

CHAPTER 4

FINANCIAL STATEMENTS

CHAPTER 4

AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION

4.1 Financial Statements

Kou-Kamma Municipality has prepared financial statements in line with Section 122 of the Municipal Finance Management Act (Act No.56.2003). According to the MFMA the financial statements should:

- Fairly represent the state of affairs of the municipality or entity
- - its performance against its budget
 - its management of revenue, expenditure, assets and liabilities
 - its business activities
 - its financial results
 - and its financial position as at the end of the financial year
- Disclose the information required in terms of sections 123, 124 and 25.

KOUKAMMA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2008

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GENERAL INFORMATION

MEMBERS OF THE COUNCIL

Councillor N J O'Connel
Councillor F J Jake
Councillor D M Jacobs
Councillor J Kettledas
Councillor F Strydom
Councillor C Reeders
Councillor S Jacobs
Councillor N E Mntambo
Councillor S D Ncethezo
Councillor M W Wogane

Mayor

GRADING OF LOCAL AUTHORITY

No grading

AUDITORS

Auditor-General

BANKERS

ABSA Bank

REGISTERED OFFICE

5 Keet Street
Kareedouw, 3170

P O Box 11
Kareedouw, 3170

Telephone: (042) 288-0303
Facsimile: (042) 288-0797

MUNICIPAL MANAGER

M Ndokweni (B Juris)

KOUKAMMA MUNICIPALITY
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GENERAL INFORMATION (Continued)

CHIEF FINANCIAL OFFICER

S Spellmann

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 6 to 34, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003) and which I have signed on behalf of the municipality.

These Annual Financial Statements will be presented to the Council for information on 12 December 2008.



M NDOKWENI
MUNICIPAL MANAGER
04 December 2008



S SPELLMANN
CHIEF FINANCIAL OFFICER
04 December 2008

**KOUKAMMA MUNICIPALITY
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FOREWORD

I submit these Annual Financial Statements very much aware that everything is not sound, but I will not allow our situation to dominate my life with fear and despair.

We do not pride ourselves for what is happening in Koukamma, but strongly believe that we shall overcome. Our challenges are characterised by the following serious constraints:

- Capacity and constitutional changes
- Weak departments and capacity problems
- Service Delivery challenges
- Lack of institutional discipline and commitment
- Low financial viability
- Infrastructure and Technical backlogs

We hereby declare our commitment to continuously strive towards advancing governance, financial discipline and efficient administration. Our wish is also to extend sound co-operative relations with all our spheres of government. We also need to unlock the economic potential of our municipality to attract strategic partners. Nobody and nothing will stop us from bringing change in the life of our people. My humble plea to all our leadership, communities and sector stakeholders is to join hands and strive towards building a better Koukamma where there will be place for all of us.

We have a long and steep road to go, but **“WE ARE HAPPY BECAUSE WE ARE GOING TO MAKE IT THIS TIME”**.

“FORWARD KOUKAMMA, FORWARD!!!!!!”

Sincere greetings


**NJ O'CONNEL
MAYOR**

KOUKAMMA MUNICIPALITY
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REPORT OF THE AUDITOR-GENERAL

The 2007/2008 Audit Report was not available when the Annual Financial Statements were approved and will be attached hereto as Annexure "A" when received after the completion of the statutory audit.

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REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It is with great pleasure for me to finally present the Annual Financial Statements for the year 2007/2008 to Council and Management. Please note that these statements could not be prepared and submitted to Auditor-General within two months after the end of the financial year in terms of the Section 126 of the MFMA.

The assistance of a service provider was necessary for the compilation of the statements due to a lot of accounting workload carried over from the previous years and having to address the audit report, which was a disclaimer, and the fact that the official who has been in charge of Finance was already on sick leave at the time of preparing these 2007/2008 AFS. Thus it became very difficult to substantiate some of the transactions that occurred during the year.

2. KEY FINANCIAL INDICATORS

The following indicators give some insight into the financial results of the year under review.

Financial Statement Ratios:

INDICATOR	2008	2007
Surplus / (Deficit) before Appropriations	(828,802)	(4,453,760)
Accumulated Surplus / (Deficit) at the end of the Year	10,854,203	10,605,992
Expenditure Categories as a percentage of Total Expenses:		
Salaries, Wages and Allowances	43.38%	37.59%
General Expenses	26.29%	41.84%
Repairs and Maintenance	5.13%	14.48%
Capital Charges	0.00%	-
Contributions to Fixed Assets	0.40%	0.12%
Contributions to Funds, Provisions and Reserves	24.80%	5.97%
Current Ratio:		
Creditors Days	98	74
Debtors Days	372	426

The slight improvement in Debtors Days is because of additional provision for bad debts made during the year under review due to non-payment actually experienced, which renders a slightly more favourable ratio for the year.

