

K O U G A

local municipality

Prosperity through vision

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2012

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GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2012

B Koerat	Executive Mayor
P Kota	Infrastructure Development
P Oliphant	Local Economic Development
VS Stuurman	Finance, Admin, Monitoring and Evaluation
T Maseti	Social Services
V Camelio-Benjamin	Tourism and Creative Industries

AUDITORS

Auditor-General
PO Box 210917, The Fig Tree, 6033
Eastern Cape

BANKERS

First National Bank
Private Bag X5
Jeffreys Bay, 6330

REGISTERED OFFICE

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Jeffreys Bay

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6330

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Webpage: www.kougamunicipality.gov.za
E-mail: registry@ec108.org.za

MUNICIPAL MANAGER

Mr. S Fadi

CHIEF FINANCIAL OFFICER

Miss. M.C Burger

GENERAL INFORMATION (continued)

LEGAL FORM

Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa.

GRADING

Grade 8

JURISDICTION

Greater Kouga area which includes:
Jeffreys Bay, Loerie, Thornhill
Humansdorp
St Francis Bay, Cape St Francis, Oyster Bay
Hankey
Patensie


MEMBERS OF THE KOUGA LOCAL MUNICIPALITY

WARD	COUNCILLOR	
1	Mayoni	Z
2	Hill	E
3	Thiart	H
4	Campher	F
5	Groep	E
6	Oliphant	P
7	Koliti	B
8	Aldendorff	D
9	Ntshiza	L
10	Kota	P
11	Ungerer	M
12	Rheeder	B
13	Matodlana	V
14	Meleni	T
15	Mahlathini	E
Proportional	Blouw	Z
Proportional	Camelio-Benjamin	V
Proportional	Dlomo	M
Proportional	Maseti	T
Proportional	Koerat	B
Proportional	Stuurman	V
Proportional	Njela	C
Proportional	Cawood	C
Proportional	Botha	N
Proportional	Joy	J
Proportional	Benson	D
Proportional	Speelman	M
Proportional	Williams	B
Proportional	Baxter	F

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 124 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



 Mr. S Fadi
 Municipal Manager

31.08.2012

 Date

KOUGA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the financial position of Kouga Local Municipality for the fiscal year 2011/12.

In rendering a corporate financial management service to all departments, the Finance Department's primary objective is to assist the Municipal Manager and senior management to manage their budgets and ensure the effective application of financial resources in rendering services to the community.

These annual financial statements are a presentation of the accounting activities of the Kouga Local Municipality for the financial year as indicated.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality. The increase in the percentage in respect of Employee Related Costs is because of the provision created for Council's staff retirement liabilities.

Financial Statement Ratios:

INDICATOR	2012	2011
Surplus / (Deficit) before Appropriations	-64 343 362	(93 761 442)
Surplus / (Deficit) at the end of the Year	2 704 061 746	2 803 901 645
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	33.51%	38.02%
Remuneration of Councillors	1.49%	0.77%
Bad Debts	4.93%	0.84%
Collection costs	0.00%	0.02%
Contracted services	0.01%	0.04%
Depreciation and amortization	14.53%	16.22%
Impairment losses - Property, Plant and Equipment	0.00%	0.00%
Repairs and Maintenance	2.92%	3.36%
Interest Paid	2.17%	3.48%
Bulk Purchases	27.05%	23.45%
Grants and Subsidies Paid	3.42%	2.99%
General Expenses	9.99%	10.82%
Current Ratio:		
Creditors Days	77	73
Debtors Days	114	113

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of variances of more than 10% from budget, are included in Appendix "E (1)".

The overall operating results for the year ended 30 June 2012 are as follows:

DETAILS	Actual 2011/2012 R	Actual 2010/2011 R	Percentage Variance %	Budgeted 2011/2012 R	Variance: actual/ budgeted %
Income:					
Opening surplus / (deficit)	-	-	#DIV/0!		-
Operating income for the year	467 802 030	392 482 905	19.19%	434 249 807	7.73%
Appropriations for the year	-64 343 362	(93 761 442)	-31.38%	-	-
	403 458 668	298 721 463	35.06%	434 249 807	-31.21%
Expenditure:					
Operating expenditure for the year	532 145 391	486 244 347	9.44%	394 382 023	23.29%
Sundry transfers		-			-
Closing surplus / (deficit)					-
		486 244 347		394 382 023	23.29%
				39 867 784	

Under normal circumstances the above figures would be broken down into the various classified segments of General, Economic and Trading Services. However, because the provision created for retirement liabilities has not yet been split across those sectors fully, any segmental reporting would have to be estimated in terms of expenditure. This is an issue that needs to be addressed in the forthcoming financial year by the actuaries.

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R 2,915 147 129 (2010/11: R 2,969 799 789), and in percentage terms amounts to 100% of budget. Full details of Property, Plant and Equipment are disclosed in note number 12 and appendices "B, C and E (2)" to the Annual Financial Statements.

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

DETAILS	2012	2011
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	28 552 000.00	39 867 784.34
Revenue variances	15 886 586.05	41 766 901.97
Expenditure variances:		
Employee Related Costs	7 939 726.16	16 816 145.21
Remuneration of Councillors	-2 334.15	-1 595 611.25
Bad Debts	829 362.25	-18 582 532.96
Collection costs	-14 493.56	-119 231.52
Contracted services	10 637.90	120 102.00
Depreciation	77 295 670.19	78 868 029.76
Repairs and Maintenance	-3 409 333.91	-8 146 799.84
Interest Paid	-4 258 704.69	9 002 348.93
Bulk Purchases	4 341 376.87	15 036 241.17
Grants and Subsidies Paid	2 421 894.96	2 626 610.34
General Expenses	-8 145 026.57	-2 162 977.20
Budgeted Expenditure on non-GRAP compliant items	0.00	0.00
Actual surplus before appropriations	121 447 361.50	173 497 010.94

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of variances of more than 10% from budget, are included in Appendix "E (1)".

5.2 Capital Budget:

	Actual 2011/2012 R	Budgeted 2011/2012 R	Variance actual/ budgeted R
Executive and Council	-	-	-
Finance and Administration	173 759	173 759	-
Planning and Development	270 986	270 986	-
Health	-	-	-
Community and Social Services	-	-	-
Housing	-	-	-
Public Safety	-	-	-
Sport and Recreation	-	-	-
Environmental protection	-	-	-
Waste Management	-	-	-
Waste Water Management	13 942 200	14 657 700	(715 500)
Roads and Transport	-	-	-
Water	4 278 752	7 194 200	(2 915 448)
Electricity	3 346 397	6 700 000	(3 353 603)
Other	-	-	-
	22 012 094	28 996 645	(6 984 551)

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with an explanation of variances of more than 5% from budget, are included in Appendix "E (2)".

6. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R 23,809,039 (30 June 2011: R 13,723,514).

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

7. NON-CURRENT PROVISIONS

Non-current Provisions amounted R 94 308 918 as at 30 June 2012 (30 June 2011: R 24,528,400) and are made up as follows:

Provision for Post Retirement Benefits	
Post-Employment Benefit Liability	84 017 886
Provision for Rehabilitation of Land-fill Sites	6 968 371
Provision for Long Service Awards	3 322 662
	<u>94 308 918</u>

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note number 4 and 5 for more detail.

8. CURRENT LIABILITIES

Current Liabilities amounted to R 187 741 584 as at 30 June 2012 (30 June 2011: R 151,142,973) and are made up as follows:

Consumer Deposits	Note number 6	7 606 800
Provisions	Note number 7	27 194 018
Creditors	Note number 8	111 990 695
Unspent Conditional Grants and Receipts	Note number 9	17 141 032
Current Portion of Long-term Liabilities	Note number 3	23 809 039
		<u>187 741 584</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Note numbers for more detail.

9. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R 2,915 147 129 as at 30 June 2012 (30 June 2011: R 2,969 799 789).

Refer to Note number 12 and Appendices "B, C and E (2)" for more detail.

10. INVESTMENTS

The municipality has short term Investments to the value of R 17,401,276 as at 30 June 2012 (30 June 2011: R 14,226,389). These investments are ring-fenced for and attributable to Collateral and Unspent conditional grants and receipts, with the result that no amounts are available for own purposes.

Refer to Note number 21 for more detail.

11. LONG-TERM RECEIVABLES

Long-term Receivables of R 384,212 at 30 June 2012 (30 June 2011: R 391,190) consist of staff loans. No staff loans were granted to officials of the municipality during the year under review. The outstanding amount relates to prior years and is still collectable.

Refer to Note number 16 for more detail.

12. CURRENT ASSETS

Current Assets amounted to R 93,484,896 as at 30 June 2012 (30 June 2011: R 96,389,551) and are made up as follows:

Inventory	Note number 17	3 274 149
Consumer Debtors	Note number 19	55 910 956
Other Debtors	Note number 20	8 529 144
Current Portion of Long-term Receivables	Note number 16	38 865
Short-term Investment Deposits	Note number 21	17 401 276
VAT	Note number 10	6 531 303
Operating lease asset	Note number 22	87 753
Bank Balances and Cash	Note number 23	1 711 445
		<hr/> <hr/>
		93 484 893

The Short-term Investment Deposits are ring-fenced for the purposes of the Capital Replacement Reserve, Unspent Conditional Grants and the repayment of the Current Portion of Long-term Liabilities and no funds are available for own purposes.

Refer to the indicated Note numbers for more detail.

13. INTER-GOVERNMENTAL GRANTS

The municipality plays an important role in the upliftment of the poor and sustaining and improving of infrastructure for all its citizens for which it uses grants received from government and other organisations, and has a big responsibility as custodian of these funds.

Refer to Notes number 9 and 29, and Appendix "F" for more detail.

14. EVENTS AFTER THE REPORTING DATE

Full details of all known events after the reporting date are disclosed in Note number 53.

15. EXPRESSION OF APPRECIATION

I am grateful to the Executive Mayor, Members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for their support extended during the financial year.

Medium capacity municipalities should comply with all GRAP standards for the year ended 30 June 2012 along with ASB Directive 4 *Transitional provisions for the adoption of standards of GRAP by medium and low capacity municipalities*. The impact of complying with all GRAP standards, will not be felt solely in the Finance Department. What GRAP will herald is a sea-change in the business management of this Council and the departments of Council will have to take far greater responsibility for their corporate planning, reporting and financial administration. This requires adding different skills to departments perhaps not currently within their skills set and it may also require additional staff to be deployed with concomitant costs.

The work involved compiling these financial statements has been highly complex and technical and therefore my heartfelt thanks goes to my own staff at all levels and in all departments, for their hard work and dedication.



C. BURGER

CHIEF FINANCIAL OFFICER

31 August 2012

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not yet effective:

REFERENCE	TOPIC	EFFECTIVE DATE
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-exchange Transactions	1 April 2012
GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 104	Financial Instruments	1 April 2012

The Municipality resolved to formulate an accounting policy based on the following GRAP standard which has been issued but is not yet effective.

REFERENCE	TOPIC	EFFECTIVE DATE
GRAP 25	Employee Benefits	1 April 2012

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Property, Plant and Equipment, Investment Property and Intangible Assets where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

GRAP 24: Presenting of Budget Information in Financial Statements is not yet effective. However GRAP 1.15 requires a comparison between actual and budgeted amounts. This information has been disclosed in the financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

**KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012**

1.6. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

REFERENCE	TOPIC	EFFECTIVE DATE
GRAP 6 (Revised)	<u>Consolidated and Separate Financial Statements</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 7 (Revised)	<u>Investments in Associate</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 8 (Revised)	<u>Interest in Joint Ventures</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 18	<u>Segment Reporting</u> Information to a large extent is already included in the notes to the annual financial statements.	Unknown
GRAP 24	<u>Presentation of Budget Information in Financial Statements</u> Information to a large extent is already included in the notes to the annual financial statements.	1 April 2012
GRAP 103	<u>Heritage Assets</u> No adjustments will necessary other than a separate line item in the Statement of Financial Position and the transfer of the values from property, plant and equipment.	1 April 2012
GRAP 105	<u>Transfer of Functions between Entities under Common Control</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 106	<u>Transfer of Functions between Entities not under Common Control</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 107	<u>Mergers</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.7. FOREIGN CURRENCY TRANSACTIONS

The Municipality will not incur a foreign currency liability other than that allowed by the MFMA.

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

1.8. RESERVES

1.8.1. Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, funds are transferred from the accumulated surplus / (deficit) to the CRR. The funds in the CRR can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus / (Deficit) are credited by a corresponding amount when the amounts in the CRR are utilized.

The CRR may only be utilized for the purpose of purchasing/ construction of items of property, plant and equipment and may not be used for the maintenance of these items.

1.8.2. Revaluation Reserve

The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.

All increases in the carrying value of assets as a result of a revaluation are credited against the reserve, except to the extent that the increase reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

All decreases in the carrying value of assets as a result of a revaluation are debited against the reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.9. LEASES

1.9.1. Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Transfer of ownership is not required to be recognised as a finance lease. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

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

1.9.2. Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

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

1.10. BORROWING COST

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

1.11. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested until it is utilised.

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

1.12. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unpaid conditional grants are assets in terms of the Framework that are separately disclosed in the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from public.

The following provisions are set for the creation and utilisation of grant receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

1.13. PROVISIONS

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

- the location, function and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

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

1.14. EMPLOYEE BENEFITS

(a) Post Retirement Medical obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012**

(b) Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(c) Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

(d) Staff Bonuses

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

1.15. PROPERTY, PLANT AND EQUIPMENT

1.15.1. Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.15.2. Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.15.3. Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<u>Infrastructure</u>		<u>Other</u>	
Roads and Paving	5-60	Buildings	20-30
Pedestrian Malls	20	Specialised vehicles	10-15
Electricity	4-80	Other vehicles	5-10
Water	5-100	Office equipment	5-15
Sewerage	4-80	Furniture and fittings	5-15
Housing	30	Watercraft	10-15
		Bins and containers	5
<u>Community</u>		Plant and Equipment	4-15
Buildings	20-30	Landfill sites	20
Recreational Facilities	20-30		

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Security	15	Emergency equipment	7
Halls	20-30		
Libraries	20-30		
Parks and gardens	20-30		
Other assets	15-20		
<u>Heritage assets</u>			
No depreciation			
<u>Finance lease assets</u>			
Office equipment	3-5		
Other assets	5		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

1.15.4. De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15.5. Land and Buildings and Other Assets – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost, while for Other Assets the depreciated replacement cost method was used to establish the deemed cost.

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1.16. INTANGIBLE ASSETS

1.16.1. Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

1.16.2. Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

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1.16.3. Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3-10
Computer Software Licenses	As per license agreement

1.16.4. De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17. INVESTMENT PROPERTY

1.17.1. Initial Recognition

Investment property shall be recognised as an asset when and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the

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deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The cost of self-constructed investment property is the cost at date of completion.

