

**FINANCIAL STATEMENTS
AUDITOR GENERAL
COMMENTS &
ACTION PLAN**



AUDITED ANNUAL FINANCIAL STATEMENTS
30 JUNE 2015

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GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2015

D Kettleidas	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

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

BANKERS

First National Bank
Private Bag X5
Jeffreys Bay, 6330

REGISTERED OFFICE

33 Da Gama Drive
Jeffreys Bay

P O Box 21
Jeffreys Bay
6330

Tel: (042) 200 2200
Fax: (042) 293 4204

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

MUNICIPAL MANAGER

Mr. S Fadi

ACTING CHIEF FINANCIAL OFFICER

Mr. S Abrahams

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:

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	Petersen	D
6	Oliphant	P
7	Koliti	B
8	Aldendorff	D
9	Persent	X
10	Kota	P
11	Ungerer	M
12	Rheeder	B
13	Matodlana	V
14	Meleni	T
15	Mahlathini	E
Proportional	Kettledas	D
Proportional	Camelio-Benjamin	V
Proportional	Dlomo	M
Proportional	Maseti	T
Proportional	Koerat	B
Proportional	Stuurman	V
Proportional	Prinsloo	J
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 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

Date

KOUGA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of Kouga Municipality at 30 June 2015.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2014/15 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

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.

2.1 Financial Statement Ratios:

INDICATOR	2015	2014
Surplus / (Deficit) before Appropriations	91 224 900	(50 579 140)
Surplus / (Deficit) at the end of the Year	2 271 139 150	2 179 914 250
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	36.77%	35.32%
Remuneration of Councillors	1.69%	1.53%
Collection Costs	0.00%	0.01%
Depreciation and Amortisation	14.16%	13.58%
Impairment Losses	2.99%	5.63%
Repairs and Maintenance	4.58%	3.81%
Interest Paid	1.23%	2.27%
Bulk Purchases	29.46%	28.66%
Contracted Services	0.00%	0.00%
Grants and Subsidies Paid	0.00%	0.00%
General Expenses	9.13%	9.21%
Current Ratio:		
Trade Creditors Days	99	114
Debtors from Exchange Transactions Days	53	66

2.2 Performance Indicators:

INDICATOR	2015	2014
Financial Position		
Debtors Management:		
Outstanding Debtors to Revenue	14.58%	12.97%
Outstanding Service Debtors to Revenue	17.94%	15.54%
Liquidity Management:		
Liquidity Ratio	0.28	0.16
Liability Management:		
Capital Cost as percentage of Own Revenue	5.16%	6.50%
Borrowed Funding as percentage of Own Capital Expenditure	0.00%	0.00%
Borrowing as percentage of Total Capital Assets	2.02%	2.21%
Safety of Capital:		
Gearing	2.19%	2.45%
Financial Viability:		
Debt Coverage	24.13	25.50
Cost Coverage	0.08	0.05
Financial Performance		
Expenditure Management:		
Creditors to Cash and Investments	190.05%	293.61%
Capital Expenditure on Infrastructure to Total Capital Expenditure	96.95%	0.00%

A detailed ratio analysis, together with explanations, is included in Appendix "H".

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results are included in Appendices "E (1), E (2) and E (3)".

The services offered by Kouga Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2015 are as follows:

DETAILS	Actual 2014/15 R	Actual 2013/14 R	Percentage Variance %	Budgeted 2014/15 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	2 179 914 250	2 230 493 390	(2.27)	-	100.00
Operating income for the year	670 080 172	538 645 001	24.40	644 660 145	3.94
Appropriations for the year	-	0	(100.00)	-	-
	2 849 994 422	2 769 138 391	2.92	644 660 145	342.09
Expenditure:					
Operating expenditure for the year	578 855 272	589 224 141	(1.76)	677 821 451	(14.60)
Sundry transfers	-	-	-	-	-
Closing surplus / (deficit)	2 271 139 150	2 179 914 250	4.18	(33 161 306)	(6 948.76)
	2 849 994 422	2 769 138 391	2.92	644 660 145	342.09

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2014/15 R	Actual 2013/14 R	Percentage Variance %	Budgeted 2014/15 R	Variance actual/ budgeted %
Income	244 829 093	237 288 921	3.18	283 491 944	(13.64)
Expenditure	305 699 421	316 163 963	(3.31)	334 878 066	(8.71)
Surplus / (Deficit)	(60 870 328)	(78 875 042)	(22.83)	(51 386 122)	18.46
Surplus / (Deficit) as % of total income	(24.86)%	(33.24)%		(18.13)%	

3.2 Housing Services:

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

DETAILS	Actual 2014/15 R	Actual 2013/14 R	Percentage Variance %	Budgeted 2014/15 R	Variance actual/ budgeted %
Income	-	-	-	-	-
Expenditure	3 655 622	3 562 336	2.62	3 703 761	(1.30)
Surplus / (Deficit)	(3 655 622)	(3 562 336)	2.62	(3 703 761)	(1.30)
Surplus / (Deficit) as % of total income	(100.00)%	(100.00)%		(100.00)%	

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2014/15 R	Actual 2013/14 R	Percentage Variance %	Budgeted 2014/15 R	Variance actual/ budgeted %
Income	103 689 398	66 011 958	57.08	90 717 128	14.30
Expenditure	55 032 856	59 597 764	(7.66)	62 670 414	(12.19)
Surplus / (Deficit)	48 656 541	6 414 194	658.58	28 046 714	73.48
Surplus / (Deficit) as % of total income	46.93%	9.72%		30.92%	

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R154 641 312 (2014: R154 344 846). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2014/15 R	Actual 2013/14 R	Percentage Variance %	Budgeted 2014/15 R	Variance actual/ budgeted %
Income	193 800 515	193 624 094	0.09	218 718 890	(11.39)
Expenditure	179 016 903	175 907 433	1.77	219 479 322	(18.44)
Surplus / (Deficit)	14 783 612	17 716 661	(16.56)	(760 432)	(2 044.11)
Surplus / (Deficit) as % of total income	7.63%	9.15%		(0.35)%	

3.5 Water Services:

Water is bought in bulk from NMBM and "Gamtoos Irrigation Board" and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R15 886 751 (2014: R14 501 714). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2014/15 R	Actual 2013/14 R	Percentage Variance %	Budgeted 2014/15 R	Variance actual/ budgeted %
Income	127 761 167	41 720 027	206.23	51 732 184	146.97
Expenditure	35 450 470	33 992 644	4.29	57 089 889	(37.90)
Surplus / (Deficit)	92 310 697	7 727 383	1 094.59	(5 357 705)	(1 822.95)
Surplus / (Deficit) as % of total income	72.25%	18.52%		(10.36)%	

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R117 359 852 (2013/14: R53 535 972). Full details of Assets are disclosed in Notes 9, 10, 11, N/A and Appendices "B, C and E (4)" to the Annual Financial Statements.

Capital Assets are funded to a great extent from grants and subsidies as the municipality does not have the financial resources to finance infrastructure capital expenditure from its own funds.

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

DETAILS	2015	2014
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(33 161 306)	10 941 719
Revenue variances	25 420 027	(102 968 310)
Expenditure variances:		
Employee Related Costs	969 884	(12 306 972)
Remuneration of Councillors	72 673	155 348
Collection Costs	-	(31 679)
Depreciation and Amortisation	413 430	(8 858 184)
Impairment Losses	32 375 325	9 861 988
Repairs and Maintenance	20 017 823	19 590 865
Interest Paid	15 925 478	(3 032 506)
Bulk Purchases	20 182 517	8 366 939
Contracted Services	-	90 000
Grants and Subsidies Paid	-	14 697 667
General Expenses	9 009 049	12 913 985
Loss on disposal of Property, Plant and Equipment	-	-
Actual surplus before appropriations	91 224 900	(50 579 140)

DETAILS	2015	2014
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(33 161 306)	14 259 811
Executive and Council	17 755 521	472 529
Budget and Treasury Office	(1 860 320)	(47 285 464)
Planning and Development	1 636 765	1 162 095
Health	-	-
Community and Social Services	(1 235 211)	1 446 773
Housing	48 139	1 083 962
Public Safety	(6 959 704)	(96 137)
Sport and Recreation	(7 141 606)	1 158 893
Environmental Protection	(1 042 241)	4 619 623
Waste Management	20 609 827	(11 935 956)
Roads and Transport	(5 803 259)	(8 133 555)
Water	97 668 401	(525 459)
Electricity	15 544 043	6 724 363
Other	(4 834 150)	(13 530 621)
Revenue Foregone	-	-
Actual surplus before appropriations	91 224 900	(50 579 140)

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results are included in Appendices "E (1), E (2) and E (3)".

6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2015 amounted to R2 271 139 150 (30 June 2014: R2 179 914 250) and is made up as follows:

Accumulated Surplus	<u>2 271 139 150</u>
	<u>2 271 139 150</u>

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 23 and the Statement of Change in Net Assets for more detail.

7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2015 was R49 636 662 (30 June 2014: R53 442 524).

Loans to the amount of R0 (2013/14: R0) was taken up during the financial year to enable the municipality to finance part of its capital requirements for the year.

Refer to Note 20 and Appendix "A" for more detail.

8. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R73 577 000 as at 30 June 2015 (30 June 2014: R67 329 000) and is made up as follows:

Post-retirement Health Care Benefits Liability	72 740 000
Long Service Awards Liability	-
	<u>72 740 000</u>

The Post-retirement Health Care Benefits Liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

The Long-term Service Liability is an estimate of the long-service based on historical staff turnover. No other long-term service benefits are provided to employees. This liability is unfunded.

Refer to Note 21 for more detail.

9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R37 578 057 as at 30 June 2015 (30 June 2014: R37 205 801) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	25 947 857
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These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 22 for more detail.

10. CURRENT LIABILITIES

Current Liabilities amounted R143 818 206 as at 30 June 2015 (30 June 2014: R181 991 290) and is made up as follows:

Consumer Deposits	Note 13	8 592 611
Provisions	Note 14	29 881 682
Payables from Exchange Transactions	Note 15	75 417 589
Payables from Non-exchange Transactions	Note 16	13 368 006
Unspent Conditional Grants and Receipts	Note 17	5 688 633
Current Portion of Long-term Liabilities	Note 20	10 869 685
		<u>143 818 206</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 Notes for more detail.

11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R2 390 315 219 as at 30 June 2015 (30 June 2014: R2 358 104 589).

Refer to Note 9 and Appendices "B, C and E (4)" for more detail.

12. INTANGIBLE ASSETS

The net value of Intangible Assets were R183 165 as at 30 June 2015 (30 June 2014: R171 608).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 10 and Appendix "B" for more detail.

13. INVESTMENT PROPERTY

The net value of Investment Properties were R61 823 970 as at 30 June 2015 (30 June 2014: R62 294 190).

Investment Property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of operations.

Refer to Note 11 and Appendix "B" for more detail.

14. LONG-TERM RECEIVABLES

Long-term Receivables of R170 602 at 30 June 2015 (30 June 2014: R188 060) is made up as follows:

Debtors Capitalised Loans	<u>209 060</u>
	505 892
Less: Short-term portion included in Current Assets	<u>38 458</u>
	<u>467 434</u>

The decrease in the amount for Long-term Receivables is due to the increased amount in the short-term portion due to agreements expiring in the year 2014/15.

Refer to Note 12 for more detail.

15. CURRENT ASSETS

Current Assets amounted R123 256 120 as at 30 June 2015 (30 June 2014: R99 124 417) and is made up as follows:

Inventories	Note 2	4 317 025
Receivables from Exchange Transactions	Note 3	43 578 518
Receivables from Non-exchange Transactions	Note 4	34 447 047
VAT Receivable	Note 5	974 382
Cash and Cash Equivalents	Note 6	39 682 179
Operating Lease Assets	Note 7	249 227
Current Portion of Long-term Debtors	Note 12	<u>7 742</u>
		<u>123 256 120</u>

Refer to the indicated Notes for more detail.

16. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 17 and 27, and Appendix "F" for more detail.

17. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 57.

18. EXPRESSION OF APPRECIATION

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

ACTING CHIEF FINANCIAL OFFICER

31 August 2015

KOUGA MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

	Note	Actual	
		2015 R	2014 Restated R
ASSETS			
Current Assets		123 256 120	99 124 417
Inventories	2	4 317 025	4 321 092
Receivables from Exchange Transactions	3	43 578 518	52 941 790
Receivables from Non-exchange Transactions	4	34 447 047	12 893 737
VAT Receivable	5	974 382	-
Cash and Cash Equivalents	6	39 682 179	28 750 758
Operating Lease Receivables	7	249 227	196 039
Current Portion of Long-term Receivables	8	7 742	21 000
Non-Current Assets		2 452 492 955	2 420 758 448
Property, Plant and Equipment	9	2 390 315 219	2 358 104 589
Intangible Assets	10	183 165	171 608
Investment Property	11	61 823 970	62 294 190
Long-term Receivables	12	170 602	188 060
Total Assets		2 575 749 075	2 519 882 865
LIABILITIES			
Current Liabilities		143 818 206	181 991 290
Consumer Deposits	13	8 592 611	8 383 685
Provisions	14	29 881 682	31 465 926
Payables from Exchange Transactions	15	75 417 589	84 416 243
Payables from Non-exchange Transactions	16	13 368 006	11 758 871
Unspent Conditional Grants and Receipts	17	5 688 633	19 018 986
VAT Payable	18	-	3 019 701
Current Portion of Long-term Liabilities	20	10 869 685	23 927 878
Non-Current Liabilities		160 791 719	157 977 325
Long-term Liabilities	20	49 636 662	53 442 524
Employee Benefit Liabilities	21	73 577 000	67 329 000
Non-current Provisions	22	37 578 057	37 205 801
Total Liabilities		304 609 924	339 968 615
Total Assets and Liabilities		2 271 139 151	2 179 914 250
NET ASSETS		2 271 139 150	2 179 914 250
Accumulated Surplus	23	2 271 139 150	2 179 914 250
Total Net Assets		2 271 139 150	2 179 914 250

KOUGA MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

	Note	Actual	
		2015 R	2014 Restated R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	24	128 579 927	128 562 770
Fines	25	1 736 819	357 247
Licences and Permits	26	6 503 038	7 847 710
Government Grants and Subsidies Received	27	204 611 385	86 336 636
Public Contributions and Donations	28	-	57 030
Revenue from Exchange Transactions			
Service Charges	29	301 052 106	291 078 085
Rental of Facilities and Equipment	30	1 394 697	276 049
Interest Earned - External Investments	31	2 429 512	1 709 388
Interest Earned - Outstanding Debtors	31	3 925 942	3 841 248
Other Revenue	32	19 710 084	17 491 840
Gains on Disposal of Property, Plant and Equipment	42	136 661	1 086 999
Total Revenue		670 080 172	538 645 001
EXPENDITURE			
Employee Related Costs	33	212 826 380	208 085 170
Remuneration of Councillors	34	9 756 717	9 025 077
Collection Costs	35	-	31 679
Depreciation and Amortisation	36	81 944 404	80 000 315
Impairment Losses	37	17 307 856	33 194 968
Repairs and Maintenance	38	26 507 035	22 431 053
Finance Costs	39	7 130 939	13 356 400
Bulk Purchases	40	170 528 063	168 846 561
General Expenses	41	52 853 879	54 252 919
Total Expenditure		578 855 272	589 224 141
SURPLUS / (DEFICIT) FOR THE YEAR		91 224 900	(50 579 140)

KOUGA MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2015

Description	Total for Accumulated Surplus/(Deficit) Account	Total
2014	R	R
Balance at 30 June 2013	2 226 996 883	2 226 996 883
Correction of Error (Note 43)	3 496 507	3 496 507
Restated Balance at 30 June 2013	2 230 493 390	2 230 493 390
	-	-
Restated Deficit for the year	(50 579 140)	(50 579 140)
Balance at 30 June 2014	2 179 914 250	2 179 914 250
2015		
Surplus for the year	91 224 900	91 224 900
Balance at 30 June 2015	2 271 139 150	2 271 139 150

KOUGA MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

	Note	Actual	
		2015 R	2014 Restated R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates	24	122 195 763	138 713 485
Government Grant and Subsidies	27	191 281 033	95 931 779
Public Contributions and Donations	28	-	57 030
Service Charges	29	293 107 523	252 848 472
Interest Received	31	2 429 512	1 709 388
Other Receipts	32	17 296 049	36 342 446
Payments			
Employee Related Costs	33	(205 971 820)	(203 826 898)
Remuneration of Councillors	34	(9 756 717)	(9 025 077)
Interest Paid	39	(7 130 939)	(13 356 400)
Suppliers and Other Payments	41	(259 171 193)	(255 981 064)
NET CASH FLOWS FROM OPERATING ACTIVITIES		144 279 211	43 413 159
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	9	(116 640 223)	(17 625 547)
Purchase of Intangible Assets	10	(94 546)	(97 712)
Purchase of Investment Property	11	-	(538 000)
Proceeds on Disposal of Property, Plant and Equipment	42	233 575	1 086 999
Decrease / (Increase) in Long-term Receivables	12	17 458	148 469
NET CASH FLOWS FROM INVESTING ACTIVITIES		(116 483 736)	(17 025 791)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowings	20	(16 864 055)	(16 027 926)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(16 864 055)	(16 027 926)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		10 931 421	10 359 442
Cash and Cash Equivalents at Beginning of Period		28 750 758	18 391 316
Cash and Cash Equivalents at End of Period	6	39 682 179	28 750 758

KOUGA MUNICIPALITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2015

Notes to the user:

- (1) Approved Budget The Final Budget approved by council and submitted to National Treasury
 (2) Final Budget The Final Amended Budget used by the municipality, for which council approval was not obtained (i.e. adjustments/virements allowed without council approval)
 (3) if the Approved Budget (normally the Adjustment Budget) is the same as the Final Budget, only column need to be used.