3. OPERATING RESULTS

Details of the operating results are included in the Income Statement and Appendices "D" and "E".

The overall operating results for the year ended 30 June 2008 are as follows:

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	10,605,992	14,749,732	(28.09)%	-	-
Operating income for the year	40,316,498	33,911,241	18.89%	61,051,047	(33.96)%
Appropriations for the year	1,077,014	310,020	247.40%	-	-
	51,999,503	48,970,992	6.18%	61,051,047	(14.83)%
Expenditure:					
Operating expenditure for the year	41,145,300	38,365,001	7.25%	61,051,047	(32.61)%
Sundry transfers	-	-	-	-	-
Closing surplus / (deficit)	10,854,203	10,605,992	2.34%	-	-
	51,999,503	48,970,992	6.18%	61,051,047	(14.83)%

3.1 All Services:

A deficit of R828 802 (2006/2007: Deficit of R4 453 760) was achieved for the financial year under review. This is due to budgeted revenue not realised exceeding savings realised in budgeted expenditure.

Although accruals for all services have been done, more attention will be given to monthly accruals and the reconciliation and collection thereof. Water meters have been read and accounts have been prepared. Accounts have been delivered monthly to the consumers during the year.

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income	40,316,498	33,911,241	18.89%	61,051,047	(33.96)%
Expenditure	41,145,300	38,365,001	7.25%	61,051,047	(32.61)%
Surplus / (Deficit)	(828,802)	(4,453,760)	(81.39)%	-	-
Surplus / (Deficit) as % of total income	(2.06)%	(13.13)%		-	

3.2 Community Services:

Community Services are services rendered by the municipality to the community for which no charges are levied. The main income sources for these services are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income	19,234,087	19,346,355	(0.58)%	44,930,567	(57.19)%
Expenditure	30,159,098	24,579,377	22.70%	40,339,629	(25.24)%
Surplus / (Deficit)	(10,925,011)	(5,233,022)	108.77%	4,590,938	-
Surplus / (Deficit) as % of total income	(56.80)%	(27.05)%		10.22%	

3.3 Subsidised Services:

Subsidised Services are services partially subsidised by National and Provincial Government. Apart from subsidies, the main income sources are Sundry Fees levied.

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income	470,866	184,945	154.60%	1,759,064	(73.23)%
Expenditure	1,060,292	465,990	127.54%	2,589,765	(59.06)%
Surplus / (Deficit)	(589,426)	(281,045)	109.73%	(830,701)	-
Surplus / (Deficit) as % of total income	(125.18)%	(151.96)%		(47.22)%	

3.4 Economic Services:

Economic Services are services rendered to the consumers at a rate which should cover the cost of the service in order that the service is not a burden to other streams of revenue. The main source of income is the levying of Service Charges.

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income	11,271,362	7,363,125	53.08%	10,564,891	6.69%
Expenditure	5,069,447	6,833,624	(25.82)%	11,252,979	(54.95)%
Surplus / (Deficit)	6,201,915	529,500	1071.28%	(688,088)	-
Surplus / (Deficit) as % of total income	55.02%	7.19%		(6.51)%	

3.5 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income	46,716	-	-	44,971	3.88%
Expenditure	213,696	424,785	(49.69)%	222,995	(4.17)%
Surplus / (Deficit)	(166,980)	(424,785)	(60.69)%	(178,024)	-
Surplus / (Deficit) as % of total income	(357.44)%	-		(395.86)%	

3.6 Trading Services:

Trading Services are services rendered to the consumers at a rate which should render a surplus on the service in order that the service is able to cross-subsidise other services. The main source of income is the levying of Service Charges.

The REDS (Regional Electricity Distribution Suppliers) will be introduced to South Africa in the near future, where electricity will be distributed a regional supplier. This will impact materially on the Annual Financial Statements of the municipality.

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
Income	9,293,467	7,016,816	32.45%	3,751,554	147.72%
Expenditure	4,642,767	6,061,225	(23.40)%	6,645,679	(30.14)%
Surplus / (Deficit)	4,650,700	955,591	386.68%	(2,894,125)	-
Surplus / (Deficit) as % of total income	50.04%	13.62%		(77.14)%	

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Fixed Assets during the year amounted to R10 613 136 (2006/2007: R1 534 858). Full details of Fixed Assets are disclosed in Note 5 and Appendix "C" to the Annual Financial Statements.

The capital expenditure of R10 613 136 was financed as follows:

DETAILS	Actual 2007/2008 R	Actual 2006/2007 R	Percentage Variance %	Budgeted 2007/2008 R	Variance actual/ budgeted %
External Loans	-	-	-	-	-
Revolving Fund	-	-	-	-	-
Grants and Subsidies	9,838,115	1,534,858	540.98%	13,784,000	(28.63)%
Public Contributions	650,000	-	-	-	-
Revenue	125,021	-	-	66,628	87.64%
	10,613,136	1,534,858	591.47%	13,850,628	(23.37)%

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2007	2006
External Loans	-	-
Revolving Fund	-	-
Grants and Subsidies	92.70%	100.00%
Public Contributions	6.12%	-
Revenue	1.18%	-
	100.00%	100.00%

Fixed Assets are funded only from grants and subsidies because the municipality does not have the financial resources to finance capital from its own funds.