1.17.2. Subsequent Measurement – Cost model

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

1.17.3. Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	25-30

1.17.4. De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17.5. Application of deemed cost (Directive 7)

The Municipality opted to take advantage of the provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost.

1.18. CONSTRUCTION CONTRACTS

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

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

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

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

1.19. NON-CURRENT ASSETS HELD FOR SALE

1.19.1. Initial Recognition

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

1.19.2. Subsequent Measurement

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

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

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

1.20. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.20.1. Cash generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the

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carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.20.2. Non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.21. NON CURRENT INVESTMENTS

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

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1.22. INVENTORY

1.22.1. Initial Recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.22.2. Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

1.23. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include trade and other receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and trade and other payables.

1.23.1. Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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1.23.2. Subsequent Measurement

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. , Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.23.2.1. Trade and Other Receivables

Trade and other receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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1.23.2.2. Payables and Annuity Loans

Financial liabilities consist of trade and other payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.23.2.3. Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.23.3. De-recognition

1.23.3.1. Financial Assets

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

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

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

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When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.23.3.2. Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.23.4. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

1.24. REVENUE

1.24.1. Revenue from Non-Exchange Transactions

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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

Fine Revenue constitutes both spot fines and summonses. Revenue from spot fines and summonses is recognised based on an estimation of future collections of fines issued based on prior period trends and collection percentages.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of

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property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

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

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

Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

1.24.2. Revenue from Exchange Transactions

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

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

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet

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at year-end is disclosed as under Trade and Other Payables in the Statement of Financial Position.

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

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. In the case of residential property a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

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

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

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

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

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

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all

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future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.24.3. Grants, Transfers and Donations (Non-exchange Revenue)

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

1.25. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity is the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.26. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 200), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.29. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

**KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012**

1.30. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard brings new rules in respect of presentation of budget information.

1.31. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Post retirement medical obligations and Long service awards

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was

**KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012**

based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

Revenue Recognition

Accounting Policy 1.24.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.24.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, management considers whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

**KOUGA LOCAL MUNICIPALITY
ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2012**

1.32. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.33. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

NET ASSETS AND LIABILITIES	Note	2012 R	2011 R
Net Assets		2 704 061 746	2 803 901 645
Accumulated Surplus		2 704 061 746	2 803 901 645
Non-Current Liabilities		183 530 362	178 454 223
Long-term liabilities	3	62 984 125	79 573 581
Provision for post- retirement benefits:	4	84 017 886	74 352 241
Other non-current provisions	5	36 528 351	24 528 400
Current Liabilities		187 741 584	151 142 973
Consumer Deposits	6	7 606 800	7 342 147
Provisions	7	27 194 018	7 148 344
Creditors	8	111 990 695	96 692 332
Unspent Conditional Grants and Receipts	9	17 141 032	12 998 055
Bank Overdraft	23	-	13 238 582
Current Portion of Long-term Liabilities	3	23 809 039	13 723 514
Total Net Assets and Liabilities		3 075 333 692	3 133 498 840
ASSETS			
Non-Current Assets		2 981 848 798	3 037 109 289
Property, Plant and Equipment	12	2 915 147 129	2 969 799 789
Investment Property	13	66 167 010	66 720 950
Intangible Assets	14	150 447	197 361
Long-term Receivables	16	384 212	391 190
Current Assets		93 484 893	96 389 551
Inventory	17	3 274 149	5 188 954
Consumer Debtors	19	55 910 956	56 307 261
Trade receivables from non-exchange transactions	20	8 529 144	16 031 360
Current Portion of Long-term Receivables	16	38 865	130 522
Short-term Investment Deposits	21	17 401 276	14 226 389
VAT	10	6 531 303	4 442 424
Operating lease asset	22	87 753	62 640
Cash and cash equivalents	23	1 711 445	-
Total Assets		3 075 333 692	3 133 498 840

KOUGA LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

Budget			Actual	
2012 R	2011 R	Note	2012 R	2011 R
REVENUE				
105 316 616	103 017 493	Property Rates	24 104 273 577	89 759 515
270 309 238	224 796 623	Service Charges	25 267 154 921	215 980 058
455 142	398 631	Rental of Facilities and Equipment	26 722 796	604 016
572 056	661 875	Interest Earned - External Investments	27 937 488	2 633 862
3 813 527	5 702 634	Interest Earned - Outstanding Debtors	27 6 646 186	4 705 899
2 871 908	2 063 215	Fines	2 879 888	2 293 494
16 315 349	7 059 373	Licenses and Permits	28 7 682 610	6 631 860
74 950 591	62 506 156	Government Grants and Subsidies	29 71 302 717	60 546 613
9 080 117	6 343 807	Other Income	30 6 207 106	6 902 343
4 072	21 700 000	Gains on disposal of Property, Plant and Equipment	-5 260	2 425 244
483 688 616	434 249 807	Total Revenue	467 802 030	392 482 905
EXPENDITURE				
170 403 287	168 033 196	Employee Related Costs	31 178 343 013	184 849 341
7 951 749	5 333 881	Remuneration of Councillors	32 7 949 415	3 738 270
25 379 290	22 679 723	Bad debts	33 26 208 652	4 097 190
-	235 176	Collection costs	-14 494	115 944
22 799	56 818	Contracted services	33 437	176 920
-	-	Depreciation and amortization	34 77 295 670	78 868 030
18 955 099	24 465 416	Repairs and Maintenance	15 545 765	16 318 616
15 782 933	7 896 712	Interest and Penalties paid	35 11 524 228	16 899 061
139 580 640	98 985 897	Bulk Purchases	36 143 922 017	114 022 138
15 764 629	11 907 349	Grants and Subsidies Paid	37 18 186 524	14 533 959
61 296 190	54 787 855	General Expenses	38 53 151 163	52 624 878
		Budgeted Expenditure on non-GRAP compliant items		
455 136 616	394 382 023	Total Expenditure	532 145 391	486 244 347
28 552 000	39 867 784	SURPLUS / (DEFICIT) FOR THE YEAR	-64 343 362	-93 761 442

Refer to Appendix E(1) for explanation of variances

**KOUGA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2012**

Description	Accumulated Surplus / (Deficit)	Total
	R	R
Balance as at 1 July 2011	-154 304 645	-154 304 645
Correction of error Note 39.2 (a)	-109 460	-109 460
Correction of error Note 39.2 (a)	-2 743 248 983	-2 743 248 983
Restated balance as at 1 July 2011	-2 897 663 087	-2 897 663 087
2011		
Deficit for the year ended 30 June 2011	93 761 442	93 761 442
Balance previously reported	10 363 823	10 363 823
Correction of error Note 39.2 (b)	83 397 619	83 397 619
Balance as at 30 June 2011	-2 803 901 645	-2 803 901 645
Correction of error	35 496 537	35 496 537
Restated balance as at 1 July 2012	-2 768 405 108	-2 768 405 108
2012		
Deficit for the year ended 30 June 2012	64 343 362	64 343 362
Balance as at 30 June 2012	-2 704 061 747	-2 704 061 747
	-	

KOUGA LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 R	2011 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		539 821 602	392 482 905
Cash paid to suppliers and employees		(467 725 495)	(381 013 762)
Cash generated from / (utilised in) operations	40	<u>72 096 108</u>	<u>11 469 143</u>
Interest received		7 583 674	7 339 761
Interest paid		(7 835 694)	(16 899 061)
NET CASH FROM OPERATING ACTIVITIES		<u><u>71 844 088</u></u>	<u><u>1 909 843</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(21 497 614)	(22 042 156)
(Increase) / decrease in non-current receivables		(151 389)	145 875
(Increase) / decrease in non-current investments		0	(142 625)
NET CASH FROM INVESTING ACTIVITIES		<u><u>(21 649 002)</u></u>	<u><u>(22 038 906)</u></u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised / (repaid)		(6 503 930)	68 820 661
Increase / (decrease) in Consumer Deposits		264 653	(306 930)
NET CASH FROM FINANCING ACTIVITIES		<u><u>(6 239 277)</u></u>	<u><u>68 513 731</u></u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u><u>43 955 808</u></u>	<u><u>48 384 669</u></u>
Cash and cash equivalents at the beginning of the year		<u>14 226 389</u>	<u>40 900 997</u>
Cash and cash equivalents at the end of the year	41	<u>58 182 197</u>	<u>14 226 389</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1 GENERAL INFORMATION

Kouga Local Municipality (the municipality) is a local government institution in Jeffreys Bay, Eastern Cape. The address of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Constitution.

2 PROCESS TO COMPLY FULLY WITH THE IMPLEMENTATION OF GRAP

The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a medium capacity municipality and the municipality comply with GRAP by 30 JUNE 2011. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 JUNE 2011.

3 LONG-TERM LIABILITIES

	2 012	2011
	R	R
Annuity Loans	63 905 387	70 409 320
Capitalised Lease Liability	22 887 777	22 887 777
Sub-total	86 793 164	93 297 097
Less: Current Portion transferred to Current Liabilities	23 809 039	13 723 514
Annuity Loans	23 809 039	13 723 514
Capitalised Lease Liability	-	-
Total Long-term Liabilities (Neither past due nor impaired)	62 984 125	79 573 583

Refer to Appendix A for more detail on long-term liabilities.

Summary of arrangements:

ANNUITY LOANS:

Annuity Loans are repaid over periods varying from five to twenty years (2011: five to twenty years), and at interest rates varying from 8.5% to 14.61%. Annuity Loans are not secured.

Management of the municipality is of the opinion that the carrying value of Long-Term Liabilities recorded at amortised cost in the financial statements approximate their fair values.

The fair value of Long-Term Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

FINANCE LEASE LIABILITIES:

The Municipality as lessee

Capitalised Lease Liabilities relate to office equipment with lease terms of five years (2011: five years). The effective interest rate on finance leases is between 7.8% and 18.20% (2012: 11.36% and 18.17%). Capitalised lease liabilities are secured over the items of office equipment leased.

The obligations under finance leases are scheduled below:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2012 R	2011 R	2012 R	2011 R
Amounts payable under finance leases				
Within one year	3 429 328	4 387 239	3 429 328	4 387 239
1 to 5 years	14 124 436	18 069 800	14 124 436	18 069 800
More than 5 years				
	17 553 764	22 457 039		
Less: Future finance charges	(4 707 543)	(4 903 275)		
Present Value of Lease obligations	12 846 221	17 553 764	17 553 764	22 457 039
Less amounts due for settlement within 12 months (current portion)			(4 707 543)	(4 903 275)
Amounts due for settlement after 12 months (non-current)			12 846 221	17 553 764

The management of the municipality is of the opinion that the carrying value of Finance Leases approximate their fair values.

The municipality has finance lease agreements for the following significant classes of assets:
- Office Equipment

Included in these classes are the following significant leases:

(i) Konica Minolta 1050 Digital Copier	773 778
- Instalments are payable monthly in advance	
- Average period outstanding	24 months
- Average effective interest rate	11.36%
- Average capital redemption per month over lease period	32 240.73
(2) Various photocopiers and fax machines	5 950 525
- Instalments are payable monthly in advance	
- Average period outstanding	36 months
- Average effective interest rate	10.87%
- Average capital redemption per month over lease period	165 292
(3) Various motorvehicles	10 858 560
- Instalments are payable monthly in advance	
- Average period outstanding	24 months
- Average effective interest rate	16.61%
- Average capital redemption per month over lease period	452 440

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
4 PROVISION FOR POST RETIREMENT BENEFITS		
4.1 Post-Employment Health Care Benefit Liability		
Post-Employment Health Care Benefit Liability	61 641 000	56 059 000
Less: Transfer to Current Provisions	-	-
Total: Post Retirement Medical Aid Benefit Liability	61 641 000	56 059 000

The Municipality provides certain post retirement medical benefits by funding the medical aid

The most recent actuarial valuations of plan assets and the present value of the unfunded

The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the

In-service members (Employees)	436	448
Continuation members (Retirees, widowers and orphans)	56	56
Total	492	504

The liability in respect of past service has been estimated to be as follows:

In-service members	36 040 000	32 846 000
Continuation members	25 601 000	23 213 000
Total Liability	61 641 000	56 059 000

The municipality makes monthly contributions for health care arrangements to the following

- Bonitas
- Global Health
- LA Health
- Munimed
- Samwumed

The Future-service cost for the year ending 30 June 2012 is estimated to be R 4 164 000

	2012 %	2011 %
The principal assumptions used for the purposes of the actuarial valuations were as		
i) Rate of interest		
Discount rate	0	0
Health Care Cost Inflation Rate	0	0
Expected Return on Reimbursement Rights		
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	65	65

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

ii) Mortality rates

Pre-Retirement	SA 85 - 90 mortality table
Post-Retirement	PA(90) ultimate 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.

	2012	2011
	R	R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	63 107 000	56 059 000
Fair value of plan assets	-	-
	<u>63 107 000</u>	<u>56 059 000</u>
Unrecognised past-service cost	0	0
Unrecognised actuarial gains / (losses)	18 625 000	19 251 418
Present value of unfunded obligations	63 107 000	56 059 000
Net Liability	<u>81 732 000</u>	<u>75 310 418</u>

The movement in the defined benefit obligation over the year is as follows:

Balance at beginning of year	75 310 000	68 576 487
Recognised past service cost	0	-
Current service cost	3 845 000	2 655 000
Interest cost	4 815 000	4 704 000
Actuarial (gain)/loss on the obligation	-626 000	930 931
Balance at end of year	<u>81 732 000</u>	<u>75 310 418</u>

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

Current service cost	3 845 000	2 655 000
Interest cost	4 815 000	4 704 000
Vested past service cost	0	0
Total included in staff costs (refer to note 31)	<u>8 660 000</u>	<u>7 359 000</u>

The effect of a 1 % movement in the assumed rate of health care cost inflation is as follows:

Increase

Effect on the current service cost	1 038 000	997 000
Effect on the interest cost	922 000	963 000
Effect on the defined benefit obligation	11 644 000	11 207 000

Decrease

Effect on the current service cost	-795 000	-742 000
Effect on the interest cost	-732 000	-741 000
Effect on the defined benefit obligation	-9 236 000	-8 636 000

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

4 PROVISION FOR POST RETIREMENT BENEFITS (continued)	2012 R	2011 R
4.2 Ex-Gratia Pension Benefit Liability		
Ex-Gratia Pension Benefit Liability	722 000	635 000
Less: Transfer to Current Provisions	0	0
Net Ex-Gratia Pension Benefit Liability	722 000	635 000

The Municipality provides certain post retirement pension benefits to certain retired

The most recent actuarial valuations of plan assets and the present value of the unfunded

The Ex-Gratia Pension Benefit Plan is a defined benefit plan, of which the members are made

Pensioners	11	11
Total	11	11

The interest cost for the ensuing year is estimated to be R 54 000 (2011: R 55 000).