30 June 2015

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Final Budget R	Actual Outcome R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
FINANCIAL POSITION								
Current Assets								
Inventories	3 684 198	-	3 684 198	3 684 198	4 317 025	632 826	117.18	117.18
Receivables from Exchange Transactions	64 525 274	-	64 525 274	64 525 274	43 578 518	(20 946 756)	67.54	67.54
Receivables from Non-exchange Transactions	214 597 854	-	214 597 854	214 597 854	34 447 047	(180 150 806)	16.05	16.05
VAT Receivable	-	-	-	-	974 382	974 382	0.00	0.00
Cash and Cash Equivalents	22 081 730	-	22 081 730	22 081 730	39 682 179	17 600 449	179.71	179.71
Operating Lease Receivables	-	-	-	-	249 227	249 227	0.00	0.00
Current Portion of Long-term Receivables	-	-	-	-	7 742	7 742	0.00	0.00
Non-Current Assets								
Property, Plant and Equipment	2 738 272 898	10 965 124	2 749 238 022	2 749 238 022	2 390 315 219	(358 922 803)	86.94	87.29
Intangible Assets	68 824	-	68 824	68 824	183 165	114 341	266.13	266.13
Investment Property	63 664 296	-	63 664 296	63 664 296	61 823 970	(1 840 326)	97.11	97.11
Long-term Receivables	199 377	-	199 377	199 377	170 602	(28 775)	85.57	85.57
Total Assets	3 107 094 450	10 965 124	3 118 059 574	3 118 059 574	2 575 749 075	(542 310 499)	82.61	82.90
Current Liabilities								
Consumer Deposits	12 104 576	-	12 104 576	12 104 576	8 592 611	(3 511 965)	70.99	70.99
Provisions	23 186 791	-	23 186 791	23 186 791	29 881 682	6 694 890	128.87	128.87
Payables from Exchange Transactions	108 126 207	-	108 126 207	108 126 207	75 417 589	(32 708 618)	69.75	69.75
Payables from Non-exchange Transactions	-	-	-	-	13 368 006	13 368 006	0.00	0.00
Unspent Conditional Grants and Receipts	33 340 000	(33 340 000)	-	-	5 688 633	5 688 633	0.00	0.00
Current Portion of Long-term Liabilities	53 718 782	-	53 718 782	53 718 782	10 869 685	(42 849 098)	20.23	20.23
Non-Current Liabilities								
Long-term Liabilities	30 251 320	-	30 251 320	30 251 320	49 636 662	19 385 342	164.08	164.08
Retirement Benefit Liabilities	80 064 956	-	80 064 956	80 064 956	73 577 000	(6 487 956)	91.90	91.90
Non-current Provisions	21 882 652	-	21 882 652	21 882 652	37 578 057	15 695 405	171.73	171.73
Total Liabilities	362 675 284	(33 340 000)	329 335 284	329 335 284	304 609 924	(24 725 360)	92.49	83.99
Total Assets and Liabilities	2 744 419 166	44 305 124	2 788 724 290	2 788 724 290	2 271 139 151	(517 585 139)	81.44	82.75
Net Assets (Equity)								
Accumulated Surplus / (Deficit)	2 744 419 166	44 305 124	2 788 724 290	2 788 724 290	2 271 139 150	(517 585 140)	81.44	82.75
Total Net Assets	2 744 419 166	44 305 124	2 788 724 290	2 788 724 290	2 271 139 150	(517 585 140)	81.44	82.75
	0		0	0	1	1	81.44	82.75

Financial Position: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

Proper procedures to budget for Financial Position have not been developed and implemented. Furthermore, the system utilised does not carry budget for Financial Position and no budgetary control can Inventories:

- Increase in Major Spare Parts kept in stores emergency purposes, not budgeted for.

Receivables from Exchange Transactions:

- Increase in Provision for Bad Debts, due to decline in recovery of Debtors, not budgeted for.

Receivables from Non-exchange Transactions:

- Over budgeted for Assessment Rates Debtors, budget error.

VAT Receivable:

- Claims for Input VAT not yet paid by SARS.

Cash and Cash Equivalents:

- Capital expenditure budgeted for, not realised.

Operating Lease Receivables:

- Did not budget for Lease Receivables.

Current Portion of Long-term Receivables:

- Did not budget for Arrangement Debtors.

Property, Plant and Equipment:

- Capital expenditure budgeted for, not realised.

Intangible Assets:

- Under budgeted for current year Capital Expenditure.

Long-term Receivables:

- Over budgeted for Arrangement Debtors.

Consumer Deposits:

- Over budgeted for Water & Electricity deposits.

Provisions:

- Under budgeted for Employee Benefits.

Payables from Exchange Transactions:

- Over budgeted for Payables from Exchange Transactions.

Payables from Non-exchange Transactions:

- Did not budget for Payables from Non-exchange Transactions.

Unspent Conditional Grants and Receipts:

- Did not budget for Roll-over Projects funded from Grants.

Current Portion of Long-term Liabilities:

- Over budgeted for Current Portion of Long-Term Liabilities

Non-current Provisions:

- Under budgeted for Provision for Non-current Provisions.

Accumulated Surplus / (Deficit):

- Over budgeted for Accumulated Surplus.

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE								
Revenue from Non-exchange Transactions								
Property Rates	138 420 008	1 320 385	139 740 394	139 740 394	128 579 927	(11 160 467)	92.01	92.89
Fines	8 094 550	87 772	8 182 323	8 182 323	1 736 819	(6 445 504)	21.46	21.46
Licences and Permits	9 116 150	106 174	9 222 323	9 222 323	6 503 038	(2 719 285)	70.51	71.34
Government Grants and Subsidies Received	113 973 519	7 554 937	121 528 456	121 528 456	204 611 385	83 082 929	168.36	179.53
Revenue from Exchange Transactions								
Service Charges	330 465 811	4 356 435	334 822 246	334 822 246	301 052 106	(33 770 140)	89.91	91.10
Rental of Facilities and Equipment	879 086	263 183	1 142 270	1 142 270	1 394 697	252 428	122.10	158.65
Interest Earned - External Investments	886 487	704 122	1 590 608	1 590 608	2 429 512	838 904	152.74	274.06
Interest Earned - Outstanding Debtors	7 254 327	(1 361 882)	5 892 435	5 892 435	3 925 942	(1 966 492)	66.63	54.12
Other Income	22 836 702	(297 612)	22 539 090	22 539 090	19 710 084	(2 829 005)	87.45	86.31
Gains on Disposal of Property, Plant and Equipment	-	-	-	-	136 661	136 661	0.00	0.00
Total Revenue	631 926 640	12 733 505	644 660 145	644 660 145	670 080 172	25 420 027	103.94	106.04
Expenditure								
Employee Related Costs	206 451 718	(7 071 637)	199 380 081	213 796 284	212 826 380	(969 884)	99.55	103.09
Remuneration of Councillors	9 045 580	123 810	9 169 390	9 829 390	9 756 717	(72 673)	99.26	107.86
Depreciation and Amortisation	80 357 832	2	80 357 834	82 357 834	81 944 404	(413 430)	99.50	101.97
Impairment Losses	49 683 181	(0)	49 683 181	49 683 181	17 307 856	(32 375 325)	34.84	34.84
Repairs and Maintenance	44 597 991	1 926 867	46 524 857	46 524 857	26 507 035	(20 017 823)	56.97	59.44
Finance Costs	23 494 001	(437 585)	23 056 417	23 056 417	7 130 939	(15 925 478)	30.93	30.35
Bulk Purchases	190 710 580	-	190 710 580	190 710 580	170 528 063	(20 182 517)	89.42	89.42
Grants and Subsidies Paid	40 000	(38 250)	1 750	-	-	-	0.00	0.00
General Expenses	71 876 663	7 260 698	78 937 360	61 862 928	52 853 879	(9 009 049)	85.44	73.74
Total Expenditure	676 057 547	1 763 904	677 821 451	677 821 451	578 855 272	(98 966 178)	85.40	85.62
Surplus/(Deficit for the Year)	(44 130 906)	10 969 601	(33 161 306)	(33 161 306)	91 224 900	124 386 206	-	-

Financial Performance: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Fines:

Licences and Permits: Budgeted for Fines paid, and not accrued for in terms of GRAP 23.

Over budgeted for Licences and Permits.

Government Grants and Subsidies Received:

Capital Transfers for housing infrastructure, not budgeted for.

Rental of Facilities and Equipment:

Rental for Sport and Community Hall under budgeted for.

Interest Earned - External Investments:

Interest Earned exceeded the budgetary expectations due to funds not spent.

Interest Earned - Outstanding Debtors:

Over budgeted for interest Earned - Outstanding Debtors

Other Income:

Other Income received exceeded budgetary expectations.

Gains on Disposal of Property, Plant and Equipment:

Did not budget for Gains on Disposal of Property, Plant and Equipment

Impairment Losses:

Over budgeted for Impairment Losses on Receivables.

Repairs and Maintenance:

Repairs & Maintenance budget was under spent due to the lack of Maintenance Plans.

Finance Costs:

The budget included the Capital Repayment of Long-Term Liabilities

General Expenses :

Over budgeted for General Expenses.

30 June 2015

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
CAPITAL EXPENDITURE PER FUNCTION								
Executive and Council	-	121 400	121 400	121 400	35 918	(85 482)	29.59	0.00
Budget and Treasury Office	-	152 726	152 726	152 726	124 309	(28 417)	81.39	0.00
Corporate Services	-	103 000	103 000	103 000	5 945 896	5 842 896	5 772.71	0.00
Community and Social Services	1 800 000	65 500	1 865 500	1 865 500	45 795	(1 819 705)	2.45	0.00
Sport and Recreation	4 251 060	3 169 406	7 420 466	7 420 466	6 157 054	(1 263 412)	82.97	2.54
Public Safety	-	60 000	60 000	60 000	311 298	251 298	518.83	144.84
Housing	-	45 240	45 240	45 240	29 941	(15 299)	66.18	0.00
Planning and Development	1 417 020	(822 860)	594 160	594 160	352 720	(241 440)	59.36	0.00
Environmental Protection	1 087 000	20 000	1 111 000	1 111 000	15 604	(1 095 396)	1.40	24.89
Electricity	5 000 000	(941 437)	4 058 563	4 058 563	346 908	(3 711 655)	8.55	1.43
Water	-	-	-	-	30 007 619	30 007 619	0.00	6.94
Waste Water Management	22 672 320	8 992 154	31 664 474	31 664 474	70 510 731	38 846 257	222.68	0.00
Total Capital Expenditure	36 231 400	10 965 129	47 196 529	47 196 529	113 883 793	66 687 264	241.30	314.32

Capital Expenditure per Function: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items for Capital Expenditure per Function are explained below:

Executive and Council:

Savings realised on capital items budgeted for and not purchased.

Budget and Treasury Office:

Savings realised on capital items budgeted for and not purchased.

Corporate Services:

Finance Lease Assets recognized.

Community and Social Services:

Savings realised on capital items budgeted for and not purchased.

Sport and Recreation:

M/G Projects not finalised.

Public Safety:

Fire Equipment, not budgeted for.

Housing:

Savings realised on capital items budgeted for and not purchased.

Planning and Development:

Savings realised on capital items budgeted for and not purchased.

Roads and Transport:

Savings realised on capital items budgeted for and not purchased.

Environmental Protection:

Savings realised on capital items budgeted for and not procured.

Electricity:

Capital Expenditure - Work-in-Progress.

Water:

Department of Human Settlement Housing Infrastructure Projects.

Waste Water Management:

Department of Human Settlement Housing Infrastructure Projects.

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
CASH FLOW								
Cash Flows from/(used in) Operating Activities								
Property Rates	111 366 645	120 710	111 487 354	111 487 354	122 195 763	10 708 409	109.61	109.72
Grants	121 187 199	9 235 323	130 422 522	130 422 522	191 281 033	60 858 511	146.66	157.84
Service Charges	335 711 877	3 305 445	339 017 322	339 017 322	293 107 523	(45 909 799)	86.46	87.31
Interest Received	8 140 814	(657 769)	7 483 045	7 483 045	2 429 512	(5 053 533)	32.47	29.84
Other Receipts	26 314 602	71 480	26 386 082	26 386 082	17 296 049	(9 090 033)	65.55	65.73
Employee Related Costs	(202 775 420)	1 325 186	(201 450 233)	(201 450 233)	(205 971 820)	(4 521 586)	102.24	1.02
Remuneration of Councilors	(10 911 420)	(47 740)	(10 959 160)	(10 959 160)	(9 756 717)	1 202 443	89.03	0.89
Interest Paid	(18 333 271)	(368 941)	(18 702 212)	(18 702 212)	(7 130 939)	11 571 272	38.13	0.39
Suppliers Paid	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	0.00	0.00
Other Payments	(334 474 100)	(2 018 571)	(336 492 671)	(336 492 671)	(259 171 193)	77 321 478	77.02	0.77
Cash Flows from/(used in) Investing Activities								
Purchase of Property, Plant and Equipment	(36 231 400)	(10 965 124)	(47 196 524)	(47 196 524)	(116 640 223)	(69 443 699)	247.14	3.22
Purchase of Intangible Assets	-	-	-	-	(94 546)	(94 546)	0.00	0.00
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	233 575	233 575	0.00	0.00
Decrease / (Increase) in Long-term Receivables	-	-	-	-	17 458	17 458	0.00	0.00
Cash Flows from/(used in) Financing Activities								
Loans repaid	-	-	-	-	(16 864 055)	(16 864 055)	0.00	0.00
Cash and Cash Equivalents at End of the Year	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!

Cash Flow: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below:

Property Rates
 Property Rates cash inflow exceeded the budgetary expectations.

Grants
 Department of Human Settlement funding for housing infrastructure projects.
 Service Charges
 Collection is largely based on current accounts.

Interest Received
 Interest Earned low due to non-payment of Outstanding Consumer Debt

Other Receipts
 Over budget for Other Receipts.

Interest Paid
 Interest Paid was negotiated with relevant banks for the Long-Term Liabilities

Suppliers Paid
 Budget for Suppliers Paid included in Other Payments.

Other Payments
 It was not budgeted for the effect of changes in outstanding payables.

Purchase of Property, Plant and Equipment:
 Department of Human Settlement funding for housing infrastructure projects.

Purchase of Intangible Assets:
 Budget not aligned to GRAP requirements - Purchase of Intangible Assets included in Purchase of Property, Plant and Equipment above.

Proceeds on Disposal of Property, Plant and Equipment:
 Insurance claims for lost assets
 Decrease / (Increase) in Long-term Receivables:
 Did not budget for the change in Long-term Receivables.

Loans repaid:
 Budget omitted.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1.1 Changes in Accounting Policy and Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 10.2 on Revenue from Exchange Transactions and Accounting Policy 10.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the 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*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, 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 is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 8.1 on Financial Assets Classification and Accounting Policy 8.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in GRAP 104 (*Financial Instruments*).

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.2.3 Impairment of Financial Assets

Accounting Policy 8.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in GRAP 104 (Financial Instruments) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- **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 is performed per service-identifiable categories across all classes of debtors.

The total increase in estimation of the impairment of Receivables from Exchange Transactions, Receivables from Non-exchange Transactions and that of Long-term Receivables are disclosed in Notes 3, 4 and 12 to the Annual Financial Statements.

1.2.4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 4.2 and 5.2, the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

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

The estimation of residual values of assets is based on management's judgement as to 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.

1.2.5 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories

Accounting Policy 7 on Impairment of Assets, Accounting Policy 4.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 9.2 on Inventory – Subsequent Measurement describe the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (Impairment of Non-cash Generating Assets) and GRAP 26 (Impairment of Cash Generating Assets). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

1.2.6 Water Inventory

The estimation of the Water Inventory in reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Accounting Policy 9.2.2.

1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 12.2, Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.2.8 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.

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes.

Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions is included in note 14 & 22.

1.2.9 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

1.3 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a *Going Concern Basis*.

1.5 Offsetting

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

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:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 20 Related Party Disclosures (Revised)
- GRAP 32 Service Concession Arrangement Grantor
- GRAP 105 Transfers between Entities under common control - issued November 2010
- GRAP 106 Transfers between Entities not under common control - issued November 2010
- GRAP 107 Mergers - issued November 2010
- GRAP 108 Statutory Receivables
- IGRAP 17 Service Concession Arrangements where a Grantor controls a significant Residual Interest in an Asset

The Minister of Finance announced that the application of GRAP 25, GRAP 106 and GRAP 107 will be effective for the period starting after 1 April 2015. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned 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.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2. NET ASSETS

Included in the Net Assets of the municipality are the following Reserves that are maintained in terms of specific requirements:

2.1 Accumulated Surplus

Included in the Accumulated Surplus of the municipality are the following Reserves that are maintained in terms of specific requirements:

2.1.1 Capital Replacement Reserve (CRR)

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

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

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- The CRR may only be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance and is then transferred, via the Statement of Changes in Net Assets, to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR as it is regarded as revenue.

2.1.2 Capitalisation Reserve

On the implementation of GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of Property, Plant and Equipment were transferred to a Capitalisation Reserve rather than the Accumulated Surplus/(Deficit) in terms of a directive (Circular No 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of Property, Plant and Equipment are offset by transfers from this Reserve to the Accumulated Surplus/(Deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of Property, Plant and Equipment financed from the former legislated funds. When items of Property, Plant and Equipment are depreciated, a transfer is made from the Capitalisation Reserve to the Accumulated Surplus/(Deficit).

When an item of Property, Plant and Equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

2.1.3 Donations and Public Contributions Reserve

When items of Property, Plant and Equipment are financed from public contributions and donations, a transfer is made from the Accumulated Surplus/(Deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (Circular No 18) issued by National Treasury. When such items of Property, Plant and Equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the Accumulated Surplus/(Deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of Property, Plant and Equipment financed from donations and public contributions.

When an item of Property, Plant and Equipment financed from donations and public contributions is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

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3. PROPERTY, PLANT AND EQUIPMENT

3.1 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.

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. 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.

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset 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.

3.2 Subsequent Measurement

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

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3.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

Asset Class	Years	Asset Class	Years
Buildings		Community	
Improvements	5 - 100	Community Facilities	20 - 30
		Recreational Facilities	20 - 30
Infrastructure		Other	
Electricity	4 - 80	Computer Equipment	3 - 10
Roads and Paving	5 - 60	Emergency Equipment	5 - 10
Sanitation	7 - 55	Furniture and Fittings	5 - 15
Sewerage / Solid Waste	4 - 80	Motor Vehicles	5 - 10
Water	5 - 100	Office Equipment	5 - 15
		Plant and Equipment	4 - 15
		Specialist Vehicles	10 - 20
		Other Assets	15 - 20

The assets' residual values, estimated useful lives and depreciation method are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

3.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

Land-fill sites are valued using the revaluation model.

