

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

<b>29 GOVERNMENT GRANTS AND SUBSIDIES</b>	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Equitable Share	27 608 075	25 372 464
Health subsidy	2 601 718	2 510 172
Conditional Grants	30 326 855	49 407 609
<b>Total Government Grants and Subsidies</b>	<b>60 536 648</b>	<b>77 290 245</b>

**29.1 Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant.

<b>29.2 National: Municipal Infrastructure Grant (MIG)</b>	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Balance unspent at beginning of year	(3 393 335)	(4 989 149)
Current year receipts	(13 991 144)	(17 861 994)
Conditions met - transferred to revenue	14 070 706	19 457 808
<b>Conditions still to be met - transferred to liabilities</b> (see note 9)	<b>(3 313 773)</b>	<b>(3 393 335)</b>

Grants received for the following: provision of waterborne sewerage system, upgrade of water and sewerage reticulation systems, the building of a new clinic, development of Water Services Authority matters, water reservoir Oyster Bay and treatment plan Hankey

**29.3 Provincial - Housing Grants (DPLG & TA)**

Balance unspent at beginning of year	(5 429 479)	(7 292 581)
Current year receipts		(7 113 907)
Conditions met - transferred to revenue		8 977 010
Transfers between funds		-
<b>Conditions still to be met - transferred to liabilities</b>	<b>(5 429 479)</b>	<b>(5 429 479)</b>

Grants utilised for the Reconstruction and Development Plan Government Housing.

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	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>29.4 Provincial - Other Provincial Grants (DPLG&amp; TA)</b>		
Balance unspent at beginning of year	(10 608 546)	(392 986)
Current year receipts	-	(10 711 010)
Conditions met - transferred to revenue	5 428 644	495 450
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(5 179 902)</u></b>	<b><u>(10 608 546)</u></b>
Grant received to assist with the following: Floods, audit related matters, performance measurement system development, investigation of regional refuse site and capacity building of staff.		
<b>29.5 District - Cacadu District Municipal Grants</b>		
Balance unspent at beginning of year	(140 321)	(97 548)
Current year receipts		(314 181)
Conditions met - transferred to revenue		271 409
Transfers between funds		-
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(140 321)</u></b>	<b><u>(140 321)</u></b>
Grants received to assist with the Integrated Development Plan as well as library equipment and needs.		
<b>29.6 Department of Health</b>		
Balance unspent at beginning of year	(504 840)	-
Current year receipts		(504 840)
Conditions met - transferred to revenue		-
Transfers between funds		-
<b>Conditions met - balance due by government</b>	<b><u>(504 840)</u></b>	<b><u>(504 840)</u></b>
<b>29.7 Department of Water Affairs</b>		
Balance unspent at beginning of year	(156 064)	(15 364)
Current year receipts		(262 000)
Conditions met - transferred to revenue		121 300
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(156 064)</u></b>	<b><u>(156 064)</u></b>
Grants utilised for the upgrade of the bulks water supply to Oyster Bay as well as control meters.		
<b>29.8 Department of Economic Development</b>		
Balance unspent at beginning of year	(631 500)	(591 500)
Current year receipts		(40 000)
Conditions met - transferred to revenue		-
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(631 500)</u></b>	<b><u>(631 500)</u></b>
Grants utilised to assist with economic development with skills training & SMES as well as Spatial planning.		

**KOUGA LOCAL MUNICIPALITY**  
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	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>29.9 Department of Mineral and Energy/NER</b>		
Balance unspent at beginning of year	(704 920)	-
Current year receipts	(6 800 000)	(6 000 000)
Conditions met - transferred to revenue	6 539 829	5 295 080
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(965 091)</u></b>	<b><u>(704 920)</u></b>
Electrification grant received from the Department of Mineral and Energy Affairs for RDP Housing		
<b>29.10 Development Bank</b>		
Balance unspent at beginning of year	(350 576)	(350 576)
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(350 576)</u></b>	<b><u>(350 576)</u></b>
Grant to assist with the review of old debt and development of tourism plan.		
<b>29.11 Financial Support (Provincial)</b>		
Balance unspent at beginning of year	(125 676)	(287 066)
Current year receipts		(25 000)
Conditions met - transferred to revenue		186 390
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(125 676)</u></b>	<b><u>(125 676)</u></b>
Grant received from the Provincial Administration to assist with an GRAP compliant Assets register, Financial Mentoring and ICT development.		
<b>29.12 National Treasury</b>		
Balance unspent at beginning of year	0	(103 025)
Current year receipts		(750 000)
Conditions met - transferred to revenue		853 025
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>0</u></b>	<b><u>-</u></b>
Grant received to assist with financial reforms		
<b>29.13 Other Spheres of Government Grants</b>		
Balance unspent at beginning of year	(2 609 470)	(890 172)
Current year receipts		(14 000 000)
Conditions met - transferred to revenue		12 280 702
Transfers between funds		-
<b>Conditions still to be met - transferred to liabilities</b>	<b><u>(2 609 470)</u></b>	<b><u>(2 609 470)</u></b>
Grants received to assist with the following: Upgrade of bulk water supply to St Francis Bay, EIA study of the sewer treatment plant Patensie, severance packages and beach related protection.		