The principal assumptions used for the purposes of the actuarial valuations were as	2012 %	2011 %
i) Rate of interest		
Discount rate	0	0
Post retirement interest rate	0	0
Net Effective Discount Rate	0	0
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	65	65

The assumed pension type used by the actuaries in their valuation was the Joint Life reducing

ii) Mortality rates		
Post-Retirement	PA(90) ultimate 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
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	722 000	635 000
Fair value of plan assets	0	0
	<u>722 000</u>	<u>635 000</u>
Unrecognised past-service cost	0	0
Unrecognised actuarial gains / (losses)	0	0
Present value of unfunded obligations	722 000	635 000
Net Liability	<u>722 000</u>	<u>635 000</u>
 The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	635 000	306 000
Current service cost	0	
Interest cost	55 000	27 000
Actuarial (gain)/loss on the obligation	103 000	357 249
Balance at end of year	<u>722 000</u>	<u>635 000</u>
 The amount recognised in the Statement of Financial Performance are as follows:		
Current service cost	0	0
Interest cost	55 000	27 000
Vested past service cost		
Total included in staff costs (refer to note 31)	<u>55 000</u>	<u>27 000</u>
 5 OTHER NON-CURRENT PROVISIONS		
Provision for Rehabilitation of Land-fill Sites	6 968 371	6 342 830
Provision for Long Service Awards	3 322 662	2 716 000
Total Other Non-current Provisions	<u>10 291 033</u>	<u>9 058 830</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	6 342 830	-
Contributions to provision	-	6 621 960
Increase due to discounting	3 647 664	
Transfer to current provisions	(3 022 123)	(279 130)
Balance at end of year	<u>6 968 371</u>	<u>6 342 830</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	2 716 000	-
Contributions to provision	2 859 000	3 293 000
Increase due to discounting	522 000	-
Transfer to current provisions	(419 338)	(577 000)
Balance at end of year	<u>5 677 662</u>	<u>2 716 000</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 2009 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 2010 and 2028. The cost factors derived from the study have been applied and projected at an annual inflation rate of 7% (2008: 7%) and discounted to present value at a rate of 11% (2008: 15%). 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 2009 in the discounted amount arising from the passage of time, amounted to R 3,688,543. 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 water.
- 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 2012 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 2012 by a Fellow Member of the Actuarial Society of South Africa in the employment of ZAQEN Actuaries (Pty) Ltd. 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:

Blue collar employees	565	538
White collar employees	392	413
Total	957	951

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The future-service cost for the year ending 30 June 2012 is estimated to be R 985 000 (2011: R 859 000) whereas the interest cost for the ensuing year is estimated to be R 654 000 (2011: R522 000).

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

	2012	2011
	%	%
i) Rate of interest		
Discount rate	0	0
Normal Salary Increase Rate	0	0
Net Effective Discount Rate	0	0
Expected Retirement Age - Females	60	60
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.

	2012	2011
	R	R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	8 331 000	6 085 000
Fair value of plan assets	0	
	<u>8 331 000</u>	<u>6 085 000</u>
Unrecognised past-service cost	0	0
Unrecognised actuarial gains / (losses)	0	0
Present value of unfunded obligations	8 331 000	6 085 000
Net Liability	<u>8 331 000</u>	<u>6 085 000</u>

The movement in the defined benefit obligation over the year is as follows:

Balance at beginning of year	6 085 000	4 988 000
Recognised past service cost	0	
Current service cost	859 000	752 000
Interest cost	522 000	451 000
Bonuses paid	-1 135 000	-748 000
Actuarial (gain)/loss on the obligation	2 000 000	642 000
Balance at end of year	<u>8 331 000</u>	<u>6 085 000</u>

The municipality had elected to recognise the full increase in this defined benefit liability immediately, as per IAS 19 *Employee Benefits*, paragraph 155 (a).

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

Current service cost	859 000	752 000
Interest cost	522 000	451 000
Actuarial loss	2 000 000	642 000
Vested past service cost		
Total included in staff costs (refer to note 31)	<u>3 381 000</u>	<u>1 845 000</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
6 CONSUMER DEPOSITS		
Electricity and water	-7 606 800	-7 342 147
Total Consumer Deposits	-7 606 800	-7 342 147

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

Performance Bonus		311 053
Staff leave	4 614 912	
Current Portion of Non-Current Provisions (See Notes 4 & 5 above):		
Provision for Post-Employment Health Care Benefit Liability	-61 641 000	-56 059 000
Provision for Ex-Gratia Pension Benefit Liability	-722 000	-635 000
Provision for Rehabilitation of Land-fill Sites	3 886 666	279 130
Provision for Long Service Awards	419 338	577 000
Total Provisions	(53 442 084)	(55 526 817)

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

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.

The movement in current provisions are reconciled as follows:

30 June 2012:

	Land-fill Sites	Staff Leave	Performance Bonus
Balance at beginning of year	279 130		
Contributions to provision	544 543		224 917
Transfer from non-current	3 022 123	-	-
Increase due to discounting	40 870	-	-
Expenditure incurred	-	(449 997)	-
Balance at end of year	3 886 666	4 614 912	224 917

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Long Service Awards	Ex-gratia Pension	Post Employment Health Care
Balance at beginning of year	577 000	(635 000)	(56 059 000)
Transfer from non-current	419 338	(722 000)	(61 641 000)
Expenditure incurred	(577 000)	635 000	56 059 000
Balance at end of year	419 338	(722 000)	(61 641 000)

30 June 2011:

	Land-fill Sites	Staff Leave	Performance Bonus
Balance at beginning of year	-		
Contributions to provision	279 130	597 621	311 053
Transfer from non-current	-	-	-
Expenditure incurred	-	-	-
Balance at end of year	279 130	597 621	311 053

	Long Service Awards	Ex-gratia Pension	Post Employment Health Care
Balance at beginning of year	-	-	-
Transfer from non-current	-	-	-
Expenditure incurred	577 000	(635 000)	(56 059 000)
Balance at end of year	577 000	(635 000)	(56 059 000)

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
8 CREDITORS		
Trade Creditors and accruals	111 853 422	85 769 971
Payments received in Advance	41 741	10 683 980
Sundry Creditors	95 532	238 380
Total Creditors	111 990 695	96 692 332

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.

9 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Conditional Grants from Other Spheres of Government

Cacadu District Municipality	375 384	295 384
Department of Water Affairs	145 461	145 461
Department Economic Development	520 845	631 500
Department. Mineral and Energy/NER	3 022 505	260 171
Development Bank	350 576	350 576
DPLG&TA (Housing)	8 624 635	6 139 479
DPLG&TA (Other)	2 510 268	2 510 268
Financial Support (Provincial)	-	814 298
Municipal Infrastructure Grant	814 297	1 850 918
Other	251 107	-
Skills Grant	525 954	-

Total Unspent Conditional Grants and Receipts	17 141 032	12 998 055
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See Note 29 for the reconciliation of grants from other spheres of government.

10 VAT

Vat Refundable	6 531 303	4 442 424
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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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012 2011
R R

11 OPERATING LEASES EXPENSE

The Municipality as lessee

Leasing arrangements:

Operating leases relate to office buildings with lease terms of between 0 to 1 year. The municipality does not have an option to purchase the leased asset at the expiry of the lease period. Cellular phone equipment contracts is nearing the end of its term and has no

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

Office buildings	191 761	173 400
Up to 1 year	191 761	173 400
1 to 5 years	-	-
More than 5 years	-	-
Total Operating Lease Arrangements	191 761	173 400

The following payments have been recognised as an **expense** in the Statement of Financial

Minimum lease payments- Office Buildings	476 971	371 268
Minimum lease payments- Cellular Contracts	1 266 823	1 143 351
Total Operating Lease Expenses - as Lessee	1 743 794	1 514 619

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

KOUGA LOCAL MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

12 PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2011 - 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 2010	55 731 054	(0)	5 029 861	238 871 541	(0)	61 472 692	26 755 151	387 675 438
Cost	89 165 378	(0)	6 789 185	361 025 812	(0)	74 441 591	32 559 668	563 981 634
Accumulated Depreciation:	(33 434 324)	-	(1 759 324)	(122 154 271)	-	(12 968 899)	(5 804 517)	(176 121 355)
Adjustments to carrying values as at 1 July 2010	(0)	-	-	1	-	(0)	-	0
Cost	-	-	-	0	-	(0)	-	0
Accumulated Depreciation:	(0)	-	-	0	-	-	-	-
Acquisitions	262 816	-	-	17 179 384	-	6 005 669	5 950 525	29 398 395
Capital under Construction	11 746 242	-	1 401 910	110 970 390	-	2 955 687	-	127 074 228
Depreciation: Impairment	-	-	-	-	-	-	-	-
Carrying value of disposals:	49 644 840	(0)	3 062 911	343 646 253	76 958	84 086 375	26 136 591	379 631 860
Cost	81 325 403	(0)	4 822 235	465 800 523	1 253 812	96 983 924	31 941 109	553 983 827
Accumulated Depreciation	(31 680 564)	-	(1 759 324)	(122 154 270)	(1 176 854)	(12 897 550)	(5 804 517)	(174 351 966)
Carrying values restated at 30 JUNE 2011	77 493 000	-	5 840	3 762 063 682	133 441 900	1 982 016 753	40 527 270	6 073 041 445
Cost	77 493 000	-	2 920	2 628 018 899	70 875 500	1 033 123 788	38 153 432	3 847 667 539
Accumulated Depreciation:	-	-	-	(746 987 058)	(4 154 550)	(42 115 411)	(17 889 797)	(811 146 817)

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 2011	49 644 840	(0)	3 062 911	343 646 253	76 958	84 086 375	26 136 591	379 631 860
Cost	81 325 403	(0)	4 822 235	465 800 523	1 253 812	96 983 924	31 941 109	553 983 827
Accumulated Depreciation:	(31 680 564)	-	(1 759 324)	(122 154 270)	(1 176 854)	(12 897 550)	(5 804 517)	(174 351 966)
Corrections of prior year error	(49 644 840)	-	(3 062 911)	(343 646 253)	(76 958)	(84 086 375)	(26 136 591)	(379 631 860)
Corrections of prior year error	77 493 000	-	2 920	1 881 031 841	66 720 950	991 008 377	20 263 635	3 036 520 722
Carrying values restated at 1 July 2011	77 493 000	-	2 920	1 881 031 841	66 720 950	991 008 377	20 263 635	3 036 520 722
Cost	77 493 000	-	2 920	2 628 018 899	70 875 500	1 033 123 788	38 153 432	3 847 667 539
Accumulated Depreciation:	-	-	-	(746 987 058)	(4 154 550)	(42 115 411)	(17 889 797)	(811 146 817)
Acquisitions	-	-	-	21 567 349	-	474 807	-	22 042 156
Disposals	-	-	-	(61 089 716)	(553 940)	(9 957 690)	(5 694 325)	(77 295 670)
Depreciation	-	-	-	21 567 349	-	-	-	21 567 349
Capital under Construction	-	-	-	-	-	-	-	-
Correction of opening balances according to appendix B	77 493 000	-	2 920	1 841 509 474	66 167 010	981 722 854	14 569 310	2 981 464 568
Cost	77 493 000	-	2 920	2 649 586 248	70 875 500	1 033 795 955	38 153 432	3 869 907 055
Accumulated Depreciation	-	-	-	(808 076 774)	(4 708 490)	(52 073 101)	(23 584 122)	(888 442 487)
Carrying values at 30 June 2012	77 493 000	-	2 920	1 841 509 474	66 167 010	981 722 854	14 569 310	2 981 464 568
Cost	77 493 000	-	2 920	2 649 586 248	70 875 500	1 034 171 992	38 153 432	3 870 283 092
Accumulated Depreciation:	-	-	-	(808 076 774)	(4 708 490)	(52 449 138)	(23 584 122)	(888 818 524)

(Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.)

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

13 INVESTMENT PROPERTY

	2012	2011
	R	R
<i>The movement in Investment Property is reconciled as follows:</i>		
Net Carrying value at 1 July	66 720 950	74 476 110
Cost	70 875 500	70 875 500
Accumulated Depreciation	4 154 550	3 600 610
Investment property identified	-	-
Transferred to inventory	-	-
Depreciation	(553 940)	(553 940)
Net Carrying value at 30 June	66 167 010	66 720 950
Cost	70 875 500	70 875 500
Accumulated Depreciation	4 708 490	4 154 550

14 INTANGIBLE ASSETS

	2012	2011
<i>The movement in Intangible Assets is reconciled as follows:</i>		
<u>Computer software:</u>		
Carrying value at 1 July	197 360	290 762
Cost	573 397	490 359.36
Accumulated Amortisation	376 037	199 597.23
Acquisitions	30 062	83 037
Amortisation during the Year	-76 975	-176 439
Carrying value at 30 June	150 446	197 360
Cost	603 458	573 397
Accumulated Amortisation	453 012	376 037

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.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15 INVESTMENTS	2012 R	2011 R
Financial Instruments		
Fixed Deposits	-	-
<hr/>		
<i><u>Summary of non-current investments as at 30 June (MFMA 125 (2)(b)):</u></i>		
Sanlam	-	-
Investec	-	-
<hr/>		

The municipality has short term investments to the value of R 17,401,276 as at 30 June 2012 (30 June 2011: R 14,226,389).

These investments are ring-fenced for and attributable to Collateral and Unspent conditional grants and receipts, with the result that no amounts are available for own purposes.

Refer to Note number 21 for more detail.