3.5 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

3.6 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.7 Leased Assets

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3.8 Derecognition

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

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4. INTANGIBLE ASSETS

4.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. 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 recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as Intangible Assets when the following criteria are fulfilled:

- (a) It is technically feasible to complete the Intangible Asset so that it will be available for use;
- (b) Management intends to complete the Intangible Asset and use or sell it;
- (c) There is an ability to use or sell the Intangible Asset;
- (d) It can be demonstrated how the Intangible Asset will generate probable future economic benefits;
- (e) Adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset are available; and
- (f) The expenditure attributable to the Intangible Asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 31, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a *Straight-line Basis* over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

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Amortisation only commences when the asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

Asset Class	Years	Asset Class	Years
Computer Software	3 - 10		

Intangible Assets are annually tested for impairment as described in Accounting Policy 7 on Impairment of Assets, including Intangible Assets not yet available for use. Where Items of Intangible Assets 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. The impairment loss is the difference between the carrying amount and the recoverable service amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a Change in Accounting Estimate in the Statement of Financial Performance.

4.3 Derecognition

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

5. INVESTMENT PROPERTY

5.1 Initial Recognition

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.

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- (b) Land held for a currently undetermined future use (if the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- (c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- (d) A property owned by the municipality and leased out at a below market rental; and
- (e) Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

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The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-current Assets Held-for-Sale, as appropriate:

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- (b) Property being constructed or developed on behalf of third parties;
- (c) Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- (d) Property that is leased to another entity under a finance lease;
- (e) Property held to provide goods and services and also generates cash inflows; and
- (f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

5.2 Subsequent Measurement

Investment Property is measured using the *Cost Model* and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the *Straight-line Method* over the useful life of the property, to their estimated residual value, which is estimated at 5 - 30 years. The residual values of Investment Properties are assumed to be nil. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an Investment Property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5.3 Derecognition

An Investment Property shall be derecognised (eliminated from the Statement of Financial Position) on disposal or when the Investment Property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

6. HERITAGE ASSETS

A Heritage Asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

6.1 Initial Recognition

The cost of an item of Heritage Assets is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage Assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Heritage Assets 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.

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.

The cost of an item of Heritage Assets acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

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6.2 Subsequent Measurement

Subsequent expenditure relating to Heritage Assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

6.3 Derecognition

The carrying amount of an item of Heritage Assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of Heritage Assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of Heritage Assets.

6.4 Transitional Provisions

The municipality utilised the transitional provisions under Directive 4, which allows 3 years for the measurement of Heritage Assets.

7. IMPAIRMENT OF ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as *Cash Generating Assets*. All other assets are classified as *Non-cash Generating Assets*.

7.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

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7.2 Impairment of Non-cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

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.

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.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

8. FINANCIAL INSTRUMENTS

The municipality has various types of Financial Instruments and these can be broadly categorised as *Financial Assets*, *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement. The municipality only recognises a Financial Instrument when it becomes a party to the contractual provisions of the instrument.

Initial Recognition

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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The Effective Interest Rate Method

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

Amortised Cost

Amortised Cost is the amount at which the Financial Asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the Effective Interest Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

8.1 Financial Assets – Classification

A Financial Asset is any asset that is a cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- **Financial Assets measured at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the *Effective Interest Rate Method* less a provision for impairment.
- **Financial Assets measured at Fair Value** are financial assets that meet either of the following conditions:
 - (i) Derivatives;
 - (ii) Combined Instruments that are designated at fair value;
 - (iii) Instruments held for trading;
 - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
 - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised Cost or Financial Instruments at Cost.
- **Financial Assets measured at Cost** are investments in residual interest that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Long-term Receivables	Financial Assets at Amortised Cost
Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Notice Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Call Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Bank	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Cash	Financial Assets at Fair Value
Current Portion of Non-current Investments	Financial Assets at Amortised Cost
Current Portion of Long-term Receivables	Financial Assets at Amortised Cost

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which 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 and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Amortised Cost.

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8.2 Financial Liabilities – Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

Type of Financial Liability	Classification in terms of GRAP 104
Payables from Exchange Transactions	Financial Liabilities at Amortised Cost
Payables from Non-exchange Transactions	Financial Liabilities at Amortised Cost
Current Portion of Long-term Liabilities	Financial Liabilities at Amortised Cost

Financial Liabilities that are measured at Fair Value are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

8.3 Initial and Subsequent Measurement**8.3.1 Financial Assets:****Financial Assets measured at Amortised Cost**

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

Trade and Other Receivables (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as *Financial Assets at Amortised Cost*.

Financial Assets measured at Fair Value

Financial Assets at Fair Value are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

8.3.2 Financial Liabilities:**Financial Liabilities measured at Fair Value**

Financial Liabilities at Fair Value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.

8.4 Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of Impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

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8.4.1 Financial Assets at Amortised Cost

Accounts Receivable encompass Long-term Debtors, Receivables from Exchange Transactions (Consumer Debtors) and Receivables from Non-exchange Transactions (Other Debtors).

Initially Accounts Receivable are valued at fair value excluding transaction costs, and subsequently carried at amortised cost using the *Effective Interest Rate Method*. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

8.4.2 Financial Assets at Cost

If there is objective evidence that an impairment loss has been incurred on an investment in a Residual Interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the Financial Asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

8.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

8.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

9. INVENTORIES

9.1 Initial Recognition

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus 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.

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

9.2 Subsequent Measurement**9.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods**

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the weighted average cost of commodities.

9.2.2 Water Inventory

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc).

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the *FIFO Method*, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Inventories 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.

9.2.3 Unsold Properties

Unsold properties are valued at the lower of cost and net realisable value on a *Weighted Average Cost Basis*. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

9.2.4 Other Arrangements

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. 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.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

10. REVENUE RECOGNITION

10.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

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.

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 is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

10.2 Revenue from Exchange Transactions

10.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being 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. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

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

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

10.2.2 Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

10.2.3 Rentals Received

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

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

10.2.4 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

10.2.5 Tariff Charges

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

10.2.6 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

10.2.7 Sale of Goods (Including Houses)

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

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

10.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

10.3.1 Rates and Taxes

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* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

10.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable, considering the allowance in terms of IGRAP 1 to use estimates to determine the amount of revenue that the municipality is entitled to collect.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not made at the time of initial recognition.

KOUGA MUNICIPALITY**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015****10.3.3 Public Contributions**

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

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

Assets acquired from non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

10.3.4 Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

10.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

11. 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 resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

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. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

11.1 Provision for Environmental Rehabilitation

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

12. EMPLOYEE BENEFIT LIABILITIES

The municipality changed its Accounting Policy from IAS 19 to GRAP 25 with no effect on the financial information previously disclosed.

12.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

12.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

12.2.1 Defined Contribution Plans

A **Defined Contribution Plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

12.2.2 Defined Benefit Plans

A **Defined Benefit Plan** is a post-employment benefit plan other than a defined contribution plan.

Post-retirement Health Care Benefits

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the *Projected Unit Credit Method*, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the *Projected Unit Credit Method* basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the Statement of Financial Position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the *Projected Unit Credit Method*. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

13. LEASES

13.1 Classification

Leases are classified as **Finance Leases** where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor, or the lease does not meet the definition of a finance lease, are classified as **Operating Leases**.

13.2 The Municipality as Lessee

13.2.1 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a *Straight-line Basis*, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

13.2.1 Finance Leases

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

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

13.3 The Municipality as Lessor

Amounts due from lessees under **Finance Leases** or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from **Operating Leases** is recognised on a *Straight-line Basis* over the term of the relevant lease.

14. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

15. VALUE ADDED TAX

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

16. UNAUTHORISED EXPENDITURE

Unauthorised Expenditure is expenditure that has not been budgeted for, 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 the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

17. 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 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

19. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.

20. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

21. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

KOUGA MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

22. COMMITMENTS

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

23. RELATED PARTIES

The municipality changed its Accounting Policy from IPSAS 20 to GRAP 20 with no effect on the financial information previously disclosed.

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councilors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

24. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

25. COMPARATIVE INFORMATION

25.1 Current Year Comparatives

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

25.2 Prior Year Comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

25.3 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2014 to 30 June 2015.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
1. GENERAL INFORMATION		
<p>Kouga Municipality is a local government institution in Jeffrey's Bay, Eastern Cape, and is one of nine local municipalities under the jurisdiction of the Sarah Baartman District. The addresses 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 Municipal Finance Management Act (MFMA).</p>		
2. INVENTORIES		
Consumable Stores	3 993 354	3 983 118
Water - at cost	342 719	359 103
Less: Provision for obsolete stock	(19 048)	(21 129)
Total Inventories	4 317 025	4 321 092

Inventories are held for own use and measured at the lower of Cost and Current Replacement Cost. No write downs of Inventory to Net Realisable Value were required.

No Inventories have been pledged as collateral for Liabilities of the municipality.

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2015			
Service Debtors:	87 936 583	57 283 662	30 652 921
Electricity	33 525 274	10 117 212	23 408 061
Refuse	14 500 882	13 974 974	525 709
Sewerage	12 548 920	10 535 947	2 012 973
Water	27 361 707	22 655 529	4 706 179
Other Receivables	21 239 442	8 313 845	12 925 597
Total Receivables from Exchange Transactions	109 176 025	65 597 507	43 578 518
As at 30 June 2014			
Service Debtors:	82 121 396	39 947 870	42 173 527
Electricity	33 335 077	9 781 176	23 553 901
Refuse	13 491 043	5 832 773	7 658 270
Sewerage	11 290 918	8 193 921	3 096 997
Water	24 004 358	16 140 000	7 864 358
Other Receivables	18 437 741	7 669 477	10 768 264
Total Receivables from Exchange Transactions	100 559 137	47 617 347	52 941 790

The municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Receivables.

At 30 June 2015, the municipality is owed R 1 812 499 (30 June 2014: R3 015 743) by National and Provincial Government.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015 2014
R R

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2015

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	20 093 210	2 427 081	1 170 196	9 834 786	33 525 274
Less: Provision for Impairment					10 117 212
Net Balances	20 093 210	2 427 081	1 170 196	9 834 786	23 408 062
Refuse:					
Gross Balances	170 330	605 207	460 025	13 265 120	14 500 682
Less: Provision for Impairment					13 974 974
Net Balances	170 330	605 207	460 025	13 265 120	525 708
Sewerage:					
Gross Balances	2 693 457	777 362	521 899	8 556 202	12 548 920
Less: Provision for Impairment					10 535 947
Net Balances	2 693 457	777 362	521 899	8 556 202	2 012 973
Water:					
Gross Balances	3 459 439	1 181 797	870 128	21 850 342	27 361 707
Less: Provision for Impairment					22 655 629
Net Balances	3 459 439	1 181 797	870 128	21 850 342	4 706 178
Other Receivables:					
Gross Balances	1 036 952	351 535	262 538	19 588 417	21 239 442
Less: Provision for Impairment					8 313 845
Net Balances	1 036 952	351 535	262 538	19 588 417	12 925 597
		Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances		5 342 981	3 284 787	73 094 867	81 722 635
Net Balances		5 342 981	3 284 787	73 094 867	16 125 128

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R			2014 R	
As at 30 June 2014	Current	Past Due			Total
	<i>0 - 30 days</i>	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
Electricity:					
Gross Balances	4 187 334	1 869 268	1 107 824	26 170 650	33 335 077
Less: Provision for Impairment					9 781 176
Net Balances	4 187 334	1 869 268	1 107 824	26 170 650	23 553 901
Refuse:					
Gross Balances	1 694 990	756 661	448 436	10 590 956	13 491 042
Less: Provision for Impairment					5 832 773
Net Balances	1 694 990	756 661	448 436	10 590 956	7 658 269
Sewerage:					
Gross Balances	1 416 716	632 436	374 814	8 866 952	11 290 918
Less: Provision for Impairment					8 193 921
Net Balances	1 416 716	632 436	374 814	8 866 952	3 096 997
Water:					
Gross Balances	3 015 046	1 345 947	797 677	18 845 688	24 004 369
Less: Provision for Impairment					16 140 000
Net Balances	3 015 046	1 345 947	797 677	18 845 688	7 864 369
Other Receivables:					
Gross Balances	2 343 366	1 046 102	619 974	14 428 299	18 437 741
Less: Provision for Impairment					7 669 477
Net Balances	2 343 366	1 046 102	619 974	14 428 299	10 768 264
		Past Due			Total
		<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
All Receivables:					
Gross Balances	5 850 415	3 348 726	78 902 545		87 901 686
Net Balances	5 850 415	3 348 726	78 902 545		87 901 686

3.2 Summary of Receivables from Exchange Transactions by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2015				
Current:				
0 - 30 days	513 227	6 498 369	283 122	17 208
Past Due:				
31 - 60 Days	1 177 301	1 124 422	104 878	15 731
61 - 90 Days	2 794 180	433 957	36 697	6 944
+ 90 Days	90 382 156	4 642 024	640 333	505 475
Sub-total	94 866 864	12 698 773	1 065 030	545 358
Less: Provision for Impairment	60 196 129	5 075 981		325 397
Total Trade Receivables by Customer Classification	34 670 735	7 622 792	1 065 030	219 961

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015			2014
	R			R
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2014				
<i>Current:</i>				
0 - 30 days	8 925 730	671 335	2 413 971	646 415
<i>Past Due:</i>				
31 - 60 Days	3 984 537	299 691	1 077 621	288 566
61 - 90 Days	2 361 441	177 612	638 654	171 019
+ 90 Days	55 576 279	4 196 384	15 089 268	4 040 615
Sub-total	70 847 987	5 345 022	19 219 513	5 146 615
Less: Provision for Impairment	39 874 575	3 890 828	-	3 851 943
Total Trade Receivables by Customer Classification	30 973 412	1 454 194	19 219 513	1 294 672

	2015	2014
	R	R
3.3 Reconciliation of the Provision for Impairment		
Balance at beginning of year	47 617 347	46 690 429
Impairment Losses recognised	8 786 588	12 950 894
Amounts written off as uncollectable	9 193 592	(12 023 976)
Balance at end of year	65 597 507	47 617 347

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

3.4 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2015			
Assessment Rates Debtors	33 444 729	18 954 294	14 490 435
Staff Debtors	142 025	-	142 025
Sundry Debtors	19 814 588	-	19 814 588
Total Receivables from Non-exchange Transactions	53 401 342	18 954 294	34 447 047
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2014			
Assessment Rates Debtors	35 890 303	27 784 032	8 106 271
Staff Debtors	142 025	-	142 025
Sundry Debtors	4 645 441	-	4 645 441
Total Receivables from Non-exchange Transactions	40 677 769	27 784 032	12 893 737

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R 2014
R

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2015

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	5 935 483	1 132 446	658 602	25 718 198	33 444 729
Less: Provision for Impairment					18 954 294
Net Balances	5 935 483	1 132 446	658 602	25 718 198	14 490 435
Staff Debtors:					
Gross Balances	142 025	-	-	-	142 025
Net Balances	142 025	-	-	-	142 025
Sundry Debtors:					
Gross Balances	19 814 588	-	-	-	19 814 588
Net Balances	19 814 588	-	-	-	19 814 588

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	1 132 446	658 602	25 718 198	27 509 246
Net Balances	1 132 446	658 602	25 718 198	27 509 246

As at 30 June 2014

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	4 508 527	2 012 652	1 192 801	28 176 322	35 890 303
Less: Provision for Impairment					27 784 032
Net Balances	4 508 527	2 012 652	1 192 801	28 176 322	8 106 271
Staff Debtors:					
Gross Balances	142 025	-	-	-	142 025
Net Balances	142 025	-	-	-	142 025
Sundry Debtors:					
Gross Balances	4 645 441	-	-	-	4 645 441
Net Balances	4 645 441	-	-	-	4 645 441

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	2 012 652	1 192 801	28 176 322	31 381 776
Net Balances	2 012 652	1 192 801	28 176 322	31 381 776

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R		
4.2 Summary of Assessment Rates Debtors by Customer Classification				
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2015				
<i>Current:</i>				
0 - 30 days	4 977 739	918 043	315	2 361
<i>Past Due:</i>				
31 - 60 Days	951 609	171 509	317	316
61 - 90 Days	538 916	116 763	320	316
+ 90 Days	21 628 132	3 375 217	743 192	21 666
Sub-total	<u>28 094 396</u>	<u>4 581 531</u>	<u>744 144</u>	<u>24 658</u>
Less: Provision for Impairment	17 862 728	1 077 871	-	13 695
Total Rates Debtors by Customer Classification	<u>10 231 668</u>	<u>3 503 660</u>	<u>744 144</u>	<u>10 963</u>
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2014				
<i>Current:</i>				
0 - 30 days	2 451 029	651 055	76 595	651 055
<i>Past Due:</i>				
31 - 60 Days	1 094 164	290 637	34 193	290 637
61 - 90 Days	648 458	172 247	20 264	172 247
+ 90 Days	18 279 094	4 089 617	478 778	6 510 233
Sub-total	<u>22 472 745</u>	<u>5 183 556</u>	<u>609 830</u>	<u>7 624 172</u>
Less: Provision for Impairment	17 666 306	5 176 536	-	4 941 191
Total Rates Debtors by Customer Classification	<u>4 806 439</u>	<u>7 020</u>	<u>609 830</u>	<u>2 682 981</u>
			2015 R	2014 R

4.3 Reconciliation of Provision for Impairment

Balance at beginning of year	27 784 032	18 127 487
Impairment Losses recognised	-	20 283 950
Amounts written off as uncollectable	(8 829 737)	(10 627 405)
Balance at end of year	<u>18 954 294</u>	<u>27 784 032</u>

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

Furthermore, no Provision for Impairment was calculated on Receivables other than Assessment Rates Debtors as the management is of the opinion that all Receivables are recoverable within normal credit terms.