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

	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>29.14 Skills Grant (SARS)</b>		
Balance unspent at beginning of year	0	(433 152)
Current year receipts		(404 637)
Conditions met - transferred to revenue		837 789
<b>Conditions still to be met - transferred to liabilities</b>	<b>0</b>	<b>-</b>
Funds claimed/received from SARS re skills development levies paid.		
<b>29.15 Spatial Studies</b>		
Balance unspent at beginning of year	(123 065)	(123 065)
<b>Conditions still to be met - transferred to liabilities</b>	<b>(123 065)</b>	<b>(123 065)</b>
Grants received to assist with spatial planning		
<b>29.16 Industrial Development Corporation of South Africa</b>		
Balance unspent at beginning of year	0	-
Current year receipts		-
Conditions met - transferred to revenue		-
Amounts disbursed but condition has not been met.		
<b>Conditions still to be met - transferred to liabilities</b>	<b>0</b>	<b>-</b>
<b>29.17 Neighbourhood Partnership Development Grant</b>		
Balance unspent at beginning of year	631 666	-
Grant receivable		631 666
<b>Amounts still to be claimed - transferred to other debtors (see note 20)</b>	<b>631 666</b>	<b>631 666</b>

**29.18 Changes in levels of government grants**

Based on the allocations set out in the Division of Revenue Act, (Act 2 of 2006), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

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

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
<b>30 OTHER INCOME</b>		
Burial sites	78 713	81 442
Caravan Park Fees	1 693 020	1 690 319
Cleaning of plots	122 782	130 571
Commission	206 909	204 361
Consent uses	66 281	126 855
Riparian Levy	439 999	412 200
Subdivisions	49 886	31 272
Sundries	1 699 852	982 627
Stock adjustments	1 005 028.11	404 527
Valuation Certificates	57 358	69 322
VAT correction	-	1 294 010
Augmentation fees from developers	793 663	3 350 160
Department of Health - Medical stock	1 309 471	984 437
Assets transferred to the municipality from Kouga Cultural Centre	-	11 019 555
<b>Total Other Income</b>	<b>7 522 962</b>	<b>20 781 658</b>

The amounts disclosed above for Other Income are in respect of services rendered, other than described in Notes 24 and 25, which are billed to or paid for by the users according to approved tariffs.

A VAT debtor was raised against sundry income in the 2009 financial year to account for a VAT claim done by a VAT specialist on behalf of the municipality.

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

31 EMPLOYEE RELATED COSTS	KOUGA LOCAL MUNICIPALITY	
	2010 R	2009 R
Employee Related Costs - Salaries and Wages	92 127 022	71 848 944
Employee Related Costs - Contributions for UIF, Skills and Workmen's compensation	2 491 858	1 846 061
Employee Related Costs - Contributions for Pensions and Travel, Motor Car, Accommodation, Subsistence and Housing Benefits and Allowances	16 068 272	14 078 249
Overtime Payments	11 589 221	9 380 167
Performance Bonuses	591 661	561 105
Long-service awards	10 171 479	7 543 730
Leave paid & provision for leave	6 499 839	4 181 383
Group Life insurance, Bargaining council and labour	-2 470	359 129
Defined Benefit Plan Expenses:	3 838 069	1 485 015
- Vested Past Service Cost - Ex Gratia Pension	1 857 983	192 427
- Interest cost	-	-
- Service cost	5 227 566	3 728 000
- Actuarial (gain)/loss	2 781 359	1 693 000
	827 593	219 000
<b>Total Employee Related Costs</b>	<b>154 069 453</b>	<b>117 116 210</b>
There were no advances to employees. Loans to employees are set out in Note 16.		
 <i>Remuneration of the Municipal Manager</i>		
Annual Remuneration	786 686	753 591
Car Allowance	148 140	148 140
Performance Bonus	50 660	-
Back pay	5 484	67 667
Acting allowance	0	-
Subsistence & Travel	27 428	38 863
Contributions to UIF, Medical and Pension Funds	1 497	1 497
<b>Total</b>	<b>1 019 895</b>	<b>1 009 758</b>
 <i>Remuneration of the Chief Financial Officer</i>		
Annual Remuneration	708 609	595 054
Car Allowance	74 403	36 000
Performance Bonus	-	-
Back pay	48 300	60 536
Acting Allowance	-	224 722
Cell phone allowance	8 508	-
Leave	-	66 554
Subsistence & Travel	25 132	3 740
Settlement	-	1 200 000
Contributions to UIF, Medical and Pension Funds	1 497	1 497
<b>Total</b>	<b>866 449</b>	<b>2 188 103</b>