16 LONG-TERM RECEIVABLES

Staff debtors	583 131	680 078
<hr/>		
Less : Current Portion transferred to Current Receivables	583 131	680 078
Staff debtors	(38 865)	(130 522)
<hr/>		
Less: Provision for Bad Debts	544 266	549 555
	(158 366)	(158 366)
<hr/>		
Total Long-term receivables	385 900	391 190
<hr/>		

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	158 366	423
Reversal of provision	(158 366)	(423)
Contribution to provision	158 366	158 366
Bad Debts written off		
Balance at end of year	158 366	158 366
<hr/>		

STAFF LOANS

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

17 INVENTORY	2012 R	2011 R
Consumable Stores - at cost	-	3 104
General Stores	2 886 854	4 635 663
Water	387 295	34 658
Unsold Properties held for resale		
<hr/>		
	3 274 149	4 673 515
<hr/>		
Total Inventory	3 274 149	4 673 515
<hr/>		

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

18 ASSETS CLASSIFIED AS HELD-FOR-SALE

Property Held-for-Sale - at cost		
Other Assets Held-for-Sale - at cost		
Total Assets classified as Held-for-Sale		
Liabilities associated with Assets classified as Held-for-Sale		
Net Assets classified as Held-for-Sale		

18.1 Property Held-for-Sale

No Property, Plant and Equipment was held for sale at the reporting date

18.2 Other Assets Held-for-Sale

No Other assets were held for sale at the reporting date

19 CONSUMER DEBTORS

Service Debtors:		
Rates	109 829 663	86 041 350
Electricity	34 447 064	26 722 047
Water	32 924 864	25 007 904
Sewerage	21 454 445	17 842 796
Refuse	11 046 394	8 724 403
Housing	9 956 896	7 744 200
Other Consumer Debtors	48	45
	6 059 320	9 019 006
Gross balances	115 889 031	95 060 400
Add: Debtors with credit balances		
Less: Staff debtors included in other consumer debtors		
	115 889 031	95 060 400
Less: Provision for doubtful debts	-59 978 075	-38 753 139
Total consumer Debtors	55 910 956	56 307 261

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

Rates : Ageing

Current (0-30 Days)		
31-60 Days	3 571 339.45	-2 128 176
61-90 Days	852 616.71	3 305 741
91-120 Days	512 049.97	687 230
More than 120 Days	405 860.85	404 561
	28 968 532.08	24 452 691
Total	34 310 399	26 722 047

Electricity: Ageing

Current (0 - 30 days)		
31 - 60 days	8 553 572	42 261
61 - 90 days	2 239 135	11 122 980
91 - 120 days	1 415 475	2 012 735
More than 120 Days	961 654	1 215 089
	10 718 089	10 614 839
Total	23 887 926	25 007 904

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
Water: Ageing		
Current (0 - 30 days)	2 379 809	28 381
31 - 60 days	1 032 056	2 263 930
61 - 90 days	861 464	1 280 399
91 - 120 days	849 237	768 074
More than 120 Days	16 597 283	13 502 012
Total	21 719 848	17 842 796
Sewerage: Ageing		
Current (0 - 30 days)	1 886 835	-8 565
31 - 60 days	721 321	2 020 564
61 - 90 days	549 106	784 963
91 - 120 days	485 751	548 216
More than 120 Days	8 811 763	5 379 225
Total	12 454 774	8 724 403
Refuse: Ageing		
Current (0 - 30 days)	1 426 165	2 839
31 - 60 days	616 356	1 181 830
61 - 90 days	490 935	495 267
91 - 120 days	443 072	361 314
More than 120 Days	8 205 176	5 702 950
Total	11 181 704	7 744 200
Housing: Ageing		
Current (0 - 30 days)	45	45
31 - 60 days	3	-
61 - 90 days	-	-
91 - 120 days	-	-
More than 120 Days	6 524	-
Total	6 572	45
Other Consumer Debtors: Ageing		
Current (0 - 30 days)	-1 935 591	406 485
31 - 60 days	289 636	636 154
61 - 90 days	280 001	381 509
91 - 120 days	274 260	368 765
More than 120 Days	10 578 708	15 709 365
Total	9 487 013	17 502 278
Reconciliation of Provision for Bad Debts		
Balance at beginning of year	-38 753 139	-40 125 210
Contribution / (Reversal) to provision	-21 224 936	1 372 071
Bad Debts written off / recovered		
Balance at end of year	-59 978 075	-38 753 139

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.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
20 OTHER DEBTORS		
Sundry Debtors	8 529 144	16 031 360
Total Other Debtors	8 529 144	16 031 360

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

21 SHORT-TERM INVESTMENT DEPOSITS

Call Deposits	17 401 276	14 226 389
Total Short-term Investment Deposits	17 401 276	14 226 389

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

ABSA	723 431	695 238
FNB	4 706 287	4 742 541
Nedbank	193 327	183 511
RMB	11 778 232	4 605 100
Investec	-	4 000 000
	17 401 276	14 226 389

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

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

Deposits of R 34,087 (2011: R 41,054) are ring-fenced and attributable to the Capital Replacement Reserve (CRR).

Deposits of R 12,381,873 (2011: R 5,177,105) are ring-fenced and attributable to Unspent Conditional Grants and Receipts.

Deposits of R 3,003,878 (2011: R 3,160,800) are ring-fenced and attributable to Housing Developments.

Deposits of R 255,656 (2011: R 242, 580) are ring-fenced and attributable to Collateral.

22 OPERATING LEASE ARRANGEMENTS

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	370 519	172 181
1 to 5 years	1 282 623	562 351
More than 5 years	1 353 805	676 498
Total Operating Lease Arrangements	3 006 947	1 411 030

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 25,113 (2011: R 179)

In respect of non-cancellable Operating Leases the following asset has been recognised:	87 753	62 640
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KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

23 BANK, CASH AND OVERDRAFT BALANCES	2012 R	2011 R
The Municipality has the following bank accounts:		
First National Bank - Jeffreys Bay		
Cash book balance at beginning of year	-33 728 108	-19 253 820
Cash book balance at end of year	<u>1 711 445</u>	<u>-13 238 582</u>
<i>Account Number 525 400 207 91 (Primary Bank Account):</i>		
Bank statement balance at beginning of year	-2 772 829	-4 373 060
Bank statement balance at end of year	<u>-3 082 828</u>	<u>-2 772 829</u>
<i>Account Number 525 400 335 04 (Primary Bank Account):</i>		
Bank statement balance at beginning of year	841 345	1 489 790
Bank statement balance at end of year	<u>3 388 408</u>	<u>841 345</u>
Cash Floats and Advances	<u>8 960</u>	<u>8 960</u>
Total Bank and Cash	314 540	-1 922 524
Total Overdraft	1 711 445	-13 238 582
Total Bank and Cash	<u>2 025 985</u>	<u>-15 161 106</u>

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.

The fair value of Bank Balance and Cash were determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

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.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

24 PROPERTY RATES	Vacant	Improved	Total	2012	2011
	Land	Land		Actual Income	
Humansdorp RD	42 646 000	4 544 248 700	4 586 894 700	3 938 819.95	-2 575 683.56
Amaninzi	0	0	-	-	-
Aston Bay	91 995 000	1 815 186 000	1 907 181 000	6 518 988.31	6 752 344.31
Kaap St Francis	190 410 100	1 450 794 000	1 641 204 100	5 829 555.24	5 545 666.07
Hankey	12 519 000	327 262 900	339 781 900	630 582.34	631 104.41
Humansdorp	27 551 000	1 505 502 150	1 533 053 150	5 030 923.04	5 067 139.16
Jeffreys Bay	885 352 100	10 877 227 550	11 762 579 650	42 573 407.57	42 709 499.19
Kruisfontein	9 436 500	276 761 050	286 197 550	524 219.44	573 321.66
Oesterbaai	114 456 000	443 884 500	558 340 500	2 052 629.20	1 804 960.03
Paradysstrand	484 397 000	1 078 885 500	1 563 282 500	5 750 238.62	4 002 696.16
Patensie	7 383 500	291 870 000	299 253 500	849 218.41	839 325.87
Pellrus	17 402 500	234 402 500	251 805 000	664 881.88	628 394.10
Sea Vista	1 792 449 500	5 160 080 480	6 952 529 980	25 784 990.65	20 544 418.69
St Francis Links	56 775 000	766 168 000	822 943 000	2 386 435.20	2 443 253.99
Zwartenbosch	0	-	-	-	-
Uitenhage Rd	12 368 000	847 044 950	859 412 950	965 092.10	305 983.79
Loerieheuwel	0	15 450 500	15 450 500	8 533.61	13 617.15
Thornhill	409 000	17 428 500	17 837 500	21 298.01	24 920.21
Gamtoos Mouth	2 432 500	258 970 000	261 402 500	743 763.43	448 553.77
Crossways	0	0	-	-	-
Total Rates Income	3 747 982 700	29 911 167 280	33 659 149 980	104 273 577.00	89 759 515.00

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 rebate of between 5 % and 40% was allowed on residential properties for pensioners based on the annual income of the ratepayer whilst a discount of 20 % was granted on properties owned by the state.

A rate in the rand for domestic properties of R 0.01462 was charged on site values and a rate in the rand of R 0.01462 for improvements. Business were charged at a rate in the rand of R 0.01462 on site values and a rate in the rand of R 0.01462 for improvements and agricultural tariffs amounts to R 0.0034.

Government subsidised properties used for domestic purposes and consisting of both land and improvements are subject to a R 20,000 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.

25 SERVICE CHARGES	2012 R	2011 R
Sale of electricity	172 753 284	130 049 219
Sale of water	38 085 066	33 259 105
Refuse removal	23 888 492	19 182 003
Sewerage and Sanitation Charges	30 996 516	28 616 637
Other Service Charges	11 455 854	10 690 557
	<u>277 179 213</u>	<u>221 797 521</u>
Less: Interdepartmental service charges	-10 024 291	-5 817 463
Total Service Charges	<u>267 154 921</u>	<u>215 980 058</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.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

26 RENTAL OF FACILITIES AND EQUIPMENT	2012	2011
	R	R
Rental Revenue from Buildings	416 789	424 156
Rental Revenue from Other facilities	306 007	179 860
Total Rental of Facilities and Equipment	<u><u>722 796</u></u>	<u><u>604 016</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 deposits	937 488	2 633 862
	<u>937 488</u>	<u>2 633 862</u>
 Outstanding Debtors:	 6 646 186	 4 705 899
	<u>6 646 186</u>	<u>4 705 899</u>
 Total Interest Earned	 <u><u>7 583 674</u></u>	 <u><u>7 339 761</u></u>
 28 LICENCES AND PERMITS		
Licence fees	7 682 610	6 174 124
Permits and registration fees	519 180	457 736
	<u>8 201 790</u>	<u>6 631 860</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012	2011
29 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	38 073 000	34 882 484
Health subsidy	1 452 555	1 846 218
Conditional Grants	41 932 784	23 776 626
	81 458 339	60 505 328

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.

	2012	2011
29.2 National: Municipal Infrastructure Grant (MIG)		
Balance unspent at the beginning of the year	814 297	4 931 822
Current year receipts	23 002 000	14 748 000
Conditions met transferred to revenue	-23 002 000	-18 865 525
Conditions still to be met - transferred to liabilities	814 297	814 297

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 the beginning of the year	6 139 479	10 558 405
Current year receipts	9 465 611	12 091 371
Conditions met transferred to revenue	-6 980 455	-16 510 297
Conditions still to be met - transferred to liabilities	8 624 635	6 139 479

Grants utilised for the Reconstruction and Development Plan Government Housing.

	2012 R	2011 R
29.4 Provincial - Other Provincial Grants (DPLG & TA)		
Balance unspent at the beginning of the year	2 510 268	2 510 268
Current year receipts	-	-
Conditions met transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	2 510 268	2 510 268

Grant received to assist with the following: Floods, audit related matters, performance

29.5 District - Cacadu District Municipal Grants

Balance unspent at the beginning of the year	377 954	140 321
Current year receipts	130 000	491 245
Conditions met transferred to revenue	-50 000	-294 897
Conditions still to be met - transferred to liabilities	457 954	336 669
Correction of error	-	41 285
Transfers between funds	-	-
Restated balance	457 954	377 954

Grants received to assist with the Integrated Development Plan.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

29.6 Department of Health

Balance unspent at the beginning of the year	-	504 840
Current year receipts	-	-
Conditions met transferred to revenue	-	-504 840
Conditions still to be met - transferred to liabilities	-	-

29.7 Department of Water Affairs

Balance unspent at the beginning of the year	145 461	156 064
Current year receipts	540 236	-
Conditions met transferred to revenue	-540 236	-10 603
Conditions still to be met - transferred to liabilities	145 461	145 461

29.9 Department of Mineral and Energy/NER

	2012 R	2011 R
Balance unspent at the beginning of the year	260 171	260 171
Current year receipts	6 500 000	-
Conditions met transferred to revenue	-3 737 666	-
Conditions still to be met - transferred to liabilities	3 022 505	260 171

Electrification grant received from the Department of Mineral and Energy Affairs for RDP Housing

29.10 Development Bank

Balance unspent at the beginning of the year	350 576	350 576
Current year receipts	-	-
Conditions met transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	350 576	350 576

Grant to assist with the review of old debt and development of tourism plan.

29.11 Financial Support (Provincial)

Balance unspent at the beginning of the year	-	-
Current year receipts	1 450 000	1 200 000
Conditions met transferred to revenue	-1 450 000	-1 200 000
Conditions still to be met - transferred to liabilities	-	-

Grant received from the Provincial Administration to assist with an GRAP compliant Assets

29.13 Other Spheres of Government Grants

Balance unspent at the beginning of the year	1 850 918	1 850 918
Current year receipts	-	-
Conditions met transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	1 850 918	1 850 918

Grants received to assist with the following: Upgrade of bulk water supply to St Francis Bay, EIA study of the sewer treatment plant

Housing	2012	2011
Current year receipts	809 937	-
Conditions met transferred to revenue	-283 983	-
Conditions still to be met - transferred to liabilities	525 954	-

Funds claimed/received from SARS re skills development levies paid.

29.15 VUNA Awards

Balance unspent at the beginning of the year	-	-
Current year receipts	35 000	-
Conditions met transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	35 000	-

29.16 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

30 OTHER INCOME

Building fees	1 243 649	1 250 191
Burial sites	107 132	102 229
Caravan Park Fees	1 518 925	1 762 239
Re-connection fees	51 515	91 412
Commission	287 526	228 721
Consent uses	42 225	25 393
Sign boards	43 659	19 178
Subdivisions	49 278	39 588
Sundries	2 786 699	3 350 720
Valuation Certificates	66 531	-
Augmentation fees from developers	9 967	32 672
Total Other Income	6 207 106	6 902 343

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.

31 EMPLOYEE RELATED COSTS

	2012	2011
	R	R
Employee Related Costs - Salaries and Wages	110 806 768	115 512 534
Employee Related Costs - Contributions for UIF, Skills and Workmen's compensation	3 369 859	
Employee Related Costs - Contributions for Pensions and Medical Aids	26 391 633	
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	8 763 028	14 290 551
Housing Benefits and Allowances	503 005	463 417
Overtime Payments	7 867 189	7 396 248
Annual bonuses	8 272 739	8 449 925
Performance Bonuses	-	
Long-service awards	539 810	1 638 950
Leave paid & provision for leave	694 946	348 303
Group Life insurance, Bargaining council and labour relations levies	11 134 037	
Defined Benefit Plan Expenses		
- Vested Past Service Cost (Refer to notes 4 & 5)		
Post-Employment Health Care Benefit Liability		
Ex-Gratia Pension Benefit Liability		
Provision for Long Service Awards		
- Interest cost		
- Service cost		
- Actuarial (gain)/loss		
Other		36 749 413
Total Employee Related Costs	178 343 013	184 849 341

There were no advances to employees. Loans to employees are set out in Note 16.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Remuneration of the Municipal Manager

Annual Remuneration	354 069	870 488
Car Allowance	48 345	148 140
Performance Bonus	-	112 808
Back pay	0.00	377 849
Acting allowance		
Subsistence & Travel	9 798	33 473.00
Contributions to UIF, Medical and Pension Funds	5 330	1 497
Settlement	859 401	
Group life, bargaining council	3 081	
Total	<u>1 280 024</u>	<u>1 544 255</u>

Remuneration of the Chief Financial Officer

Annual Remuneration	437 484	820 693
Car Allowance	36 000	72 000
Performance Bonus	-	46 145
Back pay	-	314 874
Cell phone allowance	13 254	
Acting Allowance	-	
Group life insurance	27 866	
Subsistence & Travel	308	10 526.00
Settlement	708 766	
Contributions to UIF, Medical and Pension Funds	749	1 497
Total	<u>1 224 426</u>	<u>1 265 735</u>

The Chief Financial Officer's employment contract came to an end on 31 January 2012. As at year-end the post still remained vacant. A manager within the Finance Department acted as the Chief Financial Officer for the period 1 February 2012 to 31 July 2012.