5. VAT RECEIVABLE

Vat Receivable	<u>974 382</u>	-
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Vat is payable on the cash basis. Only once payment is received from debtors, VAT is 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 MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
6. CASH AND CASH EQUIVALENTS		
Current Investments	36 786 383	27 501 002
Bank Accounts	2 903 276	1 255 936
Petty Cash	(7 480)	(6 180)
Total Bank, Cash and Cash Equivalents	39 682 179	28 750 758
For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.		
6.1 Current Investment Deposits		
Call Deposits	36 786 383	27 501 002
Total Current Investment Deposits	36 786 383	27 501 002
Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 2,75 % to 5,00 % (2014: 2,5% to 4,75%) per annum.		
Fixed Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5,10 % to 5,66 % (2014: 5,00 % to 5,11 %) per annum.		
Deposits attributable to Unspent Conditional Grants	34 204 873	25 649 547
Deposits attributable to General Investments	2 581 510	1 851 454
Total Deposits attributable to Commitments of the Municipality	36 786 383	27 501 002
6.2 Bank Accounts		
Cash in Bank	2 903 276	1 255 936
Total Bank Accounts	2 903 276	1 255 936
The Municipality has the following bank accounts:		
Cash book balance at beginning of year	1 255 936	(142 750)
Cash book balance at end of year	2 903 276	1 255 936
Primary Bank Account		
<i>First National Bank - Jeffreys Bay Branch - Account Number 52540020791:</i>		
Bank statement balance at beginning of year	156 420	(1 257 280)
Bank statement balance at end of year	945 422	156 420
First National Bank- Jeffreys Bay Branch- Account number 52540033304		
Bank statement balance at beginning of year	1 059 464	1 082 428
Bank statement balance at end of year	1 544 947	1 059 464
The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.		
6.3 Cash and Cash Equivalents		
Cash Floats and Advances	(7 480)	(6 180)
Total Cash on hand in Cash Floats, Advances and Equivalents	(7 480)	(6 180)
The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.		
No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
7. OPERATING LEASE RECEIVABLES		
Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:		
Balance at beginning of year	196 039	126 258
Operating Lease Revenue recorded	53 187	69 782
Total Operating Lease Receivables	249 227	196 039
7.1 Leasing Arrangements		
The Municipality as Lessor:		
Operating Leases relate to Property owned by the municipality with lease terms of between 1 to 99 (2014: 1 to 99) years, with an option to extend.		
All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.		
7.2 Amounts receivable under Operating Leases		
At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:		
Up to 1 year	304 386	330 846
2 to 5 years	1 101 521	1 142 572
More than 5 years	549 718	813 053
Total Operating Lease Arrangements	1 955 625	2 286 471
The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an increase of R53 187 (2014: increase of R69 782) in current year income.		
8. CURRENT PORTION OF LONG-TERM RECEIVABLES		
Study Cost Loans	7 742	21 000
Total Current Portion of Long-term Receivables	7 742	21 000

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015
PROPERTY PLANT AND EQUIPMENT

9
Reconciliation of Carrying Value

Description	Land	Buildings	Land and Buildings	Infra-structure	Community	Other	Leased Infra-structure	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2014	282 581 279	47 651 304	330 212 582	1 930 547 411	64 927 000	26 728 011	5 689 575	2 358 104 589
Cost	284 265 703	79 710 522	363 976 225	2 502 102 060	64 927 000	60 341 139	38 153 432	3 089 499 879
- Completed Assets	284 265 703	79 710 522	363 976 225	2 505 538 478	64 927 000	60 341 139	38 153 432	3 077 633 774
- Under Construction				56 563 602				56 563 602
Accumulated Depreciation:	(1 704 424)	(32 059 219)	(33 763 643)	(631 554 659)		(33 613 127)	(32 463 857)	(731 395 296)
- Cost	(1 704 424)	(32 059 219)	(33 763 643)	(631 554 659)		(33 613 127)	(32 463 857)	(731 395 296)
Acquisitions				3 626 519		1 050 058	5 140 208	9 816 795
Capital under Construction - Additions:		6 157 054	6 157 054	100 666 374				106 823 428
- Cost		6 157 054	6 157 054	100 666 374				106 823 428
Capital under Construction - Completed				(3 626 519)				(3 626 519)
- Cost				(3 626 519)				(3 626 519)
Decrease in Revaluation	(2 925 615)		(2 925 615)					(2 925 615)
Depreciation:								
- Based on Cost	(560 187)	(3 480 443)	(4 029 630)	(65 532 824)		(5 250 617)	(6 684 954)	(81 407 568)
Assets Derecognised during the year								
Cost						(1 308 419)	(39 149 113)	(40 457 532)
Accumulated Depreciation						1 113 194	53 624 419	54 737 613
Carrying values at 30 June 2015	279 076 476	50 338 915	329 414 390	1 969 307 781	64 927 000	22 422 118	4 243 929	2 390 316 210
Cost	279 835 663	85 867 576	385 803 239	2 606 364 674	64 927 000	60 181 238	10 286 721	3 107 278 172
- Completed Assets	279 835 663	79 710 522	360 316 185	2 500 18 907	64 927 000	60 181 238	10 286 721	3 069 499 149
- Under Construction		6 157 054	3 157 054	106 229 977				115 517 030
Accumulated Depreciation:	(56 759 187)	(35 528 661)	(36 088 849)	(637 056 893)		(37 759 121)	(6 022 792)	(776 957 954)
- Cost	(56 759 187)	(35 528 661)	(36 088 849)	(637 056 893)		(37 759 121)	(6 022 792)	(776 957 954)
Assets derecognised during year								

Reconciliation of Carrying Value

Description	Land	Buildings	Land and Buildings	Infra-structure	Community	Other	Leased Infra-structure	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2013	283 878 296	51 076 746	334 954 042	1 979 248 037	64 927 000	31 428 068	9 014 806	2 419 572 794
Cost	283 878 296	79 710 522	363 589 818	2 545 447 020	64 927 000	59 350 753	38 153 432	3 071 496 922
- Completed Assets	283 878 296	79 710 522	363 589 818	2 469 928 053	64 927 000	59 350 753	38 153 432	3 069 531 668
- Under Construction				75 518 967				75 518 967
Accumulated Depreciation:		(28 634 776)	(28 634 776)	(566 199 883)		(27 940 844)	(29 138 626)	(851 914 128)
- Cost		(28 634 776)	(28 634 776)	(566 199 883)		(27 940 844)	(29 138 626)	(851 914 128)
Acquisitions				3 756 114		971 386		4 727 500
Capital under Construction - Completed				35 910 425				35 910 425
- Cost				(35 910 425)				(35 910 425)
Increases in Revaluation	387 407		387 407					387 407
Depreciation:	(1 704 424)	(3 424 443)	(5 128 867)	(65 354 786)		(5 672 283)	(3 325 231)	(79 481 189)
- Based on Cost	(1 704 424)	(3 424 443)	(5 128 867)	(65 354 786)		(5 672 283)	(3 325 231)	(79 481 189)
Carrying values at 30 June 2014	282 581 279	47 651 304	330 212 582	1 930 547 411	64 927 000	26 728 011	5 689 575	2 358 104 589
Cost	284 265 703	79 710 522	363 976 225	2 502 102 060	64 927 000	60 341 139	38 153 432	3 089 499 879
- Completed Assets	284 265 703	79 710 522	363 976 225	2 505 538 478	64 927 000	60 341 139	38 153 432	3 077 633 774
- Under Construction				56 563 602				56 563 602
Accumulated Depreciation:	(1 704 424)	(32 059 219)	(33 763 643)	(631 554 659)		(33 613 127)	(32 463 857)	(731 395 296)
- Cost	(1 704 424)	(32 059 219)	(33 763 643)	(631 554 659)		(33 613 127)	(32 463 857)	(731 395 296)

The net value of Property, Plant and Equipment was R 2 990 915 219 as at 30 June 2015 (30 June 2014: R 2 358 104 589)

The Municipality also have a finance lease for Capital Equipment which consist of Office Machines and Plant and Equipment which amounts to R4 243 929 at 30 June 2015 and (30 June 2014: R 5 689 575)

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	R	R
10 INTANGIBLE ASSETS		
At Cost less Accumulated Amortisation and Accumulated Impairment Losses	183 165	171 608
The movement in Intangible Assets is reconciled as follows:		
Computer Software		Total
Carrying values at 01 July 2014		171 608
Cost		440 371
Work-in-Progress		-
Accumulated Amortisation		(268 763)
Acquisitions:		94 546
Purchased		94 546
Work-in-Progress		-
Amortisation:		(82 989)
Purchased		(82 989)
Internally Developed		-
Carrying values at 30 June 2015		183 165
Cost		534 916
Work-in-Progress		-
Accumulated Amortisation		(351 752)
Computer Software		Total
Carrying values at 01 July 2013		122 818
Cost		342 658
Work-in-Progress		-
Accumulated Amortisation		(219 841)
Acquisitions:		97 712
Purchased		97 712
Work-in-Progress		-
Amortisation:		(48 922)
Purchased		(48 922)
Internally Developed		-
Carrying values at 30 June 2014		171 608
Cost		440 371
Work-in-Progress		-
Accumulated Amortisation		(268 763)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 36).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

10.1 Significant Intangible Assets

Significant Intangible Assets, that did not meet the recognition criteria for Intangible Assets as stipulated in GRAP 102 and SIC 32, are the following:

(i) Website Costs incurred during the last two financial years, if applicable, have been expensed and not recognised as Intangible Assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

10.2 Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

10.3 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

11 INVESTMENT PROPERTY

At Cost less Accumulated Depreciation

61 823 970 62 284 190

The movement in Investment Property is reconciled as follows:

Carrying values at 1 July

62 284 190 62 226 410

Cost

67 231 500 66 693 500

Accumulated Depreciation

(4 937 310) (4 467 090)

Acquisitions during the Year

538 000

Depreciation during the Year

(470 220) (470 220)

Carrying values at 30 June

61 823 970 62 284 190

Cost

67 231 500 67 231 500

Accumulated Depreciation

(5 407 530) (4 937 310)

Estimated Fair Value of Investment Property at 30 June

4 605 000 4 605 000

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

11.1 Investment Property carried at Fair Value

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

11.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
12 LONG-TERM RECEIVABLES		
	Gross Balances R	Provision for Impairment R
		Net Balances R
As at 30 June 2015		
Debtors Capitalised Loans	335 291	126 231
	<u>335 291</u>	<u>126 231</u>
Less:		209 060
Recovered		38 458
Current portion transferred to Current Receivables		30 716
		<u>7 742</u>
Total Long-term Receivables		<u><u>170 602</u></u>
	Gross Balances R	Provision for Impairment R
		Net Balances R
As at 30 June 2014		
Other loans	511 636	126 231
	<u>511 636</u>	<u>126 231</u>
Less:		385 405
Write-off		197 345
Recovered		175 345
Current portion transferred to Current Receivables		1 000
		<u>21 000</u>
Total Long-term Receivables		<u><u>188 060</u></u>

The municipality does not hold deposits or any other security for its Long-term Receivables.

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

12.1 Ageing of Long-term Receivables

Current:

0 - 30 days

Past Due:

+ 120 Days

Total

304 575	335 291
<u>304 575</u>	<u>335 291</u>

As at 30 June Long-term Receivables of R304 575 (2014: R335 291) were past due but not impaired. No terms for payment have been re-negotiated. The age analysis of these Long-term Receivables is as follows:

12.2 Reconciliation of the Provision for Impairment

Balance at beginning of year	126 231	166 107
Contributions to the provision	126 231	126 231
Debt impairment written off against provision	(126 231)	(166 107)
Balance at end of year	<u><u>126 231</u></u>	<u><u>126 231</u></u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
13 CONSUMER DEPOSITS		
Electricity and Water	8 592 611	8 383 685
Total Consumer Deposits	8 592 611	8 383 685

Consumer Deposits are 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, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

14 PROVISIONS

Performance Bonuses	550 316	765 073
Leave Provisions	12 133 593	12 284 276
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 21)	2 314 000	1 972 000
Current Portion of Long-term Service Liability (See Note 21)	1 837 000	2 143 000
Current Portion of Ex-Gratia Pension Liability (See Note 21)	75 000	35 000
Current Portion of Non-Current Provisions (See Note 22):	12 971 773	14 266 577
Environmental Cleanup	795 852	2 135 512
Rehabilitation of Land-fill Sites	12 175 921	12 131 065
Total Provisions	29 881 682	31 465 926

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision has been reversed for the previous year as no performance management system was in place resulting that no bonuses were accrued at the reporting date.

Provision for environmental clean-up

Illegal dumping of builders' and other rubble is taken place throughout the Kouga area to the municipality's property. Contrary to S19A of Environmental Conservation Act, 73 (No 73 of 1989), the municipality has not cleared the illegal dumping and other rubble.

The municipality has accounted for a provision for the cost of clearing of builders' and other rubble as required by GRAP 19.20-Provisions, contingent liabilities and contingent assets. The net present value of the clean - ups cost has been determined as at 30 June 2015. The provision is the best estimate of the net present value of future clean - up costs. The payments dates of the cost to clean up the builders' and other rubble are uncertain, but are currently expected to be in the following years.

Provision for leave

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

The movement in provisions are reconciled as follows:

Current Provisions:

Performance Bonuses:

Balance at beginning of year	765 073	0
Expenditure Incurred	(214 757)	765 073
Balance at end of year	550 316	765 073

Leave Provisions:

Balance at beginning of year	12 284 276	10 190 079
Contributions to provision	(150 683)	2 094 197
Expenditure incurred	-	-
Balance at end of year	12 133 593	12 284 276

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R	
Current Portion of Non-Current Provisions:			
	Ex-Gratia Pension R	Long-term Service R	Post-retirement R
30 June 2015			
Balance at beginning of year	35 000	2 143 000	1 972 000
Transfer from non-current	75 000	-	342 000
Contributions to provision	(35 000)	(2 143 000)	-
Expenditure incurred	-	1 837 000	-
Balance at end of year	75 000	1 837 000	2 314 000
	Ex-Gratia Pension R	Long-term Service R	Post-retirement R
30 June 2014			
Balance at beginning of year	74 000	1 721 000	1 878 000
Transfer from non-current	35 000	-	94 000
Contributions to provision	(74 000)	422 000	-
Balance at end of year	35 000	2 143 000	1 972 000
		Landfill Sites R	Environmental Clean-up R
30 June 2015			
Balance at beginning of year		12 131 065	2 135 512
Transfer from non-current		44 855	
Contributions to provision			(1 339 660)
Balance at end of year		12 175 921	795 852
		Landfill Sites R	Environmental Clean-up R
30 June 2014			
Balance at beginning of year		2 763 394	911 200
Transfer from non-current		9 367 671	
Contributions to provision			1 224 312
Balance at end of year		12 131 065	2 135 512
15 PAYABLES FROM EXCHANGE TRANSACTIONS			
Trade Creditors		67 713 928	76 833 072
Retentions		150 833	194 006
Other Creditors		7 552 828	7 289 165
Total Payables		75 417 589	84 416 243

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.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	R	R
16 PAYABLES FROM NON-EXCHANGE TRANSACTIONS		
Sundry Deposits	2 267 583	1 679 826
Other Payables	11 100 423	10 079 045
Total Payables	13 368 006	11 758 871

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

17 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

17.1 Conditional Grants from Government

	5 688 633	19 018 986
National Government Grants	615 501	11 850 824
Provincial Government Grants	4 781 132	7 033 161
Local Government Grants	157 000	(0)
Other Spheres of Government	135 000	135 000
Total Conditional Grants and Receipts	5 688 633	19 018 986

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 27 for the reconciliation of Grants from Government and Note 28 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

18 VAT PAYABLE

Vat Payable	3 019 701
	3 019 701

Vat is payable on the cash basis. Only once payment is received from debtors, VAT is 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 MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
19 OPERATING LEASE LIABILITIES		
19.1 Leasing Arrangements		
The Municipality as Lessee:		
Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 5 years.		
19.2 Amounts payable under Operating Leases		
At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:		
Other Equipment:	2 352 519	-
Up to 1 year	2 352 519	-
2 to 5 years	-	-
More than 5 years	-	-
Total Operating Lease Arrangements	2 352 519	-
The following payments have been recognised as an expense in the Statement of Financial Performance:		
Minimum lease payments - Equipment	2 352 519	-
Total Operating Lease Expenses	2 352 519	-
The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:		
- Office Equipment		
The following restrictions have been imposed on the municipality in terms of the lease agreements on Office Equipment:		
(i) The equipment shall remain the property of the lessor.		
(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.		
(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.		
(iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.		
20 LONG-TERM LIABILITIES		
The municipality did not have any liabilities to be classified as Long-term Liabilities in terms of its Accounting Policies and Cash Management Policy at year-end.		
Annuity Loans	55 970 516	72 934 502
Finance Lease Liabilities	4 535 830	4 435 899
Sub-total	60 506 347	77 370 401
Less: Current Portion transferred to Current Liabilities:-	10 869 685	23 927 878
Annuity Loans	9 088 247	19 090 000
Finance Lease Liabilities	1 781 438	4 837 878
Total Long-term Liabilities (Neither past due, nor impaired)	49 636 662	53 442 524
20.1 Summary of Arrangements		
The Annuity Loan is repaid over a period of 2 to 9 (2014: 2 to 10) years and at an interest rate of 11,18% to 11,88% (2014: 9,25% to 16,50%) per annum. The Absa is secured, with ERF 13 in Patensie. No security is held on Inca and DBSA.		
The total Annuity Loans is made up of the following loans:		
Absa	59 034	71 346
Inca	6 191 108	10 335 364
Cacadu District Municipality	118 263	925 681
Development Bank of South Africa	49 802 111	61 602 111
	55 970 516	72 934 502

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
The Municipality as Lessee:		
Finance Leases relate to Property, Plant and Equipment with lease terms not more than 3 years (2014: 4 years). The effective interest rate on Finance Leases is between 14% and 24.88% (2014: 13.21% and 15%).		
The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.		
The municipality has finance lease agreements for the following significant classes of assets:		
- Office Equipment		
- Vehicles		
- Wireless radio network		
Included in these classes are the following significant leases:		
(i) Vehicles		R 1 816 819.00
- Installments are payable monthly		
- Average period outstanding		12 months
- Average effective interest rate		14.00%
- Average capital redemption per month over the period leased		R 50 467.19
(ii) Various photocopier and fax machines	R 4 301 373	R 1 086 556.35
- Installments are payable monthly		
- Average period outstanding	12 months	12 months
- Average effective interest rate	24.88%	14.00%
- Average capital redemption per month over the period leased	R 358 448	R 22 636.59
(ii) Wireless radio network	R 234 458	R 1 532 525
- Installments are payable monthly in advance		
- Average period outstanding	12 months	12 months
- Average effective interest rate, based on prime	14.00%	15.00%
- Average capital redemption per month over the period leased	R 19 538.19	R 127 710.40