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

**KOUGA LOCAL MUNICIPALITY**  
**2010**                      **2009**  
**R**                              **R**

***Remuneration of the Director Corporate Services***

Annual Remuneration	702 863	637 673
Car Allowance	115 560	115 560
Performance Bonus	52 108	-
Back pay	4 486	60 557
Subsistence & Travel	31 728	18 755
Acting allowance	42 164	-
Contributions to UIF, Medical and Pension Funds	1 497	1 497
<b>Total</b>	<b><u>950 406</u></b>	<b><u>834 042</u></b>

***Remuneration of the Director of Technical Services***

Annual Remuneration	-	94 337
Car Allowance	-	18 000
Performance Bonus	52 108	-
Back pay	-	60 547
Acting allowance	489 070	337 304
Contributions to UIF, Medical and Pension Funds	-	768
<b>Total</b>	<b><u>541 178</u></b>	<b><u>510 956</u></b>

The Director Technical Services (L. Gouws) resigned 30/09/2009. A. Marais and E. Oosthuizen acted in the place of the Director Technical Services from July 2009.

***Remuneration of the Director of Human Resources and Economic/Social Development***

Annual Remuneration	702 863	637 673
Car Allowance	115 560	115 560
Performance Bonus	52 108	-
Back pay	4 486	60 532
Subsistence & Travel	24 791	-
Contributions to UIF, Medical and Pension Funds	1 497	1 497
<b>Total</b>	<b><u>901 305</u></b>	<b><u>815 262</u></b>

***Remuneration of the Director of Community Services***

Annual Remuneration	565 069	637 673
Car Allowance	93 781	115 560
Back pay	8 972	60 563
Acting allowances	311 274	203 787
Subsistence & Travel	715	3 061
Contributions to UIF, Medical and Pension Funds	1 123	1 497
<b>Total</b>	<b><u>980 934</u></b>	<b><u>1 022 141</u></b>

***Remuneration of the Director of Planning and Development***

Annual Remuneration	758 423	657 233
Car Allowance	60 000	87 000
Performance Bonus	26 054	-
Back pay	4 486	60 531
Acting allowances	360 958	-
Subsistence & Travel	5 294	2 141
Contributions to UIF, Medical and Pension Funds	1 497	1 497
<b>Total</b>	<b><u>1 216 712</u></b>	<b><u>809 151</u></b>

**32 REMUNERATION OF COUNCILLORS**

Mayor	637 372	534 681
Speaker	461 104	432 439
Mayoral committee members	1 733 420	1 626 015
Councillors	2 511 058	2 985 312
<b>Total Councillors' Remuneration</b>	<b><u>5 342 954</u></b>	<b><u>5 578 447</u></b>

**KOUGA LOCAL MUNICIPALITY**  
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***In-kind Benefits***

The Executive Mayor, Speaker and Mayoral committee members are full-time councillors. Each is provided with an office and shared secretarial support at the cost of the Municipality. The Executive Mayor may utilise official Council transportation when engaged in official duties.