Remuneration of the Director Corporate Services

Annual Remuneration	249 718	777 133
Car Allowance	38 520	72 000
Acting allowance	157 130	
Performance Bonus	-	92 289
Back pay	-	314 874
Group life insurance	6 508	
Subsistence & Travel		10 813.00
Contributions to UIF, Medical and Pension Funds	499	1 823
Total	<u>452 375</u>	<u>1 268 932</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
Remuneration of the Director of Technical Services		
Annual Remuneration	-	-
Car Allowance	-	-
Performance Bonus	-	-
Back pay	-	-
Cell phone allowance	-	-
Acting allowance	-	277 084.00
Contributions to UIF, Medical and Pension Funds	-	-
Total	-	277 084.00

Remuneration of the Director of Strategic Services		
Annual Remuneration	415 704	777 133
Car Allowance	57 780	111 560
Performance Bonus	-	92 289
Back pay	-	314 874
Acting allowance	37 448.56	-
Settlement	105 524.98	-
Group life, Bargain council	4 994.55	-
Subsistence and travelling	8 663	6 771
Contributions to UIF, Medical and Pension Funds	749	1 497
Total	630 864	1 304 124

Remuneration of the Director of Community Services		
Annual Remuneration	-	596 496
Car Allowance	-	231 784
Performance Bonus	-	-
Back pay	-	-
Acting allowances	-	-
Other (Leave)	-	-
Subsistence & Travel	-	9 005
Contributions to UIF, Medical and Pension Funds	-	179 539
Total	-	1 016 824

Remuneration of the Director of Planning and Development		
Annual Remuneration	295 656	298 248
Car Allowance	20 000	117 518
Performance Bonus	-	-
Back pay	616 698	-
Settlement	122 812	-
Group life	5 028	-
Contributions to UIF, Medical and Pension Funds	499	83 255
Total	1 060 693	499 021

32 REMUNERATION OF COUNCILLORS

Mayor	655 928	468 181
Speaker	538 921	349 653
Mayoral committee members	2 447 661	1 639 005
Councillors	4 306 904	1 281 431
Councillors pension contributions	-	-
Councillors medical aid contributions	-	-
Reimburse travel outside the municipal area	-	-
Total Councillors' Remuneration	7 949 415	3 738 270

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.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

33 BAD DEBTS & IMPAIRMENT LOSSES	2012	2011
	R	R
<i>Provision for bad debts:</i>		
Consumer Debtors (See note 19)	-59 978 075	-38 753 139
Long-term Receivables (See note 16)	158 365.70	158 365.70
Bad debts written off	-	-
<i>Impairment losses:</i>		
Long-term Receivables - KCC Loan account (See note 16)	-	-
	<u>-59 819 709</u>	<u>-38 594 774</u>
34 DEPRECIATION AND AMORTISATION		
Depreciation: Property, Plant and Equipment	77 295 670	78 868 029.76
Total Depreciation and Amortisation	<u>77 926 585</u>	<u>78 868 030</u>
35 INTEREST AND PENALTIES PAID		
<i>Interest paid</i>		
Long-term Liabilities	8 707 360.08	14 630 852.32
<i>Penalties</i>		
	2 816 868	2 268 209
Total interest paid	<u>11 524 228</u>	<u>16 899 061</u>
36 BULK PURCHASES		
Electricity	129 914 987	100 513 499
Water	14 007 030	13 508 639
Total Bulk Purchases	<u>143 922 017</u>	<u>114 022 138</u>
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.		
37 GRANTS AND SUBSIDIES PAID		
Grants-in-aid and Donations	18 186 524	14 533 959
Total Grants and Subsidies	<u>18 186 524</u>	<u>14 533 959</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

38 GENERAL EXPENSES	2012	2011
	R	R
Included in General Expenses are the following:		
Accommodation, Seminars and Travelling	310 424	1 876 800
Audit Fees	4 446 461	2 342 108
Chemicals	1 399 703	934 458
Connection expenses	543 943	1 405 782
Contracted services	1 254 955	1 143 351
Fuel and oil	8 135 015	7 330 247
Grant expenditure - Various projects	3 071 754	1 435 883
Insurance General	2 955 928	2 968 148
Legal expenses	2 873 395	2 176 076
Planning fees	51 895	575 608
Postage	1 314 723	1 153 848
Printing and Stationery	616 393	810 994
Prepaid finance costs	1 723 624	585 459
Rentals: Property, Plant and Equipment	548 487	1 118 094
Special projects	183 824	807 442
Telephones, Facsimiles and Internet Lines	1 974 280	2 338 886
Valuation costs & interim valuations	2 742 429	3 019 318
Other General Expenses	19 003 932	20 602 376
Total General expenses	53 151 163	52 624 878

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.

39 CORRECTION OF ERRORS AND CHANGES IN ACCOUNTING POLICIES

Correction of errors:

During the 2010/11 financial period the following errors occurred, which are set out below:

39.1 Adjustment of balances - assets and liabilities - as at 30 June 2011

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

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R
a) Property, Plant and Equipment	
Balance previously reported:-	380 198 938
Plus:	
Correction of provision against PPE	
Corrections against accumulated surplus as at 30 June 2010	2 656 519 161
a - Writing of PPE at cost	(1 320 932 721)
b - Writing of accumulated depreciation for PPE	1 042 481 050
c - Operating lease	(1 952)
d -Brought in accumulated depreciation for finance lease asset	(10 418 585)
e -Recognition of additional finance lease asset	6 212 323
f -Brought in accumulated depreciation for investment property - buildings	(3 600 610)
g -Brought in accumulated depreciation for PPE	(718 635 612)
h -Brought in PPE at cost	3 740 850 375
i -Writing of accumulated depreciation for investment property	1 169 387
j -Writing of investment property	(1 246 344)
k -Writing off accumulated depreciation for intangible asset	59 560
l -Writing off intangible asset	(549 680)
m -Brought in depreciation for 2010/2011	(78 868 030)
 Restated balance	 <u>3 036 718 099</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

39.2 Reconciliation of adjustments due to prior period errors and accounting policies

a) *Accumulated Surplus as at 1 July 2011*

Balance previously reported:-	(154 304 645)
Plus/(Minus):	
<u>Correction of errors:</u>	
	(2 735 426 740)
- Writing of PPE at cost	1 320 932 721
- Writing of accumulated depreciation for PPE	(1 042 481 050)
- Operating lease	(37 597)
- Brought in accumulated depreciation for finance lease asset	10 418 585
- Recognition of additional finance lease asset	(6 212 323)
- Brought in accumulated depreciation for investment property - buildings	3 600 610
- Brought in accumulated depreciation for PPE	718 635 612
- Brought in PPE at cost	(3 740 850 375)
- Writing of accumulated depreciation for investment property	(1 169 387)
- Writing of investment property	1 246 344
- Writing off accumulated depreciation for intangible asset	(59 560)
- Writing off intangible asset	549 680
Incorrect disclosure of correction of error as at 30 June 2010	(196 307)
Incorrect opening balance as at 2011	86 848
Transferring of outstanding orders to current financial year	(7 822 242)
<u>Restated balance</u>	<u>(2 897 663 087)</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

b) *Deficit for the year ended 30 June 2011*
Balance previously reported:-

10 363 823

Correction of errors:

- a Depreciation (refer to note 34)
- b Stock adjustment (refer to note 17)
- c Provision for obsolete stock (refer to note 17)
- d Unspent grant mig (refer to note 9)
- e Reversal of debtors raised
- f Rental - operating lease (refer to note 22)
- g Interest accrued (refer to Appendix A)
- h Provision for bad debt - staff debtors (refer to note 16)

83 397 615

78 868 030

(487 103)

(9 565)

(41 286)

128 454

1 773

4 778 946

158 366

Total

93 761 438

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

40 CASH GENERATED BY OPERATIONS	2012 R	2011 R
Receipts	467 802 030	392 482 905
Property Rates	104 273 577	89 759 515
Service Charges	267 154 921	215 980 058
Rental of Facilities and Equipment	722 796	604 016
Interest Earned - External Investments	937 488	2 633 862
Interest Earned - Outstanding Debtors	6 646 186	4 705 899
Interest Earned - Fair value adjustment of Rates	-	-
Fines	2 879 888	2 293 494
Licenses and Permits	7 682 610	6 631 860
Public Contributions and Donations	-	-
Government Grants and Subsidies	71 302 717	60 546 613
Other Income	6 207 106	6 902 343
Gains on disposal of Property, Plant and Equipment	-5 260	2 425 244
Payments	(532 145 391)	(486 244 347)
Employee Related Costs	178 343 013	184 849 341
Remuneration of Councillors	7 949 415	3 738 270
Bad Debts	26 208 652	4 097 190
Collection costs	-14 494	115 944
Contracted services	33 437	176 920
Depreciation	77 295 670	78 868 030
Impairment Losses	-	-
Repairs and Maintenance	15 545 765	16 318 616
Interest Paid	11 524 228	16 899 061
Bulk Purchases	143 922 017	114 022 138
Grants and Subsidies Paid	18 186 524	14 533 959
General Expenses	53 151 163	52 624 878
Surplus for the Year	(64 343 362)	(93 761 442)
Adjustment for:		
Correction of prior year Error	(542 976)	-
Depreciation	77 295 670	78 868 030
Contribution to Provisions - Non-Current	-	3 293 000
Contribution to Provisions - Current	224 917	1 187 804
Contribution to Bad Debt Provision	(59 819 709)	(38 594 774)
Operating lease income accrued	(25 113)	(1 579)
Operating lease expenses accrued	-	36 197
Provision for obsolete stock	662 128	(27 223)
Investment Income	(7 583 674)	(7 339 761)
Interest Paid	11 524 228	16 899 061
Operating surplus before working capital changes	(42 607 890)	(39 440 688)
(Increase)/Decrease in Inventories	1 795 652	(223 667)
(Increase)/Decrease in Consumer Debtors	60 374 380	(2 912 861)
(Increase)/Decrease in Current Portion of Long-term Receivables	91 657	(6 958 480)
(Increase)/Decrease in Other Debtors	7 502 216	167 369
(Increase)/Decrease in VAT	(2 088 879)	1 330 530
Cash payments made against provisions	27 587 632	26 208 652
Increase/(Decrease) in Conditional Grants and Receipts	4 142 977	(18 602 642)
Increase/(Decrease) in Creditors	15 298 364	51 900 931
Cash generated by / (utilised in) operations	72 096 108	11 469 143

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

41 CASH AND CASH EQUIVALENTS	2012 R	2011 R
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:		
Bank Balances and Cash	314 540	-1 922 524
Bank Overdraft	1 711 445	-13 238 582
Call investment deposits	17 401 276	14 226 389
Total Cash and Cash Equivalents	19 427 261	-934 717

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% to 12,05% per annum.

42 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities (See Note 3)	86 793 164	93 297 097
Used to finance Property, Plant and Equipment - at cost	(86 793 164)	(93 297 097)
Sub-total	-	-
Cash set aside for the Repayment of Long-term Liabilities	-	-
Cash invested for Repayment of Long-term Liabilities (See note 15)	-	-

External loans have been utilised in accordance with the Municipal Finance Management Act.

43 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

43.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening balance	75 143 569	75 143 569
Unauthorised Expenditure current year	-	-
Approved by Council or condoned	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Unauthorised Expenditure awaiting authorisation	75 143 569	75 143 569

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

43.2 Fruitless and Wasteful Expenditure

	2012	2011
	R	R
Reconciliation of Fruitless and Wasteful expenditure:		
Opening balance	4 884 353	3 883 937
Fruitless and Wasteful Expenditure current year	2 816 868	1 000 416
Condoned or written off by Council	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Fruitless and Wasteful Expenditure awaiting condonement	7 701 221	4 884 353

Incident		Disciplinary Steps / Criminal Proceedings
<i>Interest on late payment of trade creditors</i>	2 261 476	<i>Currently None - subject to possible future investigation</i>
<i>Penalty on the late payment on SARS account</i>	555 392	<i>Currently None - subject to possible future investigation</i>
	2 816 868	

43.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:		
Opening balance	55 330 046	27 092 909
Irregular Expenditure current year	-	28 237 137
Condoned or written off by Council	-	-
Recovered	-	-
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Irregular Expenditure awaiting condonement	55 330 046	55 330 046

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
44 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
<u>44.1 Contributions to organised local government - SALGA [MFMA 125 (1)(b)]</u>		
Opening Balance	-	-
Council Subscriptions	762 698	762 698
Amount Paid - current year	-762 698	-762 698
Amount Paid - previous years	-	-
Closing balance	-	-
<u>44.2 Audit Fees [MFMA 125 (1)(b)]</u>		
Opening Balance	3 079 819	-
Current year Audit Fee	5 555 353	3 561 147
Internal Audit	-	-
Audit Committee	-	-
Amount Paid - current year	-1 567 132	-481 328
Amount Paid - previous years	-	-
Closing balance	7 068 040	3 079 819

44.3 VAT [MFMA 125 (1)(b)]

VAT refundable is shown in note 10. All VAT returns have been submitted by due dates throughout the year.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
44.4 PAYE and UIF [MFMA 125 (1)(b)]		
Opening Balance		
Current year Payroll Deductions	19 441 501	18 730 515
Amount Paid - current year	-13 382 512	(18 730 515)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	6 058 989.00	-

The balance represents PAYE and UIF deducted from the June 2008 payroll. These amounts were paid during July 2008.