The obligations under Finance Leases are as follows:

	Minimum Lease Payments	Present Value of Minimum Lease Payments	
	2015 R	2015 R	2014 R
Amounts payable under finance leases:			
Within one year	1 225 437	1 781 438	866 604
In the second to fifth years, inclusive	4 901 749	2 754 393	3 569 296
Over five years	-	-	-
	6 127 186	4 535 831	4 435 900
Less: Future Finance Obligations	2 687 000	1 781 438	4 201 441
Present Value of Minimum Lease Obligations	3 440 186	2 754 393	234 458

21 EMPLOYEE BENEFIT LIABILITIES

Post-retirement Health Care Benefits Liability	72 740 000	67 169 000
Ex-Gratia Pension	837 000	160 000
Total Employee Benefit Liabilities	73 577 000	67 329 000
21.1 Post-retirement Health Care Benefits Liability		
Balance at beginning of Year	69 141 000	69 432 000
Contributions to Provision by employer	5 813 000	(291 000)
Balance at end of Year	75 054 000	69 141 000
Transfer to Current Provisions	(2 314 000)	(1 972 000)
Total Post-retirement Health Care Benefits Liability	72 740 000	67 169 000

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2015 by ZAQEN, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
The members of the Post-employment Health Care Benefit Plan are made up as follows:		
In-service Members (Employees)	433	438
In-service Non-members (Employees)		
Continuation Members (Retirees, widowers and orphans)	61	58
Total Members	494	496

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

In-service Members	44 298 000	42 375 000
Continuation Members	30 756 000	26 766 000
Total Liability	75 054 000	69 141 000

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- F&D Health
- Samwumed

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

Discount Rate	Yield Curve	8.94%
Health Care Cost Inflation Rate	CPI+1%	8.05%
Net Effective Discount Rate	Yield Curve based	0.82%
Expected Retirement Age - Females		63
Expected Retirement Age - Males		63

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	69 141 000	69 432 000
Current service costs	3 166 000	5 217 000
Interest cost	6 238 000	5 612 000
Benefits paid	(2 062 000)	(1 755 000)
Actuarial losses / (gains)	(1 429 000)	(9 365 000)
Total Recognised Benefit Liability	75 054 000	69 141 000

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	75 054 000	69 141 000
Unfunded Accrued Liability	75 054 000	69 141 000
Total Benefit Liability	75 054 000	69 141 000

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

Current service cost	3 166 000	5 217 000
Interest cost	6 238 000	5 612 000
Actuarial losses / (gains)	(1 429 000)	(9 365 000)
Adjustment for Short-term Portion from Previous Year	(2 062 000)	(1 755 000)
Total Post-retirement Benefit included In Employee Related Costs (Note 33)	5 913 000	(291 000)

The history of experienced adjustments is as follows:

	2015	2014 R	2013 R	2012 R
Present Value of Defined Benefit Obligation	75 054 000	69 141 000	69 432 000	61 641 000
Deficit	75 054 000	69 141 000	69 432 000	61 641 000

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	2 121 000	1 881 000
Effect on the defined benefit obligation	13 009 000	12 186 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(1 680 000)	(1 490 000)
Effect on the defined benefit obligation	(10 476 000)	(9 785 000)

Refer to Note N/A, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

21.2 Ex-Gratia Pension

	2015 R	2014 R
Balance at beginning of year	195 000	510 000
Contributions to provision	771 000	(317 000)
Expenditure incurred	(54 000)	2 000
Balance at end of Year	912 000	195 000
Transfer to Current Provisions	(75 000)	(35 000)
Total Ex-Gratia Pension Liability	837 000	160 000

The municipality provides certain post-retirement pension benefits to certain retired employees of the municipality. According to the rules of the pension fund, with which the municipality is associated, a member (who is on the current Conditions of Service) on retirement, is entitled to certain pension benefits in which case the municipality is liable for pension payments to retired members for the remainder of their lives.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2015 by ZAQEN Actuaries, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

Discount Rate	Yield Curve	8.94%
Cost Inflation Rate	CPI+1%	7.05%
Net Effective Discount Rate	Yield Curve based	1.77%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	195 000	510 000
Interest cost	16 000	35 000
Benefits paid	(70 000)	(33 000)
Actuarial losses / (gains)	771 000	(317 000)
Total Recognised Benefit Liability	912 000	195 000

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	912 000	195 000
Total Benefit Liability	912 000	195 000

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

Current service cost		
Interest cost	16 000	35 000
Actuarial losses / (gains)	771 000	(317 000)
Benefits Paid	(33 000)	(70 000)
Total Post-retirement Benefit Included in Employee Related Costs (Note)	754 000	(352 000)

The history of experienced adjustments is as follows:

	2015	2014 R	2013 R	2012 R
Present Value of Defined Benefit Obligation	912 000	195 000	510 000	722 000
Deficit	912 000	195 000	510 000	722 000

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

Increase:		
Effect on the aggregate of the current service cost and the interest cost	7 000	2 000
Effect on the defined benefit obligation	112 000	30 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(10 000)	(27 000)
Effect on the defined benefit obligation	(89 000)	(2 000)

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
22 NON-CURRENT PROVISIONS		
Provision for Rehabilitation of Land-fill Sites	25 947 857	26 471 601
Provision for Long Service Awards	11 578 000	10 682 000
Provision for Augmentation Fees	52 200	52 200
Total Non-current Provisions	37 578 057	37 205 801

The movement in Non-current Provisions are reconciled as follows:

22.1 Rehabilitation of Land-fill Sites

Balance at beginning of year	38 602 666	36 209 794
Contributions to provision	(478 889)	2 392 872
	38 123 777	38 602 666
Transfer to current provisions	(12 175 921)	(12 131 065)
Balance at end of year	25 947 857	26 471 601

In terms of the licencing of the landfill refuse sites, the municipality will incur licencing and rehabilitation costs of R38 123 778 (2014: R38 602 667) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

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 2015 by a technical specialist, Mr S Nel, (Pr Eng, BSc Eng (Civil), BCom Honours), the branch manager for the East London branch of Bosch Munitech (Pty) Ltd. 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 2015 and 2038.

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) Daming 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; and
- (d) Rehabilitating the site in accordance with the end-use plan e.g. grassing, sport field etc.

22.2 Long Service Awards Liability

Balance at beginning of year	10 682 000	10 820 000
Contributions to provision	2 733 000	2 005 000
Balance at end of Year	13 415 000	12 825 000
Transfer to Current Provisions	(1 837 000)	(2 143 000)
Total Long Service Awards Liability	11 578 000	10 682 000

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 2015 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 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.

At year end, 827 (2014: 871) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 2015 is estimated to be R1 238 000, whereas the cost for the ensuing year is estimated to be R1 185 000).

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R	
The principal assumptions used for the purposes of the actuarial valuations were as follows:			
Discount Rate		7.96%	
Cost Inflation Rate		6.33%	
Net Effective Discount Rate		0.59%	
Expected Retirement Age - Females	63	63	
Expected Retirement Age - Males	63	63	
Movements in the present value of the Defined Benefit Obligation were as follows:			
Balance at the beginning of the year	12 825 000	10 820 000	
Current service costs	1 238 000	1 129 000	
Interest cost	1 008 000	793 000	
Benefits paid	(1 927 000)	(1 570 000)	
Actuarial losses / (gains)	271 000	1 653 000	
Total Recognised Benefit Liability	<u>13 415 000</u>	<u>12 825 000</u>	
	-0.08	-0.08	
The amounts recognised in the Statement of Financial Position are as follows:			
Present value of fund obligations	13 415 000	12 825 000	
Total Benefit Liability	<u>13 415 000</u>	<u>12 825 000</u>	
The amounts recognised in the Statement of Financial Performance are as follows:			
Current service cost	1 238 000	1 129 000	
Interest cost	1 008 000	793 000	
Actuarial losses / (gains)	271 000	2 000 000	
Total Post-retirement Benefit included in Employee Related Costs (Note)	<u>2 517 000</u>	<u>3 922 000</u>	
The history of experienced adjustments is as follows:			
	2014 R	2013 R	2012 R
Present Value of Defined Benefit Obligation	12 825 000	10 820 000	8 331 000
Deficit	<u>12 825 000</u>	<u>10 820 000</u>	<u>8 331 000</u>
		2015 R	2014 R
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:			
Increase:			
Effect on the aggregate of the current service cost and the interest cost		159000	147 000
Effect on the defined benefit obligation		835000	657 407
Decrease:			
Effect on the aggregate of the current service cost and the interest cost		-145000	(134 000)
Effect on the defined benefit obligation		-764000	(727 000)
22.3 Augmentation Fees			
Balance at beginning of year		52 200	52 200
Contributions to provision			
		<u>52 200</u>	<u>52 200</u>
Transfer to current provisions			
Balance at end of year		<u>52 200</u>	<u>52 200</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	R	R
23 ACCUMULATED SURPLUS		
The Accumulated Surplus consists of the following Internal Funds and Reserves:		
Accumulated Surplus / (Deficit) due to the results of Operations	2 271 139 150	2 179 914 250
Total Accumulated Surplus	2 271 139 150	2 179 914 250

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

24 PROPERTY RATES

	Actual Levies	
	2015	2014
Residential & Commercial	140 982 860	143 082 005
<i>Less: Revenue Foregone</i>	(12 402 932)	(14 519 234)
Total Property Rates	128 579 927	128 562 770
24.1 Calculation of Cash Flow:		
Property Rates Income	128 579 927	128 562 770
Opening Balance of Debtors: Assessment Rates	8 106 271	18 256 985
Closing Balance of Debtors: Assessment Rates	(14 490 435)	(8 106 271)
Amounts written-off as uncollectable		
Total Receipts for Property Rates	122 195 763	138 713 485

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2014.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0.5782 c/R (30 June 2013/2014: 0.4787 c/R)

Business Properties: 0.5782 c/R (30 June 2013/2014: 0.4787 c/R)

Agricultural Properties: 0.1475 c/R (30 June 2013/2014: 0.1197 c/R)

A Rebate of R15,000 is received on all residential properties, private towns receives an additional 20% on property valuation and equitable share recipients receives an additional R85,000 rebate on property value.

All infrastructure owned properties receives a 30% rebate on property value.

25 FINES

Traffic Fines	1 686 747	259 736
Other Fines	178 734	99 525
Impairment	-128 662	-2 014
Total Fines	1 736 819	357 247

26 LICENCES AND PERMITS

Boat Licenses And Permits	1 485 553	942 213
Drivers Licenses	3 009 120	2 774 589
Other Licenses And Permits	451 588	173 823
Vehicle Licenses And Registration	1 556 777	3 957 085
Total Licences and Permits	6 503 038	7 847 710

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
27 GOVERNMENT GRANTS AND SUBSIDIES		
National Equitable Share	66 129 000	52 500 000
Other Subsidies	4 650 022	4 223 587
Operational Grants	<u>70 779 022</u>	<u>56 723 587</u>
Conditional Grants	133 832 363	29 613 049
National Government: EPWP	1 285 000	1 330 000
National Government: FMG	1 600 000	1 550 000
National Government: MIG	40 076 540	14 082 460
National Government: MSIG	934 000	1 303 312
National Government: DWAF	4 194 050	-
National Government: DME	3 990 783	5 949 217
National Government: DEDEA	-	115 695
Provincial Government: HOUSING	78 766 989	-
Provincial Treasury: DISASTER	2 985 000	5 197 926
Other Government: OTHER	-	84 439
Total Government Grants and Subsidies	<u><u>204 611 385</u></u>	<u><u>86 336 636</u></u>
27.1 Calculation of Cash Flow:		
Government Grants and Subsidies Income	204 611 385	86 336 636
Opening Balance of Unspent Government Grants	(19 018 986)	(9 423 843)
Closing Balance of Unspent Government Grants	5 688 633	19 018 986
Total Receipts for Government Grants and Subsidies	<u><u>191 281 033</u></u>	<u><u>95 931 779</u></u>
Operational Grants:		
27.2 National: Equitable Share	<u><u>66 129 000</u></u>	<u><u>52 500 000</u></u>
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R229 (2014: R 166), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.		
27.3 National: EPWP Grant		
Balance unspent at beginning of year	-	1 330 000
Current year receipts	1 285 000	-
Conditions met - transferred to Revenue: Operating Expenses	(1 285 000)	(1 330 000)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-
The Expanded Public Works Programme Grant was allocated to the municipality for environmental and water infrastructure projects. No funds have been withheld.		
27.4 National: FMG Grant		
Balance unspent at beginning of year	-	1 550 000
Current year receipts	1 600 000	-
Conditions met - transferred to Revenue: Operating Expenses	(1 600 000)	(1 550 000)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds has been withheld.		
27.5 National: MIG Funds		
Balance unspent at beginning of year	10 244 540	0
Current year receipts	29 832 000	24 327 000
Conditions met - transferred to Revenue: Operating Expenses	(1 491 600)	(1 416 350)
Conditions met - transferred to Revenue: Capital Expenses	(38 584 940)	(12 666 110)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	10 244 540
The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
27.6 National: MSIG Funds		
Balance unspent at beginning of year	-	413 312
Current year receipts	934 000	890 000
Conditions met - transferred to Revenue: Operating Expenses	(934 000)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(1 303 312)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-
	-	-

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.

27.7 National: Department Water Affairs (DWA)

Balance unspent at beginning of year	550 000	550 000
Current year receipts	4 194 050	-
Conditions met - transferred to Revenue: Operating Expenses	(4 194 050)	-
Conditions still to be met - transferred to Liabilities (see Note 13)	550 000	550 000
	550 000	550 000

This grant was used for the operation and maintenance of sewerage and water schemes transferred from DWA to the municipality, the refurbishment of water infrastructure, and the payment of salaries of staff. No funds has been withheld.

27.8 National: Department Energy

Balance unspent at beginning of year	990 783	-
Current year receipts	3 000 000	6 940 000
Conditions met - transferred to Revenue: Operating Expenses	(3 990 783)	(5 949 217)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	990 783
	-	990 783

Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds has been withheld.

27.9 National: Department of economic development

Balance unspent at beginning of year	65 500	181 195
Conditions met - transferred to Revenue: Capital Expenses	-	(115 695)
Conditions still to be met - transferred to Liabilities (see Note 13)	65 500	65 500
	65 500	65 500

No funds have been withheld.

27.10 Provincial: Housing Infrastructure

Balance unspent at beginning of year	-	-
Current year receipts	78 766 989	-
Conditions met - transferred to Revenue: Operating Expenses	(78 766 989)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-
	-	-

No funds has been withheld.

27.11 National: Treasury - Disaster

Balance unspent at beginning of year	-	720 926
Current year receipts	2 985 000	4 477 000
Conditions met - transferred to Revenue: Capital Expenses	(2 985 000)	(5 197 926)
Conditions still to be met - transferred to Liabilities (see Note 13)	-	-
	-	-

27.12 Local Government: SBDM

Balance unspent at beginning of year	-	(0)
Current year receipts	157 000	-
Conditions still to be met - transferred to Liabilities (see Note 13)	157 000	(0)
	157 000	(0)

No funds have been withheld.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	R	R
27.13 Other Government: VUNA		
Balance unspent at beginning of year	35 000	35 000
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>35 000</u>	<u>35 000</u>
No funds has been withheld.		
27.14 Other Government: Other		
Balance unspent at beginning of year	100 000	184 439
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(84 439)
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>100 000</u>	<u>100 000</u>
27.15 Provincial: Housing		
Balance unspent at beginning of year	7 033 161	7 372 159
Current year receipts	1 265 171	30 150
Conditions met - transferred to Revenue: Operating Expenses	(3 517 174)	(369 148)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 13)	<u>4 781 158</u>	<u>7 033 161</u>
The municipality receives grants from other spheres of government for urban greening in the municipal area. The grant was utilised for this purpose. No funds has been withheld.		
28 PUBLIC CONTRIBUTIONS AND DONATIONS		
Conditional Contributions:	-	-
Other Donations	-	57 030
Total Public Contributions and Donations	<u>-</u>	<u>57 030</u>
28.1 Calculation of Cash Flow:		
Public Contributions and Donations Income	-	57 030
Total Receipts for Public Contributions and Donations	<u>-</u>	<u>57 030</u>
29 SERVICE CHARGES		
Sale of Electricity	215 207 840	211 719 491
Sale of Water	32 912 277	28 983 070
Refuse Removal	45 874 578	41 458 330
Sewerage and Sanitation Charges	37 326 091	33 264 357
Other Service Charges	(30 268 679)	(24 347 164)
Total Service Charges	<u>301 052 106</u>	<u>291 078 085</u>
29.1 Calculation of Cash Flow:		
Service Charges Income	301 052 106	291 078 085
Contribution to Impairment provision	(17 307 856)	(33 194 968)
Opening Balance of Debtors: Service Charges	52 941 790	47 907 144
Closing Balance of Debtors: Service Charges	(43 578 518)	(52 941 790)
Amounts written-off as uncollectable	-	-
Total Receipts for Service Charges	<u>293 107 523</u>	<u>252 848 472</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.		
30 RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Amenities	9 000	9 000
Rental Revenue from Buildings	152 700	161 570
Rental Revenue from Halls	152 020	161 121
Rental Revenue from Land	74 602	67 850
Rental Revenue from Other Facilities	1 006 375	(123 491)
Total Rental of Facilities and Equipment	<u>1 394 697</u>	<u>276 049</u>
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	R	R
31 INTEREST EARNED		
External Investments:		
Bank Account	374 139	-
Other Deposits	2 055 373	1 709 388
	<u>2 429 512</u>	<u>1 709 388</u>
Outstanding Debtors:		
Outstanding Billing Debtors	3 925 942	3 841 248
	<u>3 925 942</u>	<u>3 841 248</u>
Total Interest Earned	<u>6 355 455</u>	<u>5 550 636</u>
31.1 Calculation of Cash Flow:		
External Interest Income	2 429 512	1 709 388
Total Receipts for Interest Received	<u>2 429 512</u>	<u>1 709 388</u>
Interest Earned on Financial Assets, analysed by category of asset, is as follows:		
Available-for-Sale Financial Assets	374 139	-
Held-to-Maturity Investments	2 055 373	1 709 388
Loans and Receivables	3 925 942	3 841 248
	<u>6 355 455</u>	<u>5 550 636</u>
	<u>6 355 455</u>	<u>5 550 636</u>
32 OTHER REVENUE		
Augmentation Fees	6 614 148	427 754
Building Plan Fees	1 258 055	1 297 399
Caravan Park Fees	2 139 202	1 934 471
Cemetery Fees	317 064	186 430
Conversion Fees	1 642 599	1 618 150
Prints	7 749	8 181
Sundry Income	7 187 893	11 633 236
Tender Documents	134 521	76 185
Town Planning Fees	408 853	310 034
Total Other Revenue	<u>19 710 084</u>	<u>17 491 840</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
32.1 Calculation of Cash Flow:		
Income from Other Revenue	19 710 084	17 491 840
Income from Interest on Outstanding Debtors	3 925 942	3 841 248
Income from Rental of Facilities and Equipment	1 394 697	276 049
Income from Licences and Permits	6 503 038	7 847 710
Income from Fines	1 736 819	357 247
Opening Balance of Non-current Assets Held-for-Sale	-	-
Opening Balance of Debtors: Non-exchange Transactions (Excl Assessment rates)	4 787 466	5 854 832
Closing Balance of Debtors: Non-exchange Transactions (Excl Assessment rates)	(19 956 613)	(4 787 466)
Opening Balance of VAT Receivable	-	4 988 805
Closing Balance of VAT Receivable	(974 382)	-
Opening Balance of Operating Lease Receivables	196 039	126 258
Closing Balance of Operating Lease Receivables	(249 227)	(196 039)
Opening Balance of Current Portion of Long-term Receivables	21 000	9 000
Closing Balance of Current Portion of Long-term Receivables	(7 742)	(21 000)
Opening Balance of Consumer Deposits	(8 383 685)	(7 809 720)
Closing Balance of Consumer Deposits	8 592 611	8 383 685
Total Receipts for Other Revenue	17 296 049	36 342 446