	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>33 BAD DEBTS &amp; IMPAIRMENT LOSSES</b>		
<b><i>Provision for bad debts:</i></b>		
Trade Receivables from Exchange Transactions (See note 19)	25 901 614	204 711
Trade Receivables from Non-Exchange Transactions (See note 20)	4 273 365	-
Long-term Receivables (See note 16)	-	9 402
Bad debts written off	-	6 063 525
<b><i>Impairment losses:</i></b>		
Long-term Receivables - KCC Loan account (See note 16)	-	2 916 582
	<b>30 174 980</b>	<b>9 194 219</b>
<b>34 DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment (Refer note 12)	-	-
Depreciation: Investment Property (Refer note 13)	-	-
Amortisation: Intangible Assets (Refer note 14)	-	-
<b>Total Depreciation and Amortisation</b>	<b>-</b>	<b>-</b>
<p>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. Therefore no depreciation expense in 2010.</p>		
<b>35 INTEREST PAID</b>		
<b><i>Interest paid</i></b>		
Long-term Liabilities	10 901 395	11 366 254
Bank Overdrafts and Other	2 186 164	4 055 297
<b><i>Penalties</i></b>	-	1 108 679
<b>Total interest paid</b>	<b>13 087 558</b>	<b>16 530 229</b>
<b>36 BULK PURCHASES</b>		
Electricity	75 613 526	56 557 053
Water	11 853 771	9 697 961
<b>Total Bulk Purchases</b>	<b>87 467 297</b>	<b>66 255 014</b>
<p>Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from the Nelson Mandela Bay Metropolitan Municipality.</p>		
<b>37 GRANTS AND SUBSIDIES PAID</b>		
Grants-in-aid and Donations	10 531 772	13 797 605
Various small donations	1 950	157 636
Medical stock dispensed	1 453 799	886 595
<b>Total Grants and Subsidies</b>	<b>11 987 521</b>	<b>14 841 837</b>



**KOUGA LOCAL MUNICIPALITY**  
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<b>38 GENERAL EXPENSES</b>	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Included in General Expenses are the following:		
Accommodation, Seminars and Travelling	2 259 024	1 672 508
Advertising	916 150	623 082
Audit Fees	4 829 286	2 736 337
Bank charges	736 242	477 065
Cell phone contracts	1 129 583	957 137
Chemicals	779 090	974 411
Connection expenses	1 458 622	1 492 480
Consultant/professional fees	1 391 845	596 813
Fuel and oil	5 833 301	5 850 685
Grant expenditure - Various projects	3 112	9 118 963
Insurance General	2 679 384	3 765 819
Internal Audit Agency	454 668	144 734
Legal expenses	2 392 970	1 505 580
Mayor's allowance	623 935	363 558
Network connections	395 685	289 456
Planning fees	1 658 382	1 618 132
Postage	1 222 277	916 727
Printing and Stationery	751 461	729 875
Pre-paid electricity: finance costs	112 390	2 538 325
Refuse bins/bags	501 159	358 472
Rentals: Property, Plant and Equipment	6 715 919	5 230 541
Security	831 290	761 099
Special projects	2 044 072	2 468 496
Statuary obligations	1 359 321	423 477
Telephones, Facsimiles and Internet Lines	2 300 940	1 661 790
Training	1 154 732	645 266
Uniforms and protective material	636 638	703 277
Valuation costs & interim valuations	2 541 816	1 154 181
Other General Expenses	11 045 532	10 276 768
Total General expenses	<b>58 758 825</b>	<b>60 055 053</b>

No other extra-ordinary expenses were incurred.

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

**2009**

**39 CORRECTION OF ERRORS AND CHANGES IN ACCOUNTING POLICIES** **R**

**39.1 Adjustment of balances - assets and liabilities - as at 30 June 2009**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year, which are set out below:

Correction of errors:

During the 2008/09 financial period the following errors occurred, which are set out below:

Changes in accounting policies:

**39.2 Reconciliation of adjustments due to prior period errors**

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

<b>40 CASH GENERATED BY OPERATIONS</b>	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
<b>Receipts</b>	372 888 457	359 716 657
Property Rates	89 643 093	74 303 808
Service Charges	194 067 301	160 480 808
Rental of Facilities and Equipment	549 702	448 561
Interest Earned - External Investments	4 060 920	10 172 881
Interest Earned - Outstanding Debtors	6 185 819	3 835 835
Interest Earned - Fair value adjustment of rates	3 827 701	5 322 951
Fines	1 781 926	3 217 607
Licenses and Permits	4 660 579	3 673 690
Government Grants and Subsidies	60 536 648	77 290 264
Other Income	7 522 962	20 781 658
Gains on disposal of Property, Plant and Equipment	51 806	188 597
<b>Payments</b>	<b>(384 726 106)</b>	<b>(312 307 347)</b>
Employee Related Costs	154 069 453	117 116 210
Remuneration of Councillors	5 342 953	5 578 448
Bad Debts	30 174 980	9 194 219
Collection costs	-	82 931
Contracted services	174 997	625 139
Depreciation	-	-
Impairment Losses	27 223	178 396
Repairs and Maintenance	23 635 300	21 849 869
Interest Paid	13 087 558	16 530 229
Bulk Purchases	87 467 297	66 255 014
Grants and Subsidies Paid	11 987 521	14 841 837
General Expenses	58 758 825	60 055 053
<b>Surplus for the Year</b>	<b>(11 837 649)</b>	<b>47 409 311</b>
Adjustment for:		
Correction of prior year Error	-	(542 976)
Depreciation and amortization	-	-
Donation received - Medical stock	(1 309 471)	(984 437)
Medical stock dispensed	1 453 799	886 595
Contribution to Provisions - Non-Current	4 054 651	2 060
Contribution to Provisions - Current	5 529 107	1 862 009
Contribution to Bad Debt Provision	30 174 980	6 277 638
Impairment losses	-	178 396
Operating lease income accrued	(2 342)	(4 964)
Operating lease expenses accrued	-	(18 314)
Provision for obsolete stock	27 223	662 128
Investment Income	(14 074 441)	(19 331 666)
Interest Paid	13 087 558	16 530 229
<b>Operating surplus before working capital changes</b>	<b>27 103 415</b>	<b>52 926 008</b>
(Increase)/Decrease in Inventories	(1 373 054)	1 170 028
(Increase)/Decrease in Consumer Debtors	(45 997 167)	(16 037 366)
(Increase)/Decrease in Current Portion of Long-term Receivables	(2 891)	95 143
(Increase)/Decrease in Other Debtors	4 260 884	(11 221 722)
(Increase)/Decrease in VAT	(27 919)	(3 485 336)
Cash payments made against provisions	(224 917)	4 786 249
Increase/(Decrease) in Conditional Grants and Receipts	6 029 918	9 211 607
Increase/(Decrease) in Creditors	13 916 628	2 598 472
<b>Cash generated by / (utilised in) operations</b>	<b>3 684 896</b>	<b>40 043 083</b>

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

**41 CASH AND CASH EQUIVALENTS**

	<b>KOUGA LOCAL MUNICIPALITY</b>	
	<b>2010</b>	<b>2009</b>
	<b>R</b>	<b>R</b>
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:		
Bank Balances and Cash	8 960	8 960
Bank Overdraft	(19 253 820)	(4 541 637)
Call investment deposits	23 019 006	47 503 350
<b>Total Cash and Cash Equivalents</b>	<b>3 774 146</b>	<b>42 970 673</b>

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

Call investment deposits are investments with a maturity period of less than 3 months and earn interest at rates varying from 7.9% to 12% per annum.

**42 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Long-term Liabilities (See Note 3)	110 191 707	79 562 408
Used to finance Property, Plant and Equipment - at cost	(92 255 463)	(63 524 878)
Sub-total	17 936 244	16 037 530
Cash set aside for the Repayment of Long-term Liabilities	-	87 683
<b>Cash invested for Repayment of Long-term Liabilities (See note 15)</b>	<b>17 936 244</b>	<b>15 949 847</b>

External loans have been utilised 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.

**43 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**43.1 Unauthorised Expenditure**

Reconciliation of Unauthorised Expenditure:

Opening balance	-	-
Unauthorised Expenditure current year	62 409 924	2 094 516
Approved by Council or condoned	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	(498)
Unauthorised Expenditure awaiting authorisation	<b>62 409 924</b>	<b>2 094 018</b>

<b>Incident</b>	<b>R</b>	<b>Disciplinary Steps / Criminal Proceedings</b>
<i>Over expenditure of approved budget</i>	62 409 924	None
	<b>62 409 924</b>	

**KOUGA LOCAL MUNICIPALITY**  
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**43.2 Fruitless and Wasteful Expenditure**

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	-	-
Fruitless and Wasteful Expenditure current year	-	24 866 560
Condoned or written off by Council	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Fruitless and Wasteful Expenditure awaiting condonement	<u>-</u>	<u>24 866 560</u>

Incident	-	Disciplinary Steps / Criminal Proceedings
	-	

**43.3 Irregular Expenditure**

Reconciliation of Irregular Expenditure:

Opening balance	37 592 909	760 036
Irregular Expenditure current year	1 005 028	37 086 673
Condoned or written off by Council	-	-
Recovered	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	(253 800)
Irregular Expenditure awaiting condonement	<u>38 597 937</u>	<u>37 592 909</u>

Incident	1 005 028	Disciplinary Steps / Criminal Proceedings
<i>Inventory was written-off in the Annual Financial Statements as a result of differences between actual stock and stock record. (Section 125(2)(d)(i) of the MFMA).</i>	1 005 028	<i>Currently None - subject to possible future investigation</i>
	<u>1 005 028</u>	