44.5 Pension and Medical Aid Deductions [MFMA 125 (1)(b)]		
Opening Balance	-	-
Current year Payroll Deductions	40 753 931	25 030 896
Amount Paid - current year	-28 825 676	(25 030 896)
Amount Paid - previous years	-	-
Closing balance	11 928 255.00	-

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 2012:

Surname	Initials	Outstanding more than 90 days		
		Service accounts	Sundry accounts	Total
RHEEDER	BF	-	-	-
MASETI	LF	-	-	-
KETTLEDAS	DA	-	-	-
GROEP	ED	-	-	-
CAMPHER	FJ	-	-	-
KOERAT	B	-	-	-
CAMEALIO	VA	-	-	-
OLIPHANT	PJ	-	-	-
HILL	ED&MM	-	-	-
MELENI	TN	1 026	-	1 026
BENSON	D	-	-	-
UNGERER	M	-	-	-
ALDENDORFF	DE	-	-	-
DLOMO	M	-	-	-
OLIPHANT	PJ&XD	8 239	-	8 239
MAHLATHINI	ME	6 048	-	6 048
BAXTER	F	1 172	-	1 172
DLOMO	M	-	-	-
KOLITI	DS	-	-	-
		-	-	-
		16 485	-	16 485

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

Surname	Initials	Outstanding more than 90 days		Total
		Service accounts	Sundry accounts	
RHEEDER	BF	-	-	-
MASETI	LF	-	-	-
KETTLEDAS	DA	-	-	-
GROEP	ED	-	-	-
CAMPHER	FJ	-	-	-
KOERAT	B	32 003	-	32 003
CAMEALIO	VA	1 575	-	1 575
OLIPHANT	PJ	3 126	-	3 126
HILL	ED&MM	2 262	-	2 262
MELENI	TN	-	-	-
BENSON	D	3 147	-	3 147
UNGERER	M	-	-	-
ALDENDORFF	DE	-	-	-
DLOMO	M	-	-	-
OLIPHANT	PJ&XD	-	-	-
MAHLATHINI	ME	2 554	-	2 554
BAXTER	F	-	-	-
DLOMO	M	-	-	-
KOLITI	DS	-	-	-
		44 667	-	44 667

45 CAPITAL COMMITMENTS

	2012 R	2011 R
Commitments in respect of Capital Expenditure:		
- Approved and contracted for:-	61 674 550	41 787 238
- Approved but not yet contracted for:-	-	-
- Contracted but not yet approved	-	-
Total Capital Commitments	61 674 550	41 787 238
This expenditure will be financed from:		
Internal sources	-	4 850 078
External source	61 674 550	36 937 160
	61 674 550	41 787 238

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

46 CONTINGENT LIABILITIES

46.1 Possible claims against council

(i) Council is involved in a dispute with different individuals as at 30 June 2012:

Claims against the municipality 20 755 000

Possible legal fees 2 378 745

(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 5million per contravention.

20 000 000

43 133 745

47 CONTINGENT ASSET

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

4 273 365

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

48 FINANCIAL INSTRUMENTS

48.1 <i>Classification:</i>		2012	2011
Financial Assets		R	R
In accordance with IAS 39.09 the financial assets of the municipality are classified as follows:			
	<u>Classification</u>		
<i>Investments</i>			
Fixed Deposits	Held to maturity	-	-
<i>Long-term Receivables</i>			
Kouga Cultural Centre	Loans and receivables	-	-
Staff debtors	Loans and receivables	544 266	549 555
<i>Consumer Debtors</i>			
	Loans and receivables	55 910 956	56 307 261
<i>Other Debtors</i>			
Sundry Debtors	Loans and receivables	8 529 144	16 031 360
<i>Current Portion of Long-term Receivables</i>			
Staff loans	Loans and receivables	38 865	130 522
<i>Short-term Investment Deposits</i>			
Call Deposits	Loans and receivables	17 401 276	14 226 389
<i>Bank Balances and Cash</i>			
Bank Balances	Available for sale	-	(13 238 582)
Cash Floats and Advances	Available for sale	8 960	8 960
<i>VAT</i>			
	Loans and receivables	6 531 303	4 442 424
Total Financial Assets		<u>88 964 771</u>	<u>78 457 890</u>
SUMMARY OF FINANCIAL ASSETS			
Held to maturity:			
Investments	Fixed Deposits	-	-
Loans and Receivables			
Long-term Receivables	Kouga Cultural Centre	-	-
Long-term Receivables	Staff debtors	544 266	549 555
Consumer Debtors		55 910 956	56 307 261
Other Debtors	Sundry Debtors	8 529 144	16 031 360
Current Portion of Long-term Receivables	Staff loans	38 865	130 522
Short-term Investment Deposits	Call Deposits	17 401 276	14 226 389
VAT	VAT	6 531 303	4 442 424
		<u>88 955 811</u>	<u>91 687 512</u>
Available for Sale:			
Bank Balances and Cash	Bank Balances	-	(13 238 582)
Bank Balances and Cash	Cash Floats and Advances	8 960	8 960
		<u>8 960</u>	<u>(13 229 622)</u>
Total Financial Assets		<u>88 964 771</u>	<u>78 457 890</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Financial liabilities

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows:

(FVTPL = Fair Value through Profit or Loss):	2012	2011
Classification	R	R
Long-term Liabilities		
Annuity Loans	40 096 348	56 685 806
Consumer Deposits		
Electricity and Water	-7 606 800	-7 342 147
Accounts payable		
Trade creditors	111 853 422	85 769 971
Payments received in advance	41 741	10 683 980
Other creditors	95 532	238 380
Unspent Conditional Grants and Receipts	17 141 032	12 998 055
Operating Lease Liability		
Operating Lease Liability	-	-
Bank Overdraft	-1 711 445	13 238 582
Current Portion of Long-term Liabilities		
Annuity Loans	23 809 039	13 723 514
Total Financial Liabilities	183 718 870	185 996 142

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	86 793 164	93 297 097
Equity	2 704 061 746	2 803 901 645
Net debt to equity ratio	3%	3%

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

48.7 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 18 is a listing of undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

Liquidity and Interest Risk Tables

The tables following note 57 detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

48.8 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits 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.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at balance sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

	2012	2011
	R	R
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Fixed Deposit Investments		
Long-term Receivables	583 131	680 078
Consumer Debtors	55 910 956	56 307 261
Other Debtors	8 529 144	16 031 360
Short-term Investment Deposits	17 401 276	14 226 389
Bank and Cash Balances	8 960	(13 229 622)
VAT	6 531 303	4 442 424
Maximum Credit and Interest Risk Exposure	88 964 771	78 457 890

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

49 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

Kouga Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

These funds are governed by the Pension Funds Act, and include both defined benefit and defined contribution schemes.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following

- The assets of each fund are held in one portfolio; these assets are not nationally allocated to each of the participating employers.
- One set of financial statements are compiled for each fund and financial statements are not drafted for each participating
- The same rate of contributions applies to all participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

Contributions made by the municipality amounted to R 10.18 million (2008: R 8.66 million) to the defined benefit and defined contribution structures and were expensed as incurred during the year under review.

These schemes are subject to a tri-annual, bi-annual or annual actuarial valuation, as set out below.

DEFINED BENEFIT SCHEMES

Cape Joint Pension Fund

The Cape Joint Pension Fund operates both as a defined benefit and defined contribution scheme.

The Defined Benefit section of the fund is a multi-employer plan, and the contribution rate payable is 27%, 9% by the members, and 18% by Council.

The last valuation performed for the year ended 30 June 2008 (30 June 2007) revealed that the fund had an actuarial surplus of R 182.73 million (R 200.21 million) with a funding level of 106,5 (107,2 %), and is in a sound financial state as at 30 June 2008.

SALA Pension Fund

The 1 July 2007 actuarial valuation of SALA pension Fund the valuation results showed that it was 110% funded (2006: 106%). The valuator recommended that to retain a sound financial position, the employer continues to contribute at the current rate.

DEFINED CONTRIBUTION SCHEMES

Cape Joint Pension Fund

The Cape Joint Pension Fund operates both as a defined benefit and defined contribution scheme.

This scheme was established to accommodate the unique characteristics of contract employees and 'cost to company' employees. All existing members were given the option to transfer to the defined contribution plan before 1 July 2003. The actuary report certified that the structure of the assets is appropriate relative to the nature of the liabilities, assuming a smoothed bonus philosophy, and given normal circumstances.

The fund was certified as being in a sound financial condition as at 30 June 2008 by the actuary. The valuation disclosed a funding level of 103.3% (2007 : 105.3%).

Cape Joint Retirement Fund

The contribution rate paid by the members (9%) and their councils (18%) is sufficient to fund the benefits accruing from the fund in future. The last valuation performed for the year ended 30 June 2008 (30 June 2007) revealed that the fund had an actuarial surplus of R 42,93 million (R 105,04 million) with a funding level of 112,2 % (137,4 %). Certified in a sound financial position as at 30 June 2008.

Municipal Councillors' Pension Fund

The Municipal Councillors' Pension Fund operates as a defined contribution scheme. The contribution rate paid by the member (13,75%) and their councils (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

The last actuarial valuation of the fund was undertaken at 30 June 2006, and the actuary reported that the fund was as a whole in a sound financial position, with a funding level of 106,5%.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

National Fund for Municipal Workers

The above mentioned fund is a defined contribution Fund and according to Regulation 2 of the Pension Funds Act no 24 of 1956 exempt from the provisions of sections 9A and 16 of the Act. The contribution rate paid by the members is 9.00 % and by the council is 18.00 %.

The latest voluntary valuation was done on 30 June 2007 (30 June 2006). As at 30 June 2007 the results state that the way the benefits are structured in the rules, the fund is limited to an amount equal to the accumulation of all the contributions plus investment returns less administration costs. The NFMW Retirement Fund does not have any reserve accounts or surpluses which could be allocated to members Fund records.

The last valuation performed revealed that the fund had an actuarial surplus of R 9,47 million (2006: R -4,27 million) with a funding level of 100.3% (2006: 99.8 %). The actuary was satisfied that the Fund continues to be able to meet its liabilities.

The retirement and pension funds are both defined contribution schemes. The last voluntary actuarial valuation of the fund was performed on 30 June 2006. As at 30 June 2006, the results state that the way the benefits are structured in the rules, the fund is limited to an amount equal to the accumulation of all the contributions, plus investment returns, less administration costs.

South African Municipal Workers Union National Provident Fund

The SAMWU National Provident Fund is a defined contribution scheme. The last actuarial valuation of the fund was performed at 30 June 2005, and certified as being in a financially sound position. The next statutory valuation was due on 30 June 2008, but is still in process.

Sanlam Provident Fund

The Sanlam Provident Fund is a defined contribution Fund.

The pensions paid from the fund are fully secured through annuity policies purchased from insurers and owned by the Member.

All liabilities of the Fund, to the extent that they exceeded the value of the member's individual accounts were fully underwritten by one or more registered insurers.

In terms of section 2(5)(a) of the Act, the EC 108 Provident Fund is exempted from the provisions of sections 9A and 16 of the Act. This Exemption will expire on 1 July 2010.

According to the Valuator Certificate in support of renewal of Valuation Exemption, on 01 July 2007, the assets are suitable considering the liabilities of the fund.

None of the above mentioned plans are state plans.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

50 RELATED PARTY TRANSACTIONS

50.1 Related party relationships:

Councillors:	<i>Ward</i>	<i>Surname</i>	<i>Initials</i>
	Ward 1	Mayoni	Z
	Ward 2	Hill	E
	Ward 3	Thiart	H
	Ward 4	Campher	F
	Ward 5	Groep	E
	Ward 6	Oliphant	P
	Ward 7	Koliti	B
	Ward 8	Aldendorff	D
	Ward 9	Ntsiza	L
	Ward 10	Kota	K
	Ward 11	Ungerer	U
	Ward 12	Rheeder	B
	Ward 13	Matodlana	V
	Ward 14	Meleni	T
	Ward 15	Mahlathini	E
	Proportional	Camelio-Benjamin	V
	Proportional	Dlomo	M
	Proportional	Maseti	T
	Proportional	Koerat	B
	Proportional	Stuurman	V
	Proportional	Cawood	C
	Proportional	Botha	N
	Proportional	Joy	J
	Proportional	Benson	D
	Proportional	Speelman	M
	Proportional	Williams	B
	Proportional	Baxter	F
	Proportional	Prinsloo	J
	Proportional	Kettledas	D
	Proportional	Blouw	Z
	Proportional	Njela	C
Directors:	Municipal Manager	Fadi	S
	Acting Chief Financial Officer	O Burger	C
	Acting Director Corporate	Dreyer	C
	Acting Director Technical	Oosthuizen	E
	Acting Director Strategic	Ngcayisa	J
	Acting Director Community	Jansen	J
	Acting Director Planning	Rautenbach	D

During the year the municipality rendered services to the following parties that are related to the municipality as indicated:

50.2 Related Party Transactions

Surname	Initials	Service accounts	Total 30 days+
RHEEDER	BF	-	-
MASETI	LF	-	-
KETTLEDAS	DA	-	-
GROEP	ED	-	-
CAMPHER	FJ	-	-
KOERAT	B	-	-
CAMEALIO	VA	-	-
OLIPHANT	PJ	-	-
HILL	ED&MM	-	-
MELANI	TN	1 026	1 026
BENSON	D	-	-
UNGERER	M	-	-
ALDENDORFF	DE	-	-
DLOMO	M	-	-
OLIPHANT	PJ&XD	8 239	8 239
MAHLATHINI	ME	6 048	6 048
BAXTER	F	1 172	1 172
DLOMO	M	-	-
KOLITI	DS	-	-
		16 485	16 485

The rates, service charges and other charges are in accordance with approved tariffs that was advertised to the public. No bad debt expenses had been recognised in respect of amounts owed by related parties.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

50.3 Related Party Loans

Since 1 July 2004 loans to councillors and senior management employees are no longer permitted. Loans granted prior to this date, together with the conditions, are disclosed in note 16 to the Annual Financial Statements.