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 24 to 31, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

33 EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	141 751 562	133 414 047
Basic Salaries and Wages	130 598 828	120 881 395
Long Service Bonuses	937 136	741 309
Leave Encashed	831 154	533 000
Contribution to Leave Fund	(150 683)	2 094 197
Service Bonuses	9 535 127	9 164 146
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	46 332 782	47 809 756
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	15 994 494	15 908 393
Housing Benefits and Allowances	471 744	450 438
Overtime Payments	8 490 555	9 737 463
Performance Bonuses	(214 757)	765 073
Total Employee Related Costs	212 826 380	208 085 170

33.1 Calculation of Cash Flow:

Employee Related Costs Expenditure	212 826 380	208 085 170
Opening Balance of Provision for Performance Bonuses	765 073	0
Closing Balance of Provision for Performance Bonuses	(550 316)	(765 073)
Opening Balance of Leave Provisions	12 284 276	10 190 079
Closing Balance of Leave Provisions	(12 133 593)	(12 284 276)
Opening Balance of Post-retirement Medical Aid Benefits Liability (Current and Non-Current)	69 141 000	69 431 999
Closing Balance of Post-retirement Medical Aid Benefits Liability (Current and Non-Current)	(75 054 000)	(69 141 000)
Opening Balance of Provision for Long-term Service (Current and Non-Current)	12 825 000	10 820 000
Closing Balance of Provision for Long-term Service (Current and Non-Current)	(13 415 000)	(12 825 000)
Opening Balance of Ex-Gratia Pension Liability (Current and Non-Current)	195 000	510 000
Closing Balance of Ex-Gratia Pension Liability (Current and Non-Current)	(912 000)	(195 000)
Total Payments for Employee Related Costs	205 971 820	203 826 898

No advances were made to employees. Loans to employees are set out in Note 12.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
Remuneration of Section 57 Employees:		
Remuneration of the Municipal Manager		
Annual Remuneration	929 264	861 021
Car and Other Allowances	167 008	160 826
Company Contributions to UIF, Medical and Pension Funds	18 160	9 888
Total	1 114 432	1 031 736
Remuneration of the Chief Financial Officer		
Annual Remuneration	952 521	891 958
Car and Other Allowances	104 467	-
Company Contributions to UIF, Medical and Pension Funds	10 122	11 708
Total	1 067 110	903 665
Remuneration of the Manager: Social Services		
Annual Remuneration	952 521	891 958
Car and Other Allowances	103 596	-
Company Contributions to UIF, Medical and Pension Funds	17 376	11 708
Total	1 073 493	903 665
Remuneration of the Manager: Administration, Monitoring and Evaluation		
Annual Remuneration	856 521	795 957
Car and Other Allowances	107 197	101 629
Company Contributions to UIF, Medical and Pension Funds	19 985	13 580
Total	983 704	911 166
Remuneration of the Manager: Infrastructure, Planning and Development		
Annual Remuneration	856 521	795 957
Car and Other Allowances	96 000	132 587
Company Contributions to UIF, Medical and Pension Funds	19 985	13 580
Total	972 506	942 124
Remuneration of the Director: Tourism and Creative Industries		
Annual Remuneration	856 521	795 957
Car and Other Allowances	108 216	96 000
Company Contributions to UIF, Medical and Pension Funds	16 967	10 562
Total	981 704	902 519
34 REMUNERATION OF COUNCILLORS		
Mayor	519 009	508 370
Speaker	431 096	406 696
Executive Committee Members	2 020 772	1 906 390
Councillors	3 609 373	3 287 291
Company Contributions to UIF, Medical and Pension Funds	185 501	126 850
Group Life Insurance	84 122	31 773
Skills Development Levy	101 379	95 077
Other Allowances (Cellular Phones, Housing, Transport, etc)	2 990 966	2 789 480
Telephone Allowance	704 683	696 401
Travelling Allowance	2 286 283	2 093 079
Total Councillors' Remuneration	9 756 717	9 025 077
Remuneration of Councillors:		
In-kind Benefits		
The Councillors occupying the positions of Mayor, Speaker, Chief Whip and four members of the Executive Committee of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.		
The Mayor has use of a Council owned vehicle for official duties.		
35 COLLECTION COSTS		
Legal Costs	-	31 679
Total Collection Costs	-	31 679

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
36 DEPRECIATION AND AMORTISATION		
Depreciation: Property, Plant and Equipment	81 391 195	79 481 173
Amortisation: Intangible Assets	82 989	48 922
Depreciation: Investment Property	470 220	470 220
Total Depreciation and Amortisation	81 944 404	80 000 315
37 IMPAIRMENT LOSSES		
37.1 Impairment Losses on Financial Assets		
Impairment Losses Recognised:	17 434 087	33 361 075
Long-term Receivables	126 231	126 231
Receivables from Exchange and Non Exchange Transactions	17 307 856	33 234 844
Impairment Losses Reversed:	(126 231)	(166 107)
Long-term Receivables	(126 231)	(166 107)
	17 307 856	33 194 968
Total Impairment Losses	17 307 856	33 194 968
38 REPAIRS AND MAINTENANCE		
Land and Buildings	925 793	654 009
Infrastructure - Electricity	8 775 776	5 758 088
Infrastructure - Road Transport	4 144 716	3 529 450
Infrastructure - Sanitation	1 341 998	1 393 799
Infrastructure - Water	388 197	650 266
Infrastructure - Other	1 939 005	1 533 027
Other Assets	7 863 842	7 942 589
Intangible Assets	1 127 708	969 825
Total Repairs and Maintenance	26 507 035	22 431 053
39 FINANCE COSTS		
Creditors Overdue	2 284 268	2 305 973
Loans and Payables at amortised cost	3 856 857	8 802 001
Operating Leases	989 815	2 248 426
Total Interest Paid on External Borrowings	7 130 939	13 356 400
39.1 Calculation of Cash Flow:		
Finance Cost Expenditure	7 130 939	13 356 400
Total Payments for Finance Costs	7 130 939	13 356 400
40 BULK PURCHASES		
Electricity	154 641 312	154 344 846
Water	15 886 751	14 501 714
Total Bulk Purchases	170 528 063	168 846 561

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
41 GENERAL EXPENSES		
Included in General Expenses are the following:		
Advertising	580 594	408 256
Bank Charges	612 126	855 327
Chemicals & Poison	2 619 712	2 044 276
Clean Up Operation	(1 339 660)	1 224 312
Cleaning Material	499 817	535 780
Congress & Delegates Expenses	712 239	514 761
Connection Fees	647 916	346 991
Disaster Expenditure	2 474 946	4 568 869
Entertainment	270 487	242 112
Expenditure Incurred From Finance Management Grant	177 683	1 475 053
Expenditure Recharged	57 347	-
External Audit Fees	3 384 400	2 518 621
Fuel (Small Plant)	617 857	407 267
Other Expenses	13 314 503	7 802 923
Hire Of Facilities & Equipment	1 536 497	1 595 631
Idp Review	96	-
Insurance	1 854 544	1 880 557
Inventory Items	136 508	340 889
Laboratorium Tests/Analysis	155 938	186 864
Lease Charges	3 104 963	131 223
Legal Cost	1 567 897	2 775 127
Licences	535 220	584 450
Life Saving Services	1 950	828
Mayoral Special Programmes	49 984	247 918
Network Connection	426 589	376 892
Planning Fees	457 615	396 436
Postage & Telegrams	1 126 742	1 088 778
Printing And Stationery	635 860	773 142
Refuse Bins/Bags	310 244	243 837
Security	416 174	485 065
St Francis Beach Rehabilitation	-	600 000
Statuary Obligations	2 167 250	3 348 222
Stock Shortages/Surpluses	(60 588)	808
Telephone Cost	3 483 087	3 420 801
Tourism Strategy	330 000	285 000
Training	264 401	55 300
Transport Cost	7 405 326	8 062 665
Uniforms & Protective Clothing	1 266 879	836 500
Valuation Costs	958 468	3 584 338
Ward Committee Management	82 070	-
Waste Management	3 000	-
Website Hosting	7 200	7 200
Total General Expenses	52 853 879	54 252 919

41.1 Calculation of Cash Flow:

Expenditure for General Expenses	52 853 879	54 252 919
Expenditure for Bulk Purchases	170 528 063	168 846 561
Expenditure for Repairs and maintenance	26 507 035	22 431 053
Expenditure for Collection Costs	-	31 679
Revaluation of Property, Plant and Equipment	(2 941 486)	387 407
Opening Balance of Inventory	(4 321 092)	(3 604 273)
Closing Balance of Inventory	4 317 025	4 321 092
Opening Balance of Provision: Rehabilitation of Landfill Sites (Current and Non-Current)	40 738 178	37 120 994
Closing Balance of Provision: Rehabilitation of Landfill Sites (Current and Non-Current)	(38 919 629)	(40 738 178)
Opening Balance of Payables: Exchange Transactions	84 416 243	109 816 037
Closing Balance of Payables: Exchange Transactions	(75 417 589)	(84 416 243)
Opening Balance of Payables: Non-exchange Transactions	11 758 871	2 310 588
Closing Balance of Payables: Non-exchange Transactions	(13 368 006)	(11 758 871)
Opening Balance of VAT Payable	3 019 701	-
Closing Balance of VAT Payable	-	(3 019 701)
Total for Other Payments	259 171 193	255 981 064

No other extra-ordinary expenses were incurred.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
42 GAINS / LOSSES ON DISPOSAL OF CAPITAL ASSETS		
Proceeds on Sale of Assets	233 575	1 086 999
Assets Disposed at Carrying Value:	96 914	-
Cost of Disposed Assets	1 209 968	-
Accumulated Depreciation of Disposed Assets	(1 113 054)	-
Total Gains / Losses on Disposal of Capital Assets	136 661	1 086 999

43 CORRECTION OF ERROR

Corrections were made during the previous financial years. Details of the corrections are described below:

Statement of Financial Position:**43.1 Accumulated Surplus**

Balance previously reported as at 30 June 2014	2 175 924 453.00	
Restated Amount in Receivables from Exchange Transactions	-216 745.43	43.1.1
Restated Amount in Receivables from Non-Exchange Transactions	680 377.60	43.1.2
Restated Amount in Non-current Assets Held-for-Sale	-160 035.57	43.1.3
Restated Amount in Property Plant and Equipment	930 170.00	43.1.4
Restated Amount in Investment Property	-622 240.00	43.1.5
Restated Amount in Payables from Exchange Transactions	2 138 395.07	43.1.6
Restated Amount in Payables from Non-Exchange Transactions	-48 098.34	43.1.7
Restated Amount in Unspent Conditional Grants	33 189.05	43.1.8
Restated Amount in VAT Payable	1 106.66	43.1.9
Restated Amount in Long-term Liabilities	1 253 675.00	43.1.10
Restated Balance at 30 June 2014	2 179 914 247.03	

43.1.1 Receivables from Exchange Transactions

Balance previously reported	53 158 535.83
Consumer debtors written off	-216 745.43
Prior years Property Rates Clearance Certificate fees written off.	-210 824.75
	-5 920.68
Restated balance at 30 June 2014	52 941 790.40

43.1.2 Receivables from Non-Exchange Transactions

Balance previously reported	12 213 359.62
	680 377.60
Prior year corrections on Other Receivables from Non-Exchange Transactions	680 377.60
Restated balance at 30 June 2014	12 893 737.22

43.1.3 Non-Current Assets Held-for Sale

Balance previously reported	160 035.57
Non-Current Assets Held-for-Sale written back to PPE in terms of GRAP 100	-160 035.57
Restated balance at 30 June 2014	-

43.1.4 Property Plant & Equipment

Balance previously reported	2 357 174 419.00
Prior year correction of Assets written off incorrectly	930 170.00
Restated balance at 30 June 2014	2 358 104 589.00

43.1.5 Investment Property

Balance previously reported	62 916 430.00
Prior year correction on Land Market value	-622 240.00
Restated balance at 30 June 2014	62 294 190.00

43.1.6 Payables from Exchange Transactions

Balance previously reported	86 554 638.03
Unallocated deposits written off	-2 138 395.07
Restated balance at 30 June 2014	84 416 242.96

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
43.1.7 Payables from Non-Exchange Transactions		
Balance previously reported	11 710 773.07	
	48 098.34	
Building deposits: Written off	774 749.71	
Interest written off - SARS Account	-726 651.37	
Restated balance at 30 June 2014	11 758 871.41	
43.1.8 Unspent Conditional Grants		
Balance previously reported	19 052 174.70	
Prior year correction on Unspent Conditional Grant from the Department of Human Settlement	-33 189.05	
Restated balance at 30 June 2014	19 018 985.65	
43.1.9 Vat Payable		
Balance previously reported	3 020 808.14	
Prior years Property Rates Clearance Certificate fees written off.	-1 106.66	
Restated balance at 30 June 2014	3 019 701.48	
43.1.10 Long-Term Liabilities		
Balance previously reported	54 696 198.75	
Prior year correction on Finance Lease Liability recognized.	-1 253 675.00	
Restated balance at 30 June 2014	53 442 523.75	
Statement of Financial Performance		
43.2 (Surplus) or Deficit for the year ended 30 June 2014		
Balance previously reported	(51 072 430.00)	
Revenue		
Restated Amount In Interest Earned - Outstanding Debtors	(1 509.50)	43.2.1
Restated Amount in Government Grants & Subsidies Received	421 009.25	43.2.2
Restated Amount in Services Charges	(140 603.42)	43.2.3
Expenditure		
Restated Amount in Depreciation and Amortisation	214 392.86	43.2.4
Restated Amount in Finance Costs	(2 248 425.66)	43.2.5
General Expenses	2 248 425.66	43.2.6
Restated Balance at 30 June 2014	(50 579 140.81)	
43.2.1 Interest Earned - Outstanding Debtors		
Balance previously reported	3 842 757.09	
Prior year correction on interest written off for Property Rates Clearance Certificates.	(1 509.50)	
Restated balance at 30 June 2014	3 841 247.59	
43.2.2 Government Grants and Subsidies Received		
Balance previously reported	85 915 626.57	
Prior year correction of subsidy received during the current year	421 009.25	
Restated balance at 30 June 2014	86 336 635.82	
43.2.3 Service Charges		
Balance previously reported	291 218 688.46	
Prior year correction of prepaid electricity not accrued	(140 603.42)	
Restated balance at 30 June 2014	291 078 085.04	
43.2.4 Depreciation and Amortisation		
Balance previously reported	80 214 707.69	
Prior year correction on Depreciation and Amortisation calculation for Movable Assets.	(214 392.86)	
Restated balance at 30 June 2014	80 000 314.83	
43.2.5 Finance Costs		
Balance previously reported	11 107 974.46	
Reclassify operating lease interest charges from General Expenses	2 248 425.66	
Restated balance at 30 June 2014	13 356 400.12	
43.2.6 General Expenses		
Balance previously reported	56 501 344.66	
Reclassify operating lease interest charges to Finance Costs	(2 248 425.66)	
Restated balance at 30 June 2014	54 252 919.00	

