Due to the uncertainties above, it is impracticable to disclose the future minimum lease payments expected to be received for each of the following periods as required by GRAP 13.

- no later than one year
- later than one year and not later than five years
- later than five years

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
23 CASH AND CASH EQUIVALENTS	R	R
Cash and Cash Equivalents	40 964 210	47 512 310
Bank Overdraft	(19 253 820)	(4 541 637)
Total Cash and Cash Equivalents	<u>21 710 390</u>	<u>42 970 673</u>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

23.1 Current Investment Deposits

Call Deposits	23 019 006	47 503 350
Fixed Deposits	17 936 244	-
Total Short-term Investment Deposits	<u>40 955 250</u>	<u>47 503 350</u>

Summary of current investments as at 30 June [MFMA 125 (2)(b)]:

ABSA	669 654	9 467 818
FNB	12 160 072	7 846 061
Momentum	787 677	738 868
Nedbank	108 880	12 836 157
RMB	9 258 129	16 579 853
Standard Bank	34 593	34 593
Sanlam	14 429 627	-
Investec	3 506 617	-
	<u>40 955 250</u>	<u>47 503 350</u>

Call Deposits are investments with a maturity period of less than 3 months and earn interest at rates varying from 7% to 12.05% per annum.

Fixed Deposits are investments, transferred from non-current investments, with a maturity period of less than 12 months and earn interest at a rate of 15.5%

Deposits of R 17,936,244 (2009: R 15,949,847) are ring-fenced and attributable to the External Financing Fund (EFF)).

Deposits of R 40,230 (2009: R 21,594,414) are ring-fenced and attributable to the Capital Replacement Reserve (CRR).

Deposits of R 9,801,913 (2009: R 18,652,072) are ring-fenced and attributable to Unspent Conditional Grants and Receipts.

Deposits of R 10,673,480 (2009: R 4,870,377) are ring-fenced and attributable to Housing Developments.

7.2 Bank Accounts and cash

The municipality has the following bank accounts:

First National Bank - Jeffreys Bay

Cash book balance at beginning of year	<u>(4 541 637)</u>	<u>1 336 219</u>
Cash book balance at end of year	<u>(19 253 820)</u>	<u>(4 541 637)</u>

Account Number 525 400 207 91 (Primary Bank Account):

Bank statement balance at beginning of year	<u>(1 537 844)</u>	<u>1 961 849</u>
Bank statement balance at end of year	<u>(4 373 060)</u>	<u>(1 537 844)</u>

Account Number 525 400 335 04 (Primary Bank Account):

Bank statement balance at beginning of year	<u>289</u>	<u>799 845</u>
Bank statement balance at end of year	<u>1 489 790</u>	<u>289</u>

Cash Floats and Advances	<u>8 960</u>	<u>8 960</u>
--------------------------	--------------	--------------

Total Bank and Cash	8 960	8 960
Total Overdraft	(19 253 820)	(4 541 637)
Total Bank and Cash	<u>(19 244 860)</u>	<u>(4 532 677)</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Interest on overdrawn current accounts are charged at the prime lending rate per annum and earn interest at different rates per annum on favourable balances.

Management of the municipality is of the opinion that the carrying value of Bank Balance and Cash recorded at amortised cost in the financial statements approximate their fair values.

Security provided for overdraft: Deed of hypothecation R 2 500 000.00 dated 25-09-2003.
 Bank overdraft facility: Direct overdraft facility R 5,000,000.00.

24 PROPERTY RATES

	Property Valuation as 30/06/2010 R	Property Valuation as 30/06/2009 R
Cape St Francis	1 640 870 000	316 829 000
Hankey	270 966 900	102 777 900
Humansdorp	1 782 165 700	411 508 250
Jeffreys Bay	15 416 759 500	3 586 302 820
Loerie	15 341 000	12 086 150
Oyster Bay	566 409 500	78 863 000
Patensie	238 000 000	47 710 975
St Francis Bay	7 788 132 000	1 577 120 082
Thornhill	17 563 000	9 484 000
Rural	12 346 272 500	1 025 335 203
Total Assessment Rates	<u>40 082 480 100</u>	<u>7 168 017 380</u>

	Actual Income	
	2010 R	2009 R
Less: Interest	105 384 748	86 453 404
Total Assessment Rates at Fair Value	<u>(3 827 701)</u>	<u>(5 322 951)</u>
Agricultural rates written off (see note 53)	101 557 047	81 130 453
Rebates and exceptions	-	(3 415 404)
Total Rates Income	<u>89 643 093</u>	<u>74 303 808</u>

Assessment Rates are levied on the value of land and improvements, which valuation is performed every 4 years. The last valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations, consolidations and subdivisions and also to accommodate growth in the rate base due mostly to private development.

A rate in the rand for domestic properties of R 0.0035 was charged on site values and a rate in the rand of R 0.0035 for improvements. Business were charged at a rate in the rand of R0.0035 on site values and a rate in the rand of R 0.0035 for improvements and agricultural tariffs amounts to R 0.00088

Government subsidised properties used for domestic purposes and consisting of both land and improvements are subject to a R 100,000 valuation reduction. All other residential properties are subject to a R 15,000 valuation reduction. There are also different rebates and phased in tariffs for different sectors of the community. Interest on arrear accounts is charged at bank rate plus one.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
25 SERVICE CHARGES		
Sale of electricity	121 193 419	91 418 849
Sale of water	31 485 816	29 440 141
Refuse removal	17 601 467	16 120 545
Sewerage and Sanitation Charges	18 120 230	16 501 051
Other Service Charges	<u>10 861 087</u>	<u>11 232 707</u>
	199 262 018	164 713 294
Less: Interdepartmental service charges	<u>(5 194 717)</u>	<u>(4 232 486)</u>
Total Service Charges	<u><u>194 067 301</u></u>	<u><u>160 480 808</u></u>
The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
26 RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Buildings	156 574	136 771
Rental Revenue from Halls	146 333	101 820
Rental Revenue from Other facilities and equipment	246 795	209 970
Total Rental of Facilities and Equipment	<u><u>549 702</u></u>	<u><u>448 561</u></u>
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
27 INTEREST EARNED		
External Investments:		
Bank Account	406 321	909 444
Interest earned on cash deposits	<u>3 654 599</u>	<u>9 263 437</u>
	<u><u>4 060 920</u></u>	<u><u>10 172 881</u></u>
Outstanding Debtors:	<u><u>6 185 819</u></u>	<u><u>3 835 835</u></u>
Fair value adjustment of Assessment Rates:	<u><u>3 827 701</u></u>	<u><u>5 322 951</u></u>
Total Interest Earned	<u><u>14 074 441</u></u>	<u><u>19 331 666</u></u>
28 LICENCES AND PERMITS		
Licence fees	4 170 942	3 273 195
Permits and registration fees	<u>489 637</u>	<u>400 495</u>
	<u><u>4 660 579</u></u>	<u><u>3 673 690</u></u>