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

**44 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
<b><u>44.1 Contributions to organised local government - SALGA [MFMA 125 (1)(b)]</u></b>		
Opening Balance	-	-
Council Subscriptions	513 590	341 640
Amount Paid - current year	(513 590)	(341 640)
Amount Paid - previous years	-	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>
<b><u>44.2 Audit Fees [MFMA 125 (1)(b)]</u></b>		
Opening Balance	-	-
Current year Audit Fee	4 966 616	2 918 454
External Audit (Auditor General)	4 748 294	2 551 435
Internal Audit	218 322	367 019
Audit Committee	-	-
Amount Paid - current year	(4 966 616)	(2 918 454)
Amount Paid - previous years	-	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>
<b><u>44.3 VAT [MFMA 125 (1)(b)]</u></b>		
VAT refundable is shown in note 10. All VAT returns have been submitted by due dates throughout the year.		
<b><u>44.4 PAYE and UIF [MFMA 125 (1)(b)]</u></b>		
Opening Balance	-	863 656
Current year Payroll Deductions	15 850 050	12 234 677
Amount Paid - current year	(15 850 050)	(12 234 677)
Amount Paid - previous years	-	(863 656)
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>
<b><u>44.5 Pension and Medical Aid Deductions [MFMA 125 (1)(b)]</u></b>		
Opening Balance	-	-
Current year Payroll Deductions	11 221 844	5 921 065
Amount Paid - current year	(11 221 844)	(5 921 065)
Amount Paid - previous years	-	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>

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

**44.6 Councillor's arrear Consumer Accounts [MFMA 124 (1)(b)]**

The following Councillors had arrear accounts outstanding for more than 90 days as at **30 June 2010**:

Surname	Initials	Outstanding more than 90 days		Total
		Service accounts	Sundry accounts	
August	C	-	25 060	25 060
Cawood	C	-	34 860	34 860
Dennis	RH	-	21 960	21 960
Dlomo	M	-	35 154	35 154
Felix	K	-	24 421	24 421
Lloyd	F	-	24 554	24 554
Maseti	A	1 963	-	1 963
Oliphant	PJ	8 170	-	8 170
Rheeder	BF	-	19 421	19 421
Smith	D	-	322	322
Stuurman	VS	3 748	24 421	28 169
Tshume	M	-	24 421	24 421
Ungerer	M	-	13 050	13 050
van Eeden	M	7 766	-	7 766
		21 647	247 644	269 291

The following Councillors had arrear accounts outstanding for more than 90 days as at **30 June 2009**:

Surname	Initials	Outstanding more than 90 days		Total
		Service accounts	Sundry accounts	
Rheeder	BF	-	4 197	4 197
Dennis	RH	-	3 774	3 774
Rollison	B	1 085	-	1 085
Lloyd	F	-	15 212	15 212
Ungerer	M	-	4 197	4 197
Tshume	M	-	4 197	4 197
Dlomo	M	-	6 085	6 085
Stuurman	VS	-	4 197	4 197
Felix	K	-	4 197	4 197
Cawood	C	-	6 085	6 085
August	C	2 263	4 197	6 460
Smith	D	-	964	964
		3 348	57 300	60 648

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

**44.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act**

***Deviation from, and ratification of minor breaches of, the Procurement Processes:***

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

<i>Tender</i>	<i>Description of deviation</i>
1. Tender 15/2010 - Land sales	Deviation form the minimum number of days to advertise - 14 days to 7 days.
2. Tender 96/2010 - Preparation of the annual financial statements	Deviation form the minimum number of days to advertise - 14 days to 7 days.
3. Emergency work - Cleaning of areas	SAMWU National Strike 12 - 20 April 2010. Deviation from normal procurement process.