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
44 CASH GENERATED BY OPERATIONS		
Surplus / (Deficit) for the Year	91 224 900	(50 579 140)
Adjustment for:		
Correction of Prior Year Errors	-	3 496 507
Depreciation and Amortisation	81 944 404	80 000 315
Losses / (Gains) on Disposal of Property, Plant and Equipment	(136 661)	(1 086 999)
Contribution to Post-retirement Health Care Benefits	7 975 000	1 464 000
Expenditure incurred from Long Service Awards Liability	1 837 000	-
Contribution to Provisions - Current	(2 178 000)	348 000
Expenditure incurred from Provisions - Current	(214 757)	765 073
Contribution to Impairment Provision	8 786 568	33 194 968
Bad Debts Written-off	363 854	(22 651 381)
Operating surplus before working capital changes	189 602 309	44 951 342
Decrease/(Increase) in Inventories	4 068	(716 819)
Decrease/(Increase) in Non-Current Assets Held-for-Sale	-	160 036
Decrease/(Increase) in Receivables from Exchange Transactions	(8 616 888)	(6 097 778)
Decrease/(Increase) in Receivables from Non-exchange Transactions	(12 723 573)	1 300 926
Decrease/(Increase) in VAT Receivable	(974 382)	4 968 263
Decrease/(Increase) in Operating Lease Assets	(53 187)	(69 782)
Decrease/(Increase) in Current Portion of Long-term Receivables	13 258	(12 000)
Increase/(Decrease) in Consumer Deposits	208 926	573 965
Increase/(Decrease) in Payables from Exchange Transactions	(8 998 654)	(25 871 791)
Increase/(Decrease) in Payables from Non-exchange Transactions	1 609 135	9 541 948
Increase/(Decrease) in Conditional Grants and Receipts	(13 330 352)	9 561 954
Increase/(Decrease) in VAT Payable	(2 364 533)	3 019 701
Cash generated by / (utilised in) Operations	144 376 125	41 309 965
45 NON-CASH INVESTING AND FINANCING TRANSACTIONS		
The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2014/15 financial year.		
46 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term Liabilities (See Note 20)	60 506 347	77 370 401
Used to finance Property, Plant and Equipment - at cost	(60 506 347)	(77 370 401)
Sub-total	-	-

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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47 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

47.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening balance	366 051 750	341 456 321
Unauthorised Expenditure current year	-	24 595 429
Unauthorised Expenditure awaiting authorisation	366 051 750	366 051 750

Incident	Disciplinary Steps/Criminal Proceedings
2014/2015 (2013/2014)	
Employee Related Costs R Nil (2014: R 11,954,012)	Currently None - subject to possible future investigation
Collection Costs R Nil (2014: R 31,679)	Currently None - subject to possible future investigation
Depreciation and Amortisation R Nil (2014: R 8,858,180)	Currently None - subject to possible future investigation
Finance Costs R Nil (2014: R 1,432,640)	Currently None - subject to possible future investigation
2012/2013 (2011/2012)	
Employee Related Costs R 12,057,533 (2012: R 9,978,531)	Currently None - subject to possible future investigation
Remuneration of Councillors R 211,970 (2012: R Nil)	Currently None - subject to possible future investigation
Collection Costs R Nil (2012: R 622,156)	Currently None - subject to possible future investigation
Depreciation and Amortisation R 10,324,178 (2012: R 77,007,101)	Currently None - subject to possible future investigation
Impairment Losses R Nil (2012: R 4,364,483)	Currently None - subject to possible future investigation
Finance Costs R 4,631,808 (2012: R 5,067,792)	Currently None - subject to possible future investigation
Bulk Purchases R 2,762,710 (2012: R 13,102,55)	Currently None - subject to possible future investigation
Grants & Subsidies Paid R Nil (2012: R 2,421,895)	Currently None - subject to possible future investigation
Losses on disposal of PPE R Nil (2012: R 5,260)	Currently None - subject to possible future investigation
2011	
Employee Related Costs R 16,824,065)	Currently None - subject to possible future investigation
Contracted services R 120,102)	Currently None - subject to possible future investigation
Depreciation and Amortisation R 78,868,030)	Currently None - subject to possible future investigation
Finance Costs R 7,554,424)	Currently None - subject to possible future investigation
Bulk Purchases R 15,038,241)	Currently None - subject to possible future investigation
Grants and Subsidies Paid R 2,513,118)	Currently None - subject to possible future investigation
Losses on disposal of PPE R 2,281,603)	Currently None - subject to possible future investigation
2010	
The 2009/2010 approved budget was over spent by R 75,143,569	Currently None - subject to possible future investigation

47.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	31 437 254	29 131 281
Fruitless and Wasteful Expenditure current year	2 286 226	2 305 973
Fruitless and Wasteful Expenditure awaiting condonement	33 723 480	31 437 254

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
Incident	Amount	Disciplinary Steps / Criminal Proceedings
2008/2009:		
<i>Interest on late payment of trade creditors</i>	347 882	<i>Currently None - subject to possible future investigation</i>
<i>Penalty on the late submission of the Employer Reconciliation Declaration (EMP501)</i>	1 108 679	<i>Currently None - subject to possible future investigation</i>
<i>Payments made to directors while on suspension for more than six months</i>	1 500 000	<i>Currently None - subject to possible future investigation</i>
<i>The municipality engaged in illegal dumping activities at Paradise Beach Transfer where the Department of Economic Development and Environmental Affairs intervened to stop the municipality from engaging in the illegal activities. The municipality incurred fruitless and wasteful expenditure as a result of the illegal dumping.</i>	510 000	<i>Currently None - subject to possible future investigation</i>
2009/2010:		
<i>Interest on overdue accounts 2009/10</i>	638 116	<i>Currently None - subject to possible future investigation</i>
<i>Prolonged staff suspension</i>	1 165 345	<i>Currently None - subject to possible future investigation</i>
2010/2011:		
<i>Interest on late payment of trade creditors</i>	2 268 205	<i>Currently None - subject to possible future investigation</i>
<i>Payments made to directors while on suspension for more than six months</i>	1 615 732	<i>Currently None - subject to possible future investigation</i>
<i>Prolonged staff suspension (Mr. F. Dennis)</i>	1 000 416	<i>Currently None - subject to possible future investigation</i>
2011/2012:		
<i>Interest on late payment of trade creditors</i>	4 740 237	<i>Currently None - subject to possible future investigation</i>
<i>Penalty on the late payment on SARS account</i>	2 429 632	<i>Currently None - subject to possible future investigation</i>
<i>Settlement paid out for previous MM's contract (Dr. E.M. Rankwana)</i>	859 401	<i>Currently None - subject to possible future investigation</i>
<i>Legal cost due to unfair dismissal of Mr Fred Dennis</i>	1 500 000	<i>Currently None - subject to possible future investigation</i>
2012/2013:		
<i>Interest and penalties on late payment of trade creditors (Including SARS accounts)</i>	9 447 636	<i>Currently None - subject to possible future investigation</i>
2013/2014:		
<i>Interest and penalties on late payment of trade creditors (Including SARS accounts)</i>	2 305 973	<i>Currently None - subject to possible future investigation</i>
2014/2015:		
<i>Interest and penalties on late payment of trade creditors (Including SARS accounts)</i>	2 284 268	<i>Currently None - subject to possible future investigation</i>
<i>Salary erroneously paid to former employee after his services were terminated.</i>	1 958	<i>Currently None - subject to possible future investigation</i>
	2 286 226	

47.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	81 608 223	79 038 929
Irregular Expenditure current year	-	2 589 294
Irregular Expenditure awaiting condonement	<u>81 608 223</u>	<u>81 608 223</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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Incident	Amount	Disciplinary Steps / Criminal Proceedings
2007/2008:		
Irregular expenditure incurred on study loans to employees contrary to section 164(1)(c) of the MFMA	401 371	Currently None - subject to possible future investigation
Performance bonuses paid to section 57 employees contrary to regulation 8, 23 and 34 of GRN 805 of August 2006, read with section 129(1) of the MFMA.	358 665	Currently None - subject to possible future investigation
2008/2009:		
Contrary to regulation 12, 16 and 17 of the Supply Chain Management Policy, the municipality acquired goods and services without obtaining three written quotations.	428 095	Currently None - subject to possible future investigation
Payments were made to a supplier that did not follow the competitive bid process that was contrary to the GRN 868 of May 2005: Municipal Supply Chain Management Regulations, in terms of Regulation 19.	999 213	Currently None - subject to possible future investigation
Inventory was written-off (medical stock) in the Annual Financial Statements as a result of differences between actual stock and stock records. (Section 125(2)(d)(i) of the MFMA).	1 100 000	Currently None - subject to possible future investigation
Receipts were misappropriated from the caravan park. (Section 125(2)(d)(i) of the MFMA).	40 000	Currently None - subject to possible future investigation
A tender was awarded to a business associate of one of the directors of the municipality. An investigation was conducted which indicated irregularities over the bid process.	13 800 000	Currently None - subject to possible future investigation
Contrary to the Regulation 12 of the GRN 868 of 30 May 2005: Municipal Supply Chain Management Regulations, transactions occurred involving business of family members of officials of the municipality who did not follow the procurement process with regards to the quotation process.	58 034	Currently None - subject to possible future investigation
Forensic investigation indicated that payments had been made for which the work had not been complete or the proper procurement processes followed for the construction of a cottage in terms of the GRN 868 of 30 May 2005: Municipal Supply Chain Management Regulations.	108 554	Currently None - subject to possible future investigation
Forensic investigation indicated that two municipal officials did not follow the GRN 868 of 30 May 2005: Municipal Supply Chain Management Regulations and as a result, funds may have been misappropriated.	1 800 000	Currently None - subject to possible future investigation
The signature of a municipal official requesting services for the cutting of grass was found to be forged on the municipality's requisitions.	19 500	Currently None - subject to possible future investigation
Contrary to regulation 12, 16 and 17 of the Supply Chain Management Policy, the municipality did not obtain three written quotations when procuring goods or services from close family members of persons in the service of the state.	1 479 477	Currently None - subject to possible future investigation
Procurement irregularities occurred regarding a cell phone contract which was entered into with a service provider in terms of Regulation 19 of the GRN 868 of 30 May 2005: Municipal Supply Chain Management Regulations.	6 500 000	Currently None - subject to possible future investigation
2010/2011:		
Overpayment of acting allowances to officials	1 144 228	Currently None - subject to possible future investigation
Supply chain compliance not followed	3 718 462	Currently None - subject to possible future investigation
2011/2012:		
Supply chain compliance not followed	10 129 648	Currently None - subject to possible future investigation
Supply chain compliance not followed	5 837 533	Currently None - subject to possible future investigation
2012/2013:		
Supply chain compliance not followed	106 318	Currently None - subject to possible future investigation
Supply chain compliance not followed	19 913 596	Currently None - subject to possible future investigation
Supply chain compliance not followed	11 096 235	Currently None - subject to possible future investigation
	31 116 149	
2013/2014:		
Supply chain compliance not followed	1 425 255	Currently None - subject to possible future investigation
Supply chain compliance not followed	634 586	Currently None - subject to possible future investigation
Supply chain compliance not followed	261 338	Currently None - subject to possible future investigation
Supply chain compliance not followed	110 445	Currently None - subject to possible future investigation
Supply chain compliance not followed	137 670	Currently None - subject to possible future investigation
	2 569 294	

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
48 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
48.1 Contributions to organised local government - SALGA		
Opening Balance	2 027 942	1 869 798
Council Subscriptions	2 167 250	2 027 942
Amount Paid - current year	(2 027 942)	(1 869 798)
Balance Unpaid (included in Creditors)	2 167 250	2 027 942
48.2 Audit Fees		
Opening Balance	5 245 540	7 163 324
Current year Audit Fee	3 384 400	3 928 218
Amount Paid - current year	(4 293 294)	(5 846 002)
Balance Unpaid (included in Creditors)	4 336 647	5 245 540
48.3 VAT		
The net of VAT input receivables and VAT output payables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.		
48.4 PAYE, Skills Development Levy and UIF		
Opening Balance	5 809 106	7 221 084
Current year Payroll Deductions	27 357 222	22 451 288
Amount Paid - current year	(33 166 328)	(23 863 266)
Balance Unpaid (included in Creditors)	-	5 809 106
48.5 Pension and Medical Aid Deductions		
Opening Balance	3 790 415	3 592 804
Current year Payroll Deductions and Council Contributions	47 426 117	45 158 922
Amount Paid - current year	(50 970 766)	(44 961 111)
Balance Unpaid (included in Creditors)	245 766	3 790 415
48.6 Councillor's arrear Consumer Accounts		
The following Councillors had arrear accounts outstanding for more than 90 days as at:		
		Outstanding more than 90 days
30 June 2015		
Councillor Persent		5 359
Councillor Kettleidas		1 292
Councillor Campher		31 311
Councillor Baxter		1 423
Total Councillor Arrear Consumer Accounts		39 385
30 June 2014		
Councillor Baxter		1 037
Total Councillor Arrear Consumer Accounts		1 037

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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48.7 Non-Compliance with the Municipal Finance Management Act

No known matters existed at reporting date.

48.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

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

Department	Successful Tenderer	Reason	Amount
Finance	Various Occasions (94)	Various reason like Impracticality/ urgency/ Preferred supplier	12 685 052.55
94 Occasion during the financial year procuring various services amounting to R 12 685 052,55			
Infrastructure, Development & Planning	Various Occasions (56)	Various reason like Impracticality/ urgency/ Preferred supplier	7 959 378.25
56 Occasion during the financial year procuring various services amounting to R 7 959 378,25			
Administration, Monitoring & Evaluation (Corporate Services)	Various Occasions (75)	Various reason like	3 462 626.36
75 Occasion during the financial year procuring various services amounting to R 3 462 626,36			
Social Services	Various Occasions (25)	Various reason like Sole Supplier authorised by govt departments/ impracticality/ urgency/ Preferred supplier	1 629 061.41
25 Occasion during the financial year procuring various services amounting to R 1 629 061,41			
Tourism and Creative Industries	Various Occasions (3)	Various reason like Impracticality/ urgency/ Preferred supplier	106 682.50
3 Occasion during the financial year procuring various services amounting to R 106 682,50			
Total			25 842 801.07

48.9 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity and Water Losses were as follows and are not recoverable:

Electricity:

		Lost Units	Tariff	Value
30 June 2015	Unaccounted Electricity Losses	9 531 664	0.8542	8 141 689
30 June 2014	Unaccounted Electricity Losses	11 383 379	0.8200	9 334 371

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

	2015 R	2014 R
Volumes in kWh/year:		
System Input Volume	206 141 488	224 418 821
Billed Consumption	(196 609 824)	(195 081 936)
Distribution Loss	9 531 664	11 383 379
Percentage Distribution Loss	4.62%	5.07%

Water:

	Lost Units	Tariff	Value	
30 June 2015	Unaccounted Water Losses	2 276 212	4.5000	10 242 954
30 June 2014	Unaccounted Water Losses	2 844 819	4.1700	11 862 895

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

	2015 R	2014 R
Volumes In Kl/year:		
System Input Volume	6 789 757	6 953 556
Billed Consumption	4 493 545	4 108 737
Distribution Loss	2 276 212	2 844 819
Percentage Distribution Loss	33.62%	40.91%

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	R	R
49 COMMITMENTS FOR EXPENDITURE		
49.1 Capital Commitments		
Commitments in respect of Capital Expenditure:		
- Approved and Contracted for:-	75 292 059	82 564 813
Infrastructure	74 468 404	73 212 973
Community	823 655	9 351 840
Total Capital Commitments	75 292 059	82 564 813
This expenditure will be financed from:		
Capital Replacement Reserve		
Government Grants	75 292 059	82 564 813
	75 292 059	82 564 813
49.2 Lease Commitments		
Non-cancellable Operating Lease Commitments are disclosed in Note 19.		
49.3 Other Commitments		
The municipality has entered into a contract on 15 February 2013 with DDP Valuers (Pty) Ltd for the compiling of the Valuation Roll for 4 years, which will give rise to a total charge of R2 688 600. Various other actions coming forward from the valuation processes are charged per item/hour/day. The contract terminates on 30 June 2017.		

50 FINANCIAL INSTRUMENTS

50.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

	<u>Financial Assets</u>	<u>Classification</u>		
Non-Current Assets				
Long-term Receivables		Amortized Cost	170 602	188 060
Current Assets				
Receivables from Exchange Transactions		Amortized Cost	43 578 518	52 941 790
Receivables from Non-exchange Transactions		Amortized Cost	34 447 047	12 893 737
Current Investments		Amortized Cost	39 682 179	28 750 758
SUMMARY OF FINANCIAL ASSETS				
Financial Assets at Amortised Cost:				
Long-term Receivables		Amortized Cost	170 602	188 060
Receivables from Exchange Transactions		Amortized Cost	43 578 518	52 941 790
Receivables from Non-exchange Transactions		Amortized Cost	34 447 047	12 893 737
Cash and Cash Equivalents		Amortized Cost	39 682 179	28 750 758
			117 878 346	94 774 346
Total Financial Assets			117 878 346	94 774 346

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
FINANCIAL LIABILITIES:		
In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:		
<u>Financial Liabilities</u>	<u>Classification</u>	
Non-Current Liabilities		
Long-term Liabilities	Amortized Cost	49 636 662
Non-current Provisions	Amortized Cost	53 442 524
		37 205 801
Current Liabilities		
Consumer Deposits	Amortized Cost	8 592 611
Payables from Exchange Transactions	Amortized Cost	8 383 685
Payables from Non-exchange Transactions	Amortized Cost	75 417 589
Unspent Conditional Grants and Receipts	Amortized Cost	84 416 243
		13 368 006
		11 758 871
		5 688 633
		19 018 986

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Long-term Liabilities	49 636 662	53 442 524
Non-current Provisions	37 578 057	37 205 801
Consumer Deposits	8 592 611	8 383 685
Payables from Exchange Transactions	75 417 589	84 416 243
Payables from Non-exchange Transactions	13 368 006	11 758 871
Unspent Conditional Grants and Receipts	5 688 633	19 018 986
	190 281 558	214 226 110
Total Financial Liabilities	190 281 558	214 226 110

50.2 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 funds, reserves and accumulated surplus. The municipality's overall strategy remains unchanged from 2012.

The capital structure of the municipality consists of Debt, Cash and Cash Equivalents (including the Bank Overdraft) and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 23 and the Statement of Changes in Net Assets.