50.4 Compensation of key management personnel

Remuneration of the family of key management personnel and councillors that are employed at the municipality:

Directors	Names	Family Member	Relationship	Department	Remuneration
Managers	Names	Family Member	Relationship	Department	Remuneration
Expenditure	L. Jenneker	M. Jenneker	Daughter	Comm. Services	118 428.00
Asset & Fleet	S. Baartman	N. Baartman	Daughter	Expenditure	123 360.00
Asset & Fleet	S. Baartman	E. Welcome	Daughter	Income	118 428.00
Electrical	A. Marais	B. Marais	Son	Technical Services	147 636.00
Councillors					
Mayor	B. Koerat	F. Muller	Daughter	Comm. Services	184 512.00
Mayor	B. Koerat	C. Kettledas	Daughter	Budget & Treasury	199 104.00
Ward 2	E. Hill	M. Hill	Wife	Expenditure	120 840.00
Ward 6	P. Oliphant	D. Oliphant	Wife	Comm. Services	149 904.00
Ward 9	L. Ntshiza	J.Ntshiza	Wife	Comm. Services	120 840.00
Ward 14	T. Meleni	S. Meleni	Wife	Comm. Services	105 432.00
Proportional	D. Kettledas	C. Witbooi	Cousin	Human Resources	120 840.00

50.5 Transactions with close family members of persons in the service of the state

Company	Kouga employee	Employee to company owner/(s)	Designation	Amount awarded
Lippert Cabinets	C. Lippert	Wife	EQS/ Admin	1 680.00
BG Le Grange Surveys/	G. Le Grange	Brother	Building Inspector	19 101.08
				20 781

50.6 Entities under the control of management or councillors

First name	Surname	Position held	Company	Company registration number
Ntomboxolo Vivian	Blouw	EE & Skills Development Manager	Ithemba Labafazi Investments Pty Ltd	2005/006175/07
			Majormatic 115 Pty Ltd	2003/028012/07
Ashley	Perils	Manager: pmu	Pop's Spaza Pty Ltd	2012/089266/07
Pheelo Eric	Mosiane	Manager: hr	Limakatso Miracle Trading CC	2009/172603/23
Shukree	Abrahams	Manager: B&T	Es And Ba Trading CC	2009/005102/23
Deidre Elizabeth	Duvenage	Manager: IT	Martyn Hoes CC	1997/010915/23
Owen Victor	Putzier	Service Co-ordinator: St. Francis Bay	Falcodor 118 CC	
Carina Rosa	Strydom	Manager: Tourism	384 Linden-Uitbreiding CC	1990/027531/23
			Erf 1303 Jeffreysbaai CC	1997/0541508/23
			Seafont Restaurant CC	1994/014212/23
			Waterkant 1298 CC	1991/025601/23
Tabisa	Woni	Manager: IDP	Sindwezama Fishing Pty Ltd	2004/035740/07
			Dontchemistry Traing and Suppliers CC	2007/187997/23
Nomvula	Machelesi	Manager: Environmental Health	St. Francis Bay His	1996/054912/23
			Carnelo Investments 118 Pty Ltd	2005/037560/07

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Japie	Jansen	Director: Community & Social Services	Eigacare Pty Ltd	2010/017757/07
			Gemini Moon Trading 112 Pty Ltd	2005/002536/07
			Grandisecc CC	2010/050512/23
			McBeejay Professional Services CC	1997/027972/23

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

First name	Surname	Ward/PR/Party	Company	Company Registration Nr
PR. Councillors				
Frances	Baxter	PR/DA	n/a	n/a
			Jeffreys Bay Tourism (Ass inc under S21)	2002/029360/08
			The Marina Martinique Home Owners Association(Ass In under S21)	1990/007381/08
Brenton John	Williams	PR/DA	The Supertubes Foundation (Ass inc under S21)	2004/031549/08
Daniel	Benson	PR/DA	Benson's Human Resource Service CC	2003/027714/23
			Daddy's Girls Caterers CC	2008/053609/23
			Phuhliso Bricks Youth Project CC	2005/173164/23
			Taffiny's Caterers CC	2007/059050/23
Mthunzikazi Theodora	Speelman	PR/DA	Thethayedwa General Trading CC	2007/204690/23
			Prinsvale Cash Store CC	2006/151939/23
Jan	Joy	PR/DA	Valinor Trading 286 CC	2006/221771/23
			Big Seven Earthmoving Services CC	2006/203849/23
			Blooming Desert Holdings Pty Ltd	2005/013907/07
			Business Wise Consultants CC	2007/077517/23
			Coastal Trink Agencies CC	2008/159040/23
			Property Management Specialist Pty Ltd	2005/044514/07
			Laphula Rural Tourism Development	2010/000054/24
			Scenic Route Trading 980 CC	2008/030127/23
			Tsitsikamma Forest Village Development CC	2004/014894/23
Juline Dolne	Prinsloo	PR/DA	Weavers of Khoisan Pty Ltd	1996/005629/07
			Kouga Cultural Centre Ass Inc under S21	1999/021062/08
Joseph	Cawood	PR/DA	Eikebaai CC	1985/007002/23
Nicolaas Stephanus	Botha	PR/DA	Kouga Cultural Centre Ass Inc under S21	1999/021962/08
			Island House Trading 116 Pty Ltd	2007/009150/07
			Centre Ass Inc under S21	1999/021962/08
			Summer Season Trading 41 Pty Ltd	2005/036981/07
			Sweet Breeze Investment Pty Ltd	2006/037524/07
Vernon Samuel	Stuurman	PR/ANC	Tanking A Chance Trading CC	2007/244373/23
Virginia Alice	Cameallo-Benjamin	PR/ANC	n/a	n/a
Angeleine Thandeika	Maseti	PR/ANC	n/a	n/a
			Summer Sun Trading 195 Pty Ltd	2005/008385/07
Magadalele	Diomo	PR/ANC	Kougmina Cultural Centre Ass Inc under S21	1999/021962/08
			Blue Spin Holdings Pty Ltd	2005/020342/07
			Bright Ideas Projects 524 CC	2004/038132/23

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

			Kouga Cultural Centre Ass Inc under S21	1999/021962/08
			Roll-On Transport CC	2007/189654/23
			Seven Mile Trading 487 CC	2006/139477/23
			Shine The Way 421 CC	2004/092942/23
			Weavers of Khoisan Pty Ltd	1996/005629/07
			Winter Night Investments 340CC	2006/094430/23
			The Rose Inn CC	1887/016270/23
			Thunderstorm Coastal Fishing CC	1998/038231/23
			Tru-Stitch Clothing Project(Humansdorp) Foundation Ass Inc under S21	1998/011080/08
			Ec Consulting Engineers Pty Ltd	2000/008335/07
Booi	Koerat	PR/ANC	Vierkant Beleggings CC	1987/008575/23
Daphne	Kettledas	PR/ANC	n/a	n/a

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Ward Councillors				
Julius Zolani	Mayoni	Ward 1/ ANC	Hennox 536 CC	2005/059157/23
			Homecare Aid Hospice (Ass Inc under S21)	2005/009449/08
			Plusko 165 Pty Ltd	2005/035745/07
			The Kouga Sports and Development Project Academy Pty Ltd	2004/026306/07
Earl Deon	Hill	Ward 2/ ANC	Coetzburgh Trailers CC	1982/034269/23
Sophia Hendrina	Thiart	Ward 3 /DA	n/a	n/a
Eugene Daniel	Groep	Ward 4/DA	n/a	n/a
Frederick Jacobus	Campher	Ward 5 /DA	n/a	n/a
			Vessel Company Pty Ltd	1999/016128/07
			Ndlovu Fishing CC	2009/055653/23
			Siyanda Industrial Painting CC	2002/001561/23
			Khetha Intlanzi Fishing Pty Ltd	2004/022376/07
			P Oliphant and Associates CC	1996/056175/23
Phumzile Joseph	Oliphant	Ward 6 / ANC	Kouga Fishing Pty Ltd	1999/027281/07
Bulelwa Cynthia	Koliti	Ward 7/ ANC	n/a	n/a
David Ernest	Aldendorff	Ward 8/ DA	n/a	n/a
			Singabenu Trading CC	2008/024285/23
David Lulamile	Ntshiza	Ward 9/ANC	Zabalaza Mhlali Trading CC	2008/123411/23
Patrick	Kota	Ward 10/ANC	n/a	n/a
Mercia	Ungerer	Ward 11/ DA	n/a	n/a
Benjamin Fredeman	Rheeder	Ward 12/ DA	Kouga Cultural Centre Ass Inc Under S21	1999/021962/08
			Ingomso Lethu Enterprise CC	2006/177170/23
Vuyelwa Nathalia	Matodlana	Ward 13/ANC	Vhz Trading CC	2009/008203/23
			Avulekile Amasongo Construction CC	2005/015654/23
			Duwano Building and Manufacturing CC	2006/002705/23
			Siphalele Trading CC	2007/009148/23
			White Rose Trading CC	2006/088934/23
			Winter Night Investments 340CC	2006/094430/23
Timothy Ncedile	Meleni	Ward 14/ ANC	Ginipax Trading CC	2009/036578/23
Mzukisi Eric	Mahlathini	Ward 15/ ANC	Siyazama Zama Construction CC	2007/064110/23
			Uvimba Transport Solutions	2008/004599/24

51 IN-KIND DONATIONS AND ASSISTANCE

No in-kind donations and assistance were received.

52 PRIVATE PUBLIC PARTNERSHIPS

Council has not entered into any private public partnerships during the financial year

53 EVENTS AFTER THE REPORTING DATE

No events incurred after the reporting date

54 COMPARISON WITH THE BUDGET

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexure "E (1) and E (2)".

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

55 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of prior period errors (note 39).

56 CHANGE IN ESTIMATES

56.1 Provision for the rehabilitation of Land-fill Sites

The discount rate used is annually adjusted based on the average borrowing cost calculated for Kouga Municipality. The cost factors derived from the study have been applied and projected at an annual inflation rate of 7% (2008: 7%) and discounted to present value at a rate of 11% (2008: 15%).

Effect in the current period:

If the same rate (15%) that was utilised in 2008 was applied in the current year, to discount future rehabilitation cost to its net present value, the current year's expenditure would have been R 2,982,601 less and accumulated surplus as at 30 June 2009 would have been more with the same amount.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Effect in future periods:

The amount of the effect of the change in estimate in future periods is not disclosed because estimating it is impracticable.

57 STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of authorisation of these financial statements the municipality has not applied the following GRAP standards that have been issued but is not yet effective:

- GRAP 18 Segment Reporting
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 103 Heritage Assets

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

Management has considered all the GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

58 BULK ELECTRICITY AND WATER LOSSES IN TERMS OF THE MFMA SECTION 125 (2)(d)(i)

Material water and electricity losses during the year under review were as follows and are not recoverable.

Electricity:

Purchased during the year	176 830 461	units (kWh)
Sold during the year	(154 184 616)	units (kWh)
Unaccounted	22 645 845	units (kWh)
Normal distribution losses - (8%) of electricity purchases	(14 146 437)	units (kWh)
Loss	<u>8 499 408</u>	units (kWh)
Loss %	<u>4.81%</u>	
Loss (R):	<u>2 430 955</u>	

Calculated as follows:

	<u>%</u>	<u>Lost units</u>	<u>Tariff</u>	<u>Value @</u>
	100.00	8 499 408	@	2 430 955
DOMESTIC	44.94	3 819 862	0.3580	1 367 511
COMMERCIAL	21.63	1 838 458	0.3110	574 760
BULK	19.15	1 627 677	0.1610	262 056
OFF PEAK	4.87	413 645	0.0994	41 097
PEAK	3.39	287 886	0.3575	102 919
STANDARD	6.02	511 880	0.1673	85 612

Electricity losses occur due to *inter alia*, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connection is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Water:

	<u>Lost units</u>	<u>Tariff</u>	<u>Value @</u>
Unaccounted water:	<u>2 523 971</u>	<u>2.61</u>	<u>6 587 564</u>

**APPENDIX A
KOUGA LOCAL MUNICIPALITY : SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance previously reported as at 30/06/2010	Corrections	Restated balances at 30/06/2010	Received during the year	Redemption during the year	Balance at 30/06/2011	Received during the year	Redemption during the year	Balance at 2012/06/30	Current portion 2012	Non-current liability 30/06/2011
	R	%			R		R	R	R	R	R	R	R		
ANNUITY LOANS:															
ABSA	166 000	14.50%	528	30/11/2016	116 815	-	116 815	-	(10 139)	106 676	-	(11 195)	95 481	(14 198)	81 283
ABSA	166 000				116 815	-	116 815	-	(10 139)	106 676	-	(11 195)	95 481	(14 198)	81 283
Total ABSA															
ASDR	150 000	14.25%	513	30/12/2011	32 049	-	32 049	-	(20 623)	11 426	-	-	11 426	(11 426)	0
ASDR	150 000				32 049	-	32 049	-	(20 623)	11 426	-	-	11 426	(11 426)	0
Total ASDR															
Cacadu	788 870												788 870	(788 870)	(0)
Total Cacadu													788 870	(788 870)	(0)
DBSA	6 128 561	11.185%		30/09/2024	5 555 996	-	5 555 996	-	(80 201)	5 475 795	-	-	5 475 795	(1 184 105)	4 291 689
	33 112 638	14.610%		30/09/2016	23 987 104	-	23 987 104	-	(1 164 451)	22 822 653	-	-	22 822 653	(8 844 649)	13 978 004
	6 000 000	9.265%		31/03/2016	4 879 520	-	4 879 520	-	(312 710)	4 566 810	-	-	4 566 810	(1 633 267)	2 933 543
	1 600 000	8.995%		31/03/2013	1 042 769	-	1 042 769	-	(155 199)	887 570	-	-	887 570	(612 167)	275 403
	20 000 000	11.180%		30/06/2017	20 000 000	-	20 000 000	-	-	20 000 000	-	-	20 000 000	(4 510 363)	15 489 637
Total DBSA	66 841 199				55 465 389	0	55 465 389	0	(1 712 561)	53 752 828	0	0	53 752 828	(16 784 551)	36 968 277
Total FNCA	71 157 199	11.88%		30/06/2016	33 392 788	-	33 392 788	-	(16 854 399)	16 538 389	2 257 968	(4 636 298)	14 160 060	(1 502 451)	12 657 609
	71 157 199				33 392 788	-	33 392 788	-	(16 854 399)	16 538 389	2 257 968	(4 636 298)	14 160 060	(1 502 451)	12 657 609
Total Annuity Loans	139 103 268				89 007 040	0	89 007 040	0	(18 597 721)	70 409 320	3 046 938	(4 647 493)	68 808 664	(19 101 496)	49 707 168
CAPITALISED LEASE LIABILITIES:															
Westbank	922 982	14.00%	533	28/02/2011	175 701	-	175 701	-	-	175 701	-	-	175 701	-	-
Westbank - coverage to	107 520	15.409%	534	30/06/2010	0	-	0	-	-	0	-	-	0	-	-
Westbank - P.O.S	133 046	14.489%	535	31/08/2010	5 798	-	5 798	-	-	5 798	-	-	5 798	-	-
Westbank - Health	119 350	14.00%	536	31/07/2008	32 404	-	32 404	-	-	32 404	-	-	32 404	-	-
Westbank - Health	420 215	14.00%	537	31/08/2011	34 841	-	34 841	-	-	34 841	-	-	34 841	-	-
Westbank	420 215	14.00%	547	31/07/2012	181 994	-	181 994	-	-	181 994	-	-	181 994	-	-
Total Westbank	1 822 463				430 738	-	430 738	-	-	430 738	-	-	430 738	-	-
Operating leases reclassified as finance leases					20 753 930	-	20 753 930	5 950 525.00	(4 247 416)	22 457 039	-	(4 903 275)	17 553 764	(4 707 543)	12 846 221
Total capitalised lease	1 822 463				21 184 668	-	21 184 668	5 950 525	(4 247 416)	22 887 777	-	(4 903 275)	17 984 502	(4 707 543)	12 846 221
TOTAL EXTERNAL	140 925 731				110 191 708.67	-	110 191 708.67	5 950 525.00	-22 845 136.96	93 297 096.71	3 046 838.13	-9 550 768.28	86 793 167	(23 809 040)	62 553 389