<b>45 CAPITAL COMMITMENTS</b>	KOUGA LOCAL MUNICIPALITY	
	2010	2009
	R	R
Commitments in respect of Capital Expenditure:		
- Approved and contracted for:-	61 745 147	63 086 753
- Approved but not yet contracted for:-	-	5 000 000
- Contracted but not yet approved	-	-
<b>Total Capital Commitments</b>	<b>61 745 147</b>	<b>68 086 753</b>
This expenditure will be financed from:		
Internal sources	9 556 130	6 824 307
External source	52 189 017	61 262 446
	<b>61 745 147</b>	<b>68 086 753</b>

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

**46 CONTINGENT LIABILITIES**

**46.1 Unresolved insurance claims**

There are a number of unresolved insurance claims at the reporting date. While the claim should be covered by the Municipality's insurance if the claim is paid out, the Municipality will be liable for the excess as stipulated in the Municipality's insurance policies. The value of these contingent excesses and the nature of the insurance cover concerned are summarised below:

	<b>Excess R</b>
Buildings combined	7 000
Business All Risk	11 000
Machinery Breakdown	-
Fidelity	20 600
Money	2 500
Motor	27 500
Personal Accident	-
Public Liability	70 000
Theft	5 400
	<b>144 000</b>

**46.2 Possible claims against council**

(i) Council is involved in disputes with separate individuals as at 30 June 2010:

- Claim against the municipality	20 756 516
- Possible legal fees	3 291 763

(ii) Contrary to section 20(1) of the Environmental Conservation Act (Act 50 of 2003) some of the municipality's landfill sites have not been issued with a permit by the Department of Economic and Environmental Affairs. In terms of section 29(4), for non-compliance of section 20(1) the municipality may incur a fine to the amount of R 5 million per contravention.

20 000 000

**44 048 279**

**47 CONTINGENT ASSET**

Council is involved in a dispute with Electro on the Move regarding prepaid electricity sales.

**4 273 365**



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

**48 FINANCIAL INSTRUMENTS**

**48.1 Classification:**

**Financial Assets**

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows:

**KOUGA LOCAL MUNICIPALITY**

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

	<b><u>Classification</u></b>		
<b><i>Investments</i></b>			
Fixed Deposits	Held to maturity	-	15 949 847
<b><i>Long-term Receivables</i></b>			
Kouga Cultural Centre	Loans and receivables	-	-
Staff debtors	Loans and receivables	537 065	297 033
<b><i>Consumer Debtors</i></b>			
	Loans and receivables	64 546 231	44 450 678
<b><i>Other Debtors</i></b>			
Sundry Debtors	Loans and receivables	7 731 830	15 634 413
<b><i>Current Portion of Long-term Receivables</i></b>			
Staff loans	Loans and receivables	123 204	120 312
<b><i>Short-term Investment Deposits</i></b>			
Call Deposits	Loans and receivables	23 019 006	47 503 350
Fixed Deposits	Held to maturity	17 936 244	-
<b><i>Bank Balances and Cash</i></b>			
Bank Balances	Loans and receivables	-	-
Cash Floats and Advances	Loans and receivables	8 960	8 960
<b>Total Financial Assets</b>		<b>113 902 540</b>	<b>123 964 594</b>
<b>SUMMARY OF FINANCIAL ASSETS</b>			
<b>Held to maturity:</b>			
Investments	Fixed Deposits	17 936 244	15 949 847
		<b>17 936 244</b>	<b>15 949 847</b>
<b>Loans and Receivables</b>			
Long-term Receivables	Kouga Cultural Centre	-	-
Long-term Receivables	Staff debtors	537 065	297 033
Consumer Debtors		64 546 231	44 450 678
Other Debtors	Sundry Debtors	7 731 830	15 634 413
Current Portion of Long-term Receivables	Staff loans	123 204	120 312
Short-term Investment Deposits	Call Deposits	23 019 006	47 503 350
Bank Balances and Cash	Bank Balances	-	-
Bank Balances and Cash	Cash Floats and Advances	8 960	8 960
		<b>95 966 296</b>	<b>108 014 746</b>
<b>Total Financial Assets</b>		<b>113 902 540</b>	<b>123 964 594</b>

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

		<b>KOUGA LOCAL MUNICIPALITY</b>	
		<b>2010</b>	<b>2009</b>
		<b>R</b>	<b>R</b>
<b><u>Financial liabilities</u></b>			
In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows:			
(FVTPL = Fair Value through Profit or Loss):			
	<b>Classification</b>		
<b><i>Long-term Liabilities</i></b>			
Annuity Loans	Not valued at FVTPL	71 309 520	69 019 614
<b><i>Consumer Deposits</i></b>			
Electricity and Water	Not valued at FVTPL	7 035 217	6 314 570
<b><i>Accounts payable</i></b>			
Trade creditors	Not valued at FVTPL	19 405 651	10 168 500
Payments received in advance	Not valued at FVTPL	8 097 040	6 327 265
Other creditors	Not valued at FVTPL	18 280 998	15 371 297
<b><i>Unspent Conditional Grants and Receipts</i></b>	Not valued at FVTPL	30 807 709	24 777 791
<b><i>Operating Lease Liability</i></b>			
Operating Lease Liability	Not valued at FVTPL	36 197	36 197
<b><i>Bank Overdraft</i></b>	Not valued at FVTPL	19 253 820	4 541 637
<b><i>Current Portion of Long-term Liabilities</i></b>			
Annuity Loans	Not valued at FVTPL	17 697 519	5 301 018
<b>Total Financial Liabilities</b>		<b>191 923 671</b>	<b>141 857 889</b>

**48.2 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 3, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Notes 23 and the Statement of Changes in Net Assets.