5. ACCUMULATED FUNDS

Accumulated Funds amounted R2 665 315 as at 30 June 2008 (30 June 2007: R2 228 845) and is made up as follows:

Dog Tax Fund	55,203
Revolving Fund	2,610,112
	<u>2,665,315</u>

The Dog Tax Fund was established in terms of the Dog Tax Ordinance, Ordinance 19 of 1978, to obtain funding to enable the municipality to control dogs in the municipal area. The fund is not operational anymore and will be written off during the conversion to the GRAP-format of Annual Financial Statements.

The Revolving Fund is a fund established in terms of the Local Authorities Ordinance, Ordinance 23 of 1935, to enable the municipality to finance future capital expenditure. Contributions at 7,5% of assessment rates income are made annually to the fund in terms of the said Ordinance.

The municipality is dependent on external funds (external loans and grants) to finance its annual capital programme.

Refer to the Note 1 and Appendix "A" for more detail.

6. RESERVES

The outstanding amount of Reserves as at 30 June 2008 was R82 102 (30 June 2007: R82 102).

Reserves comprise the Renewals Fund which was established to provide funding for the replacement of exhausted furniture and equipment. Contributions are made from operating revenue to fund the reserve.

Refer to Note 2 and Appendix "A" for more detail.

7. TRUST FUNDS

The outstanding amount of Trust Funds as at 30 June 2008 was R19 905 498 (30 June 2007: R5 792 374).

These funds represent the unspent balances of grants and subsidies received from National, Provincial and Local Governments to assist the municipality in its operating and capital needs. The unspent balance should be cash-backed, which is not the case as the moneys were utilised for other purposes. Steps are taken to correct the situation.

Refer to Note 3 and Appendix "A" for more detail.

8. CONSUMER DEPOSITS

Consumer Deposits amounted to R104 700 at 30 June 2008 (30 June 2007: R104 700).

These deposits are collected upon the connection of consumers to the municipality's services networks and serve as 'collateral' for services consumed and not yet paid for.

Refer to Note 4 for more detail.

9. FIXED ASSETS

The net value of Fixed Assets was R3 693 718 as at 30 June 2008 (30 June 2007: R3 693 718).

The municipality is busy with an audit of all assets as part of the process of compiling a comprehensive and updated asset register.

Refer to Note 5 and Appendix "C" for more detail.

10. LONG-TERM DEBTORS

Long-term Debtors of R10 623 at 30 June 2008 (30 June 2007: R10 697) is made up as follows:

Vehicle Loans		<u>26,315</u>
		26,315
Less: Short-term portion included in Current Assets		<u>15,692</u>
		<u>10,623</u>

In terms of the MFMA the municipality may not grant loans to staff and public anymore and these loans will reduce annually until they have been fully repaid.

Refer to Note 6 for more detail.

11. CURRENT ASSETS

Current Assets amounted R42 204 710 as at 30 June 2008 (30 June 2007: R24 890 089) and is made up as follows:

Consumer Debtors	Note 8	25,932,791
Other Debtors	Note 9	3,721,193
Short-term Investments	Note 10	10,827,716
Cash and Bank	Note 11	1,723,010
Short-term portion of Long-term Debtors	Note 6	15,692
		<u>42,220,402</u>

The substantial increase is due to the increment in Consumer Debtors and is alarming. Council's Credit Control Policy will have to applied strictly and adhered to in all circumstances in order to recover monies due to the municipality.

Refer to the indicated Notes for more detail.

12. CURRENT LIABILITIES

Current Liabilities amounted R12 312 926 as at 30 June 2008 (30 June 2007: R9 780 492) and is made up as follows:

Provisions	Note 12	1,259,629
Creditors	Note 13	11,052,775
Bank Overdraft	Note 11	522
		<u>12,312,926</u>

Non-current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). At this stage it is uncertain whether the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

13. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme and certain operational functions. Operating grants are also utilised to finance indigent assistance.

Refer to Note 29, and Appendices "A and D" for more detail.

14. POST BALANCE SHEET EVENTS

No events were identified to disclose.

15. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have to be converted to the so-called GRAP-format during the 2008/2009 financial year.

The unbundling process will be carried out as at 30 June 2007 in order to be able to have comparative figures available for the Annual Financial Statements presented in the new format. Consultants have been appointed to assist in the process.

16. EXPRESION OF APPRECIATION

We are grateful to the Mayor, Councillors, the Municipal Manager and Senior Officials for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

04 December 2008