**APPENDIX B
KOUGA LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2017**

Description	Non-current Asset												Carrying Value	Assets held for Sale																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
	Open Balance 1/01/2014	Additions 1/1/17	Disposals 1/1/17	Closing Balance	Opening Balance	Disposals	Additions	Closing Balance	Opening Balance	Under Construction	Transfers	Disposals																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																						
INFRASTRUCTURE																		Roads, Drainage, Bridges and Storm Water	1 651 401 580	4 278 751 132		1 651 401 580	1 651 401 580		4 278 751 132		1 651 401 580	20 431 000							1 671 832 580	Water Treatment and Distribution	892 737 272			892 737 272	892 737 272				892 737 272									892 737 272	Electricity Distribution	271 970 503	3 366 397 250		271 970 503	271 970 503		3 366 397 250		271 970 503	7 223 376							279 193 879	Water Supply	346 552 227	5 662 297 294		346 552 227	346 552 227		5 662 297 294		346 552 227	18 892 961							365 445 188	Other Infrastructure	4 187 600			4 187 600	4 187 600				4 187 600								4 187 600	HERITAGE																		Heritage Buildings	2 653 014 881	21 561 148 717		2 653 014 881	2 653 014 881		21 561 148 717		2 653 014 881	46 562 297							2 700 577 178	MOVING																		Moving Expenses	2 420			2 420	2 420				2 420								2 420	OTHER ASSETS																		Computer Equipment	32 799 917			32 799 917	32 799 917				32 799 917								32 799 917	Plant and Equipment	1 452 811	15 220 000		1 452 811	1 452 811		15 220 000		1 452 811								16 672 811	Investment Properties	1 471 480			1 471 480	1 471 480				1 471 480								1 471 480	Other Assets	7 999 840	116 109 471		7 999 840	7 999 840		116 109 471		7 999 840	7 833 258							158 932 569	Other Assets	7 478 372	188 597 401		7 478 372	7 478 372		188 597 401		7 478 372	839 371							186 088 043	Other Assets	518 468			518 468	518 468				518 468								518 468	Other Assets	57 208 473	441 143 717		57 208 473	57 208 473		441 143 717		57 208 473	201 852							57 410 325	LAND AND OTHER ASSETS																		Land	7 439 292			7 439 292	7 439 292				7 439 292								7 439 292	Other Assets	98 179 200			98 179 200	98 179 200				98 179 200								98 179 200	Other Assets	66 119 200			66 119 200	66 119 200				66 119 200								66 119 200	Other Assets	1 471 480			1 471 480	1 471 480				1 471 480								1 471 480	Other Assets	257 299 200			257 299 200	257 299 200				257 299 200								257 299 200	Other Assets	449 000			449 000	449 000				449 000								449 000	Other Assets	679 000			679 000	679 000				679 000								679 000	Other Assets	3 400 000			3 400 000	3 400 000				3 400 000								3 400 000	Other Assets	702 897 199			702 897 199	702 897 199				702 897 199								702 897 199	Other Assets	6 677 652			6 677 652	6 677 652				6 677 652								6 677 652	Other Assets	1 124 265 817			1 124 265 817	1 124 265 817				1 124 265 817								1 124 265 817	LIABILITIES																		Liabilities	36 513 827			36 513 827	36 513 827				36 513 827								36 513 827	TOTAL	16 157 473			16 157 473	16 157 473				16 157 473								16 157 473
Roads, Drainage, Bridges and Storm Water	1 651 401 580	4 278 751 132		1 651 401 580	1 651 401 580		4 278 751 132		1 651 401 580	20 431 000							1 671 832 580																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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Electricity Distribution	271 970 503	3 366 397 250		271 970 503	271 970 503		3 366 397 250		271 970 503	7 223 376							279 193 879																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
Water Supply	346 552 227	5 662 297 294		346 552 227	346 552 227		5 662 297 294		346 552 227	18 892 961							365 445 188																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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Heritage Buildings	2 653 014 881	21 561 148 717		2 653 014 881	2 653 014 881		21 561 148 717		2 653 014 881	46 562 297							2 700 577 178																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
MOVING																		Moving Expenses	2 420			2 420	2 420				2 420								2 420	OTHER ASSETS																		Computer Equipment	32 799 917			32 799 917	32 799 917				32 799 917								32 799 917	Plant and Equipment	1 452 811	15 220 000		1 452 811	1 452 811		15 220 000		1 452 811								16 672 811	Investment Properties	1 471 480			1 471 480	1 471 480				1 471 480								1 471 480	Other Assets	7 999 840	116 109 471		7 999 840	7 999 840		116 109 471		7 999 840	7 833 258							158 932 569	Other Assets	7 478 372	188 597 401		7 478 372	7 478 372		188 597 401		7 478 372	839 371							186 088 043	Other Assets	518 468			518 468	518 468				518 468								518 468	Other Assets	57 208 473	441 143 717		57 208 473	57 208 473		441 143 717		57 208 473	201 852							57 410 325	LAND AND OTHER ASSETS																		Land	7 439 292			7 439 292	7 439 292				7 439 292								7 439 292	Other Assets	98 179 200			98 179 200	98 179 200				98 179 200								98 179 200	Other Assets	66 119 200			66 119 200	66 119 200				66 119 200								66 119 200	Other Assets	1 471 480			1 471 480	1 471 480				1 471 480								1 471 480	Other Assets	257 299 200			257 299 200	257 299 200				257 299 200								257 299 200	Other Assets	449 000			449 000	449 000				449 000								449 000	Other Assets	679 000			679 000	679 000				679 000								679 000	Other Assets	3 400 000			3 400 000	3 400 000				3 400 000								3 400 000	Other Assets	702 897 199			702 897 199	702 897 199				702 897 199								702 897 199	Other Assets	6 677 652			6 677 652	6 677 652				6 677 652								6 677 652	Other Assets	1 124 265 817			1 124 265 817	1 124 265 817				1 124 265 817								1 124 265 817	LIABILITIES																		Liabilities	36 513 827			36 513 827	36 513 827				36 513 827								36 513 827	TOTAL	16 157 473			16 157 473	16 157 473				16 157 473								16 157 473																																																																																																																																																	
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Computer Equipment	32 799 917			32 799 917	32 799 917				32 799 917								32 799 917																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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LIABILITIES																		Liabilities	36 513 827			36 513 827	36 513 827				36 513 827								36 513 827	TOTAL	16 157 473			16 157 473	16 157 473				16 157 473								16 157 473																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													
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**KOUGA LOCAL MUNICIPALITY
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2017**

Description	Intangible Assets												Carrying Value	Assets held for Sale																																																																											
	Opening Balance	Additions 1/1/17	Disposals 1/1/17	Closing Balance	Opening Balance	Disposals	Additions	Closing Balance	Opening Balance	Under Construction	Transfers	Disposals																																																																													
Intangible Assets																		Copyrights	173 203	301 091 151		173 203	173 203		301 091 151		173 203								474 294	Software Licences	871 197	38 097 560		871 197	871 197		38 097 560		871 197								952 394	Total Intangible Assets	1 044 399	682 188 711		1 044 399	1 044 399		682 188 711		1 044 399								1 426 688	Total	17 424 260	22 082 156 000		17 424 260	17 424 260		22 082 156 000		17 424 260								39 506 416
Copyrights	173 203	301 091 151		173 203	173 203		301 091 151		173 203								474 294																																																																								
Software Licences	871 197	38 097 560		871 197	871 197		38 097 560		871 197								952 394																																																																								
Total Intangible Assets	1 044 399	682 188 711		1 044 399	1 044 399		682 188 711		1 044 399								1 426 688																																																																								
Total	17 424 260	22 082 156 000		17 424 260	17 424 260		22 082 156 000		17 424 260								39 506 416																																																																								

**APPENDIX C
KOUGA LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 June 2012**

Description	Operating Balance		Additions		Historical Cost		Disposals		Closing Balance		Under Construction		Cost / Revaluation		Accumulated Depreciation		Carrying Value	
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Executive and Council																		
Finance and Administration	1 061 785 188	173 759							1 061 958 947									891 448 659 34
Planning and Development	7 818 756	270 986							8 089 722									3 515 692 00
Health																		
Community and Social Services	69 965 000								69 965 000									69 965 000 00
Housing	2 920							2 920										3 920 00
Public Safety	1 673 296							1 673 296										1 178 194 00
Sport and Recreation	7 528 000							7 528 000										7 528 000 00
Waste Management	246 609 827	13 942 200 04						260 552 027										167 091 350 31
Roads and Transport	1 691 881 560							1 691 881 560			18 899 361							439 419 471
Water	382 722 002	4 278 751 62						387 000 754			16 152 779							295 219 330 59
Electricity	281 818 597	3 346 397 05						285 164 994			3 876 979							156 138 095 62
Total PPE	3 751 805 521	22 022 094					3 773 817 215		3 773 817 215		24 985 918		21 567 349		46 554 267		893 657 004	2 915 147 129
Investment assets																		66 167 010
Intangible assets																		150 346
Total Assets Register	3 822 254 018	22 042 155					3 845 296 173		3 845 296 173		24 985 918		21 567 349		46 554 267		811 402 163 54	2 961 464 595

APPENDIX D
KOUGA LOCAL MUNICIPALITY: SEGMENTAL STATEMENT OF
FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

2011 Actual Income R	2011 Actual Expenditure R	2011 Surplus/ (Deficit) R	Description	2012 Actual Income R	2012 Actual Expenditure R	2012 Surplus/ (Deficit) R
-	21 486 851	-21 486 851	Executive and Council	-	25 836 459	-25 836 459
137 593 756	143 288 270	-5 694 515	Finance and Admin	153 008 815	159 466 785	-6 457 970
3 143 521	48 419 033	-45 275 512	Planning and development	4 783 517	44 685 405	-39 901 888
819 740	1 841 972	-1 022 232	Health	-	-	-
2 963 259	34 073 009	-31 109 750	Community and Social Services	2 902 611	31 214 409	-28 311 799
-	3 902 456	-3 902 456	Housing	-	3 601 652	-3 601 652
9 714 963	26 389 708	-16 674 745	Public Safety	11 302 894	23 738 558	-12 435 664
-	632 545	-632 545	Sport and Recreation	-	464 338	-464 338
12 332 038	6 146 282	6 185 756	Environmental Protection	12 825 224	7 656 573	5 168 650
19 182 003	25 744 494	-6 562 491	Waste Management	23 888 492	27 708 977	-3 820 485
47 482 163	26 119 487	21 362 675	Waste Water Management	53 998 516	24 004 672	29 993 844
-	-	-	Road Transport	-	-	-
33 519 708	37 506 759	-3 987 051	Water	38 625 302	39 047 776	-422 474
131 549 219	116 510 944	15 038 275	Electricity	176 490 950	154 744 076	21 746 874
398 300 368	492 061 810	-93 761 442	Sub-Total	477 826 321	542 169 682	-64 343 361
5 817 463.00	5 817 463.00	0.00	Less: Inter-departmental Charges	10 024 291	10 024 291	-0
392 482 905.03	486 244 347.30	-93 761 442.27	Total	467 802 030	532 145 391	-64 343 361

APPENDIX E(1)
KOUGA LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED
30 JUNE 2012

Description	2011/2012		2011/2012		2011/2012	
	Actual	Budget	Variance	R	Variance	%
REVENUE						
Property Rates	104 273 577.40	105 316 616.00	-1 043 038.60			-1.00%
Service Charges	267 154 921.39	270 309 238.00	-3 154 316.61			-1.18%
Rental of Facilities and Equipment	722 795.69	455 142.00	267 653.69			37.03%
Interest Earned - External investments	937 487.98	572 056.00	365 431.98			38.98%
Interest Earned - Outstanding debtors	6 646 186.02	3 813 527.00	2 832 659.02			42.62%
Interest Earned - Fair value adjustment of rates	-	-	-			-
Fines	2 879 888.49	2 871 908.00	7 980.49			0.28%
Licences and Permits	7 682 609.78	16 315 349.00	-8 632 739.22			-112.37%
Government Grants and Subsidies	71 302 717.04	74 950 591.00	-3 647 873.96			-5.12%
Other Income	6 207 105.95	9 080 117.00	-2 873 011.05			-46.29%
Gains on Disposal of Property, Plant and Equipment	-5 259.79	4 072.00	-9 331.79			0.00%
Budgeted Income from non-GRAP compliant reserves	-	-	-			-
Total Revenue	467 802 029.95	483 688 616.00	-15 886 586.05			(3.28)
EXPENDITURE						
Employee Related Costs	178 343 013.16	170 403 287.00	7 939 726.16			4.45%
Remuneration of Councillors	7 949 414.85	7 951 749.00	-2 334.15			-0.03%
Bad Debts	26 208 652.25	25 379 290.00	829 362.25			-
Collection costs	-14 493.56	-	-			-
Contracted services	33 436.90	22 799.00	10 637.90			-
Depreciation	77 295 670.19	-	77 295 670.19			-
Impairment Losses	-	-	-			-
Repairs and Maintenance	15 545 765.09	18 955 099.00	-3 409 333.91			-21.93%
Interest Paid	11 524 228.31	15 782 933.00	-4 258 704.69			-36.95%
Bulk Purchases	143 922 016.87	139 580 640.00	4 341 376.87			3.02%
Grants and Subsidies Paid	18 186 523.96	15 764 629.00	2 421 894.96			13.32%
General Expenses	53 151 163.43	61 296 190.00	-8 145 026.57			-15.32%
Loss on disposal of Property, Plant and Equipment	-	-	-			-
Budgeted Expenditure on non-GRAP compliant items	-	-	-			-
Total Expenditure	532 145 391.45	455 136 616.00	77 012 631.11			16.92
NET SURPLUS / (DEFICIT) FOR THE YEAR	-64 343 361.50	28 552 000.00	-92 895 361.50			(325.36)

APPENDIX E(2)
KOUGA LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET

ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT & INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/2012	2011/2012	2011/2012	2011/2012	2011/2012	2011/2012	2011/2012	Explanation of Significant Variances
	Actual R	Under Construction R	Total Additions R	Budget R	Variance R	Variance R	Variance %	greater than 5% versus Budget
Executive and Council	-	-	-	-	-	-	0%	
Finance and Administration	173 759	-	173 759.05	173 759.05	-	-	0%	
Planning and Development	270 986	-	270 986.00	270 986.00	-	-	0%	
Health	-	-	-	-	-	-	0%	
Housing	-	-	-	-	-	-	0%	
Sport and Recreation	-	-	-	-	-	-	0%	
Environmental protection	-	-	-	-	-	-	0%	
Waste Management	-	-	-	-	-	-	0%	
Waste Water Management	-	13 942 200	13 942 200.04	14 657 700	715 500	715 500	5%	
Roads and Transport	-	-	-	-	-	-	0%	
Water	-	4 278 752	4 278 751.62	7 194 200	2 915 448	2 915 448	41%	
Electricity	-	3 346 397	3 346 397.05	6 700 000	3 353 603	3 353 603	50%	Funds rolled over to the 2012/2013 financial year
Total	444 745.05	21 567 348.71	22 012 093.76	28 996 645	6 984 551	6 984 551		