**Gearing Ratio**

The gearing ratio at the year-end was as follows:

Debt	110 191 707	79 562 408
Equity	201 971 288	213 808 937
Net debt to equity ratio	55%	37%

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 3.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Position.

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

**48.3 Financial Risk Management Objectives**

Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Directorate: Financial services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

**48.4 Significant Accounting Policies**

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the Annual Financial Statements.

**48.5 Market risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 48.6 below). No formal policy exists to hedge volatilities in the interest rate market.

**48.6 Interest Rate Risk Management**

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors and bank and cash balances.

The municipality limits its counterparty exposures from its investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the CFO and authorised by the Council.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings.

The municipality's maximum exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

The following table demonstrates the effect of a 1% change in interest rates on interest bearing financial assets and liabilities:

		<b>KOUGA LOCAL MUNICIPALITY</b>	
		<b>2010</b>	<b>2009</b>
		<b>R</b>	<b>R</b>
<b><u>Financial Assets</u></b>	<b><u>Classification</u></b>		
<b><u>External investments:</u></b>			
Fixed Deposits	Held to maturity	17 936 244	15 949 847
Call Deposits	Loans and receivables	23 019 006	47 503 350
Bank Balances	Loans and receivables	-	-
Cash Floats and Advances	Loans and receivables	8 960	8 960
		<u>40 964 210</u>	<u>63 462 157</u>

**KOUGA LOCAL MUNICIPALITY**  
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<i>Interest received</i>			
Interest Earned - External Investments		4 060 920	10 172 881
		<u>10%</u>	<u>16%</u>
<i>Effect of a change in interest rate on interest earned from external investments:</i>			
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	409 642	634 622
		<u>409 642</u>	<u>634 622</u>
<i>Outstanding debtors:</i>			
Kouga Cultural Centre	Loans and receivables	-	-
Staff debtors	Loans and receivables	537 065	297 033
Consumer Debtors	Loans and receivables	64 546 231	44 450 678
Sundry Debtors	Loans and receivables	7 731 830	15 634 413
Staff loans - current portion	Loans and receivables	123 204	120 312
		<u>72 938 330</u>	<u>60 502 436</u>
<i>Interest received</i>			
Interest Earned - Outstanding Debtors		6 185 819	3 835 835
		<u>8%</u>	<u>6%</u>
<i>Effect of a change in interest rate on interest earned from outstanding debtors</i>			
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	729 383	605 024
		<u>729 383</u>	<u>605 024</u>
<b><u>Financial Liabilities</u></b>		<b><u>Classification</u></b>	
<i>Long-term Liabilities</i>			
Annuity Loans	Not valued at FVTPL	71 309 520	69 019 614
Operating Lease Liability	Not valued at FVTPL	36 197	36 197
Annuity Loans - current portion	Not valued at FVTPL	17 697 519	5 301 018
		<u>89 043 236</u>	<u>74 356 829</u>
<i>Interest paid</i>			
Long-term Liabilities		10 901 395	11 366 254
		<u>12%</u>	<u>15%</u>
<i>Effect of a change in interest rate on interest paid on long-term liabilities</i>			
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	890 432	743 568
		<u>890 432</u>	<u>743 568</u>
<i>Bank Overdrafts and Other</i>			
Trade creditors	Not valued at FVTPL	19 405 651	10 168 500
Other creditors	Not valued at FVTPL	18 280 998	15 371 297
Bank Overdraft	Not valued at FVTPL	19 253 820	4 541 637
		<u>56 940 469</u>	<u>30 081 434</u>
<i>Interest paid</i>			
Bank Overdrafts and Other		2 186 164	4 055 297
		<u>4%</u>	<u>13%</u>
<i>Effect of a change in interest rate on interest paid on bank overdrafts and other</i>			
Effect of change in interest rate	%	1%	1%
Effect of change in interest rate	Rand value	569 405	300 814
		<u>569 405</u>	<u>300 814</u>