50.3 Gearing Ratio

	2015 R	2014 R
The gearing ratio at the year-end was as follows:		
Debt	304 609 924	339 968 615
Cash and Cash Equivalents	39 682 179	28 750 758
Net Debt	264 927 745	311 217 857
Equity	2 271 139 150	2 179 914 250
Net debt to equity ratio	11.66%	14.28%

Debt is defined as Long and Short-term Liabilities.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the 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 Budget and Treasury Office 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 risk. Compliance with policies and procedures is reviewed by the Internal auditors on a continuous basis, and annually by external auditors. 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 periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
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SIGNIFICANT RISKS

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

MARKET RISK MANAGEMENT

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market, however the risk is perceived to be low as confirmed by the gearing ratio. The extent of the exposure is disclosed in the interest sensitivity analysis.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

The municipality manages its interest rate risk by:

- securing long term loans at fixed interest rates
- the short investing term agreed for investments of surplus cash such as call deposits and notice deposits with reputable banking institutions.
- the variable interest rate exposure of cash deposits is offset by the variable interest rate exposure of the finance lease liability.

The municipality has entered into a finance lease agreement with a variable interest rate. The risk exposure is limited due to the short finance lease period.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances and the finance lease liability.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

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

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared with reference to the amount of the investments and liabilities at the end of the financial year. A 50 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

	2015 - effect of change in 50 basis points R	2014 - effect of change in 50 basis points R
Account heading		
Current Investments	198 411	143 754

CREDIT RISK MANAGEMENT

The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

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

The municipality only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the municipality uses other publicly available financial information and its own trading records to rate its major customers. The municipality's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015
R

2014
R

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and within a large geographical area within the jurisdiction of the municipality. Periodic credit evaluations are performed on the financial condition of key debtors.

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. Interest is levied on overdue accounts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting 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.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

LIQUIDITY RISK MANAGEMENT

The municipality manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. The municipality has secured credit facilities in the form of an overdraft facility with its banker in order to cater for any unexpected temporary shortfall in operating funds. The maximum exposure to liquidity risk is the trade creditors and long term borrowings.

The following table details the municipality's remaining contractual maturity for its financial liabilities. The table has 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 estimated interest and principal cash flows.

	2015 R	2014 R
Consumer Deposits		
< 3 months	-	-
> 3 months	8 592 611	8 383 685
Payables from Exchange Transactions		
< 3 months	75 417 589	84 416 243
> 3 months	-	-
Payables from Non-exchange Transactions		
< 3 months	-	-
> 3 months	13 368 006	11 758 871
Unspent Conditional Grants and Receipts		
< 3 months	-	-
> 3 months	5 688 633	19 018 986
	103 066 839	123 577 785

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015 2014
R R

51 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

51.1 Compensation of Related Parties

Name of Related Person	Designation	Amount	Description of Related Party Relationship
F. Muller	Official	338 442	Daughter of the councillor
C. Kettledas	Official	345 794	Daughter of the councillor
M. Hill	Official	214 333	Wife of councillor Hill
D. Oliphant	Official	271 569	Wife of councillor Oliphant
S. Meleni	Official	213 103	Wife of councillor Meleni
C. Witbooi	Official	218 167	Cousin of the councillor Kettledas
M. Jenneker	Official	211 103	Daughter of the Manager Expenditure
N. Baartman	Official	222 564	Daughter of the Manager Asset & Fleet
B. Marais	Official	289 938	Son of the Manager Technical Services

51.2 Purchases from Related Parties

Listed below are the transactions with related parties during the financial year 2014/2015:

Company Name	Related Person	Municipal Capacity	Description of Related Party Relationship	Purchases for the year
Faulkner Bouers	Bradley Faulkner	Official	Uncle	184 390.00
Ixelexwa Catering & B&B	Magdelene	Councillor	Sister	47 099.00
IT Intaba Trading	Solomzi Dayimani	Official	Nephew	17 875.00
Reed SG	Joezay Reed	PA: Municipal	Husband	30 750.00
Press EX Carpenters	Khalipa Nelani	Official	Father	5 669.28
Algoatime (Pty) Ltd	Thembinkosi	Official	Husband	51 370.00
Jeggels Media (Pty) Ltd	Leonie Jeggels	PA: Speaker	Husband	3 118.05
Kwa Nandipha	Mlungisi	Official	Husband	46 875.00
Total Purchases				387 146.33

Listed below are the nature of the transactions with related parties including the balances outstanding as at 30 June 2015:

Company Name	Related Person	Nature of purchase	Outstanding Balance at 30 June 2015
Faulkner Bouers	Bradley Faulkner	Repairs and maintenance	17 550.00
Ixelexwa Catering & B&B	Magdelene	Catering	-
IT Intaba Trading	Solomzi Dayimani	Catering	-
Reed SG	Joezay Reed	PA System	-
Press EX Carpenters	Khalipa Nelani	Repairs and maintenance	-
Algoatime (Pty) Ltd	Thembinkosi	Catering	-
Jeggels Media (Pty) Ltd	Leonie Jeggels	General Expenditure	-
Kwa Nandipha	Mlungisi	Catering	4 000.00
Total Purchases			21 550.00

Refer to note 33 and 34 for remuneration of management and note 48 for councillors outstanding municipal accounts.

52 CONTINGENT LIABILITIES**52.1 Court Proceedings:**

47 674 275 20 492 586

(l) Council is involved in a dispute with different individuals as at 30 June 2015:

Claims against the municipality	46 259 275	19 483 661
Possible legal fees	1 415 000	1 008 925

Detailed Description	
Eviction of Unlawful occupiers from Erf 3769 Kruisfontein, Humansdorp	18 000
K07 - Kruisfontein Tender/ Tauris Gardens for breach of contract	6 360 000
K12 - Savage & Maseti dismissal of employee	250 000
K15 - Snyders dismissal of employee	210 000
K38 - GGG Consulting Engineers breach of contract	20 900 000
K51 - Rebela & Faulkner promotion	260 000
K57 - Luthuli & Others appointments in terms of the collective agreements	345 000
Jansen Outstanding leave pay	191 275
Atkinson Damages to property	1 040 000
Claim for payment of balance of contract arbitration pending currently waiting for a date of the hearing	2 100 000
Anchor's Rest Sale of land	16 000 000
TOTAL	47 674 275

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 R	2014 R
53 CONTINGENT ASSETS		
53.1 Insurance Claims:	<u>994 573</u>	<u>1 239 519</u>
(i) Lost / Damaged Assets: The municipality has claims outstanding against its Insurers for lost and/or damaged assets. The management believe that it is probable that the claims will be successful and that compensation of R994 573 (2014: R1 239 519) will be recovered.	994 573	1 239 519

54 IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any In-kind Donations and Assistance during the year under review.

55 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the year under review.

56 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2015.

57 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Changes in Accounting Policies (Note N/A) and Prior Period Errors (Note 43).

58 GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

- (i) On 29 May 2015 the Council adopted the 2015/16 to 2018/19 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.
- (ii) The municipality's Budget is subjected to a very rigorous Independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- (iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- (iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

**APPENDIX A
KOUGA LOCAL MUNICIPALITY : SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2015**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance previously reported as at 30/06/2013	Corrections	Reinstated balances at 30/06/2013	Corrections / Recognised during the year	Balance at 30/06/2014	Received / Recognised during the year	Redemption during the year	Balance at 30/06/2015	Current portion Redemption 2015	Non-current liability 30/06/2016
	R	%			R	R	R	R	R	R	R	R	R	R
ANNUITY LOANS:														
ABSA	166 000	14.50%	528	30/11/2018	83 940		83 940	(12 594)	71 346		(12 312)	59 034	(13 396)	45 638
Total ABSA	166 000				83 940		83 940	(12 594)	71 346		(12 312)	59 034	(13 396)	45 638
ASDR & Credit	938 870	14.25%	513	30/12/2011	925 681		925 681		925 681		(807 418)	118 263	(118 263)	(0)
Total ASDR & Credit	938 870				925 681		925 681		925 681		(807 418)	118 263	(118 263)	(0)
DBSA	67 602 200	11.280%	61007231	31/12/2024	67 800 223	0	67 800 223	(7 354 868)	61 602 111		(12 000 000)	49 602 111	(2 765 480)	46 836 631
Total DBSA	67 602 200				67 800 223	0	67 800 223	(7 354 868)	61 602 111	0	(12 000 000)	49 602 111	(2 765 480)	46 836 631
INCA	71 157 199	11.88%		30/06/2016	12 957 701		12 957 701	(2 622 336)	10 335 364		(4 144 250)	6 191 108	(6 191 108)	(0)
Total INCA	71 157 199				12 957 701		12 957 701	(2 622 336)	10 335 364		(4 144 250)	6 191 108	(6 191 108)	(0)
Total Annuity Loans	139 864 268				81 767 544		81 767 544	(9 989 798)	72 934 502		(16 963 986)	55 970 516	(9 088 247)	46 882 269
Operating leases reclassified as finance leases					12 884 458	(1 033 153)	11 851 305	(7 415 407)	4 435 898	5 140 208	(5 040 277)	4 535 830	(1 781 438)	2 754 392
Total capitalised lease	1 822 463				12 884 458	(1 033 153)	11 851 305	(7 415 407)	4 435 898	5 140 208	(5 040 277)	4 535 830	(1 781 438)	2 754 392
TOTAL EXTERNAL LOANS					94 652 062		93 618 849	(17 405 205)	77 370 401	5 140 208	(22 004 263)	60 506 346	(10 869 685)	49 636 661

**APPENDIX B
KOUGA MUNICIPALITY
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 June 2015**

Description	Adjusted Opening Balance	Additions 14/15	ADJUSTMENTS	Closing Balance	Opening Balance	Under Construction			Under Construction	Closing Balance	Opening Balance	Adjustment	Additions 14/15	Closing Balance	Carrying Value
						Balance at	Added	Completed							
INFRASTRUCTURE															
Roads, Pavements, Bridges and Storm Water	1 692 465 467	218 300 00		1 910 765 467	1 691 881 567	483 920	218 300	702 220	702 220	1 962 893 767	508 933 871		39 770 784	548 704 635	1 143 879 332
Water Reservoirs and Retention	300 738 152	30 000 647		330 738 800	296 422 449	12 308 704	30 000 647	42 310 351	42 310 351	330 737 600	43 012 122		8 614 476	279 111 202	279 111 202
Electricity Retention	192 866 996	146 783		193 013 780	177 700 891	15 156 105	146 783	15 302 898	15 302 898	193 013 779	30 391 211		6 177 421	38 388 632	196 638 147
Sewerage Purification and Retention	3 71 865 768	73 826 162		4 451 591 931	3 61 967 416	28 484 858	73 826 163	68 784 503	68 784 503	4 451 591 931	46 736 110		10 803 927	50 539 047	386 265 905
Street Lighting	4 277 678			4 277 678	1 147 663	130 015		130 015	130 015	4 277 678	585 376		165 907	4 011 771	3 428 396
	2 362 102 061	104 292 863		2 466 394 924	2 804 164 898	88 893 802	104 292 863	187 229 877	187 229 877	2 868 394 874	631 854 698		66 532 524	697 087 193	1 869 307 761
OTHER ASSETS															
Motor Vehicles	33 978 279	246 000 00	-143 804	34 080 475	54 061 275					34 080 475	13 111 911	(65 367)	2 759 693	17 787 217	16 284 659
Furniture & Fixings	7 678 409	88 885 94		7 767 294	7 766 806					7 766 806	5 377 416		1 001 058	6 378 474	1 388 821
Specialised vehicles	1 471 489			1 471 489	1 471 486					1 471 486	6 699 997		101 455	7 061 112	783 377
Plant and Equipment	8 259 393	268 394 31	-19 600	8 514 287	8 514 287					8 514 287	9 930 629	(1 970)	579 267	8 208 126	2 306 171
Office Equipment	8 151 042	310 346 44	-1 052 564	8 408 822	7 478 676					7 478 676	9 600 201	(1 045 867)	738 868	6 283 360	1 185 239
Security Measures	303 771			303 771	205 171					303 771	100 089		11 388	11 438	182 334
Emergency Equipment	488 755	85 212 37		573 968	564 672					564 672	186 044		76 321	262 365	302 507
	60 241 139	1 680 068 08	-1 209 968	6 711 239	60 191 239					60 191 239	33 913 128	(1 119 084)	5 259 047	37 769 122	28 422 117
LAND & BUILDINGS															
Sporefields - Land	6 800 000			6 800 000	6 800 000					6 800 000				6 800 000	6 800 000
Investment property - Buildings	11 785 500			11 785 500	11 785 500					11 785 500	4 207 910		470 220	6 407 630	6 347 970
Investment property - Land	55 476 000			55 476 000	55 476 000					55 476 000				55 476 000	55 476 000
Community Halls - Land	23 789 000			23 789 000	23 789 000					23 789 000				23 789 000	23 789 000
Libraries - Land	446 000			446 000	446 000					446 000				446 000	446 000
Clubs - Land	441 000			441 000	441 000					441 000				441 000	441 000
Land	279 635 663			279 635 663	279 635 663					279 635 663				279 635 663	279 635 663
Parks - Land	33 472 000			33 472 000	33 472 000					33 472 000				33 472 000	33 472 000
Buildings	28 710 522	6 157 054		34 867 576	28 710 522					34 867 576	30 059 719		3 469 443	35 529 661	34 472 000
	481 864 885	6 157 054		488 021 939	481 864 885					487 864 885	36 988 859		4 489 850	41 488 378	408 168 381
Finance leased assets	38 115 432		-33 026 918	5 088 514	10 288 721					10 288 721	37 463 167	(33 026 918)	6 886 854	6 022 782	4 243 929
Total	38 183 432	8 146 208	-33 026 918	10 288 721	10 288 721					10 288 721	32 463 937	(33 026 918)	6 886 854	6 022 782	4 243 929

**APPENDIX B
KOUGA LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 June 2015**

Description	Opening Balance	Additions 14/15	ADJUSTMENTS	Closing Balance	Opening Balance	Under Construction			Under Construction	Closing Balance	Opening Balance	Adjustment	Additions 14/15	Closing Balance	Carrying Value
						Balance at	Added	Completed							
Intangible Assets	440 371	94 546		534 917	534 917					534 917				534 917	183 165
Computer Software	440 371	94 546		534 917	534 917					534 917				534 917	183 165
Total Fixed Asset Register	3 462 341 708	116 734 789	-34 234 847	3 544 841 650	3 471 622 698	96 833 602	110 448 947	(3 628 819)	163 387 030	3 235 039 588	734 866 845	(34 139 872)	81 890 265	762 716 606	2 462 322 343

APPENDIX C
KOUGA LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 June 2015

Description	Opening Balance Cost	Additions	Closing Balance Cost	Opening Balance Cost	Under Construction		Under Construction	Closing Balance Cost	Opening Balance Accumulated Depreciation	Closing Balance Accumulated Depreciation	Carrying Value
					Balance b/f	Added					
Executive and Council	R	R	R	R	R	R	R	R	R	R	R
Finance and Administration	414 535 350	12 012 608	426 548 158	426 568 158	6 157 054			426 568 158	58 641 444	73 288 833	353 278 695
Planning and Development	8 549 564	268 504	8 818 069	8 818 069				8 818 069	5 728 929	6 319 564	2 488 505
Community and Social Services	25 153 755	66 217	25 219 972	25 219 972				25 219 972	185 414	261 735	24 958 237
Sport and Recreation	40 272 000		40 272 000	40 272 000				40 272 000		-	40 272 000
Waste Management	371 865 788	73 926 183	445 791 951	347 007 448	73 926 183	(8 626 519)	98 784 503	445 791 951	48 732 119	59 538 047	386 155 905
Roads and Transport	1 692 385 467	218 300	1 692 603 767	1 691 861 547	218 300		702 220	1 892 883 767	508 933 841	548 704 635	1 443 879 332
Water	300 736 152	30 001 647	330 737 800	288 427 448	30 001 647		42 310 351	330 737 800	43 012 122	51 628 598	279 111 202
Electricity	397 134 674	146 783	397 281 457	181 848 554	146 783		15 432 903	197 281 457	30 876 587	37 219 814	160 061 543
Total PPE	3 050 632 951	116 640 223	3 167 273 174	3 010 043 197	110 449 947	(8 626 519)	157 229 977	3 267 293 174	686 110 456	776 857 325	2 390 315 218
Investment assets	67 231 500		67 231 500	67 231 500				67 231 500	4 837 310	5 407 530	61 823 970
Intangible assets	440 371	94 546	534 917	534 917				534 917	288 763	351 752	183 165
Total Assets Register	3 118 308 822	116 734 769	3 235 043 591	3 077 809 614	110 449 947	(8 626 519)	157 229 977	3 236 089 590	701 316 529	782 716 606	2 432 922 359

APPENDIX D
KOUGA MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

2014 Actual Income	2014 Budgeted Income	2014 Actual Expenditure	2014 Budgeted Expenditure	2014 Surplus/ (Deficit)	Description	Vote Number	2015 Actual Income	2015 Budgeted Income	2015 Actual Expenditure	2015 Budgeted Expenditure	2016 Budgeted Expenditure	2016 Surplus/ (Deficit)
R	R	R	R	R			R	R	R	R	R	R
202 162 866	244 589 225	129 742 752	129 742 752	114 846 473	Municipal Governance and Administration		208 181 711	218 776 524	94 413 196	100 149 669	41 538 771	114 766 515
1 709 388	837 889	4 192 830	4 192 830	(2 483 441)	Executive and Council	000	129 420 173	142 137 698	2 014 878	31 895 737	17 405 287	137 405 287
66 350 812	57 602 000	2 864 778	3 389 903	(807 881)	Finance Aided & Fleet Management	226	2 429 519	4 590 808	15 477 643	8 810 359	8 810 359	(15 477 643)
10 122 094	320 544	5 712 656	3 533 659	2 178 997	Finance CFO	220	618 732 332	68 863 000	1 700 893	1 700 893	3 918 368	87 031 479
1 109 387	4 752 765	49 830 863	48 808 742	922 121	Finance Expenditure	222	1 983 069	480 168	5 971 698	3 770 549	3 770 549	(3 888 830)
76 185	38 684	1 382 728	1 500 579	(117 851)	Finance Revenue	223	6 480 802	3 862 770	32 873 282	14 360 868	14 360 868	(28 212 360)
1	3 100	3 352 732	1 476 326	1 876 406	Finance SCM	228	154 521	49 036	1 216 351	1 168 355	1 168 355	(1 081 840)
-	-	3 277 831	1 476 326	1 801 505	Finance Stages	225	1 076	-	1 398 804	1 517 222	1 517 222	(1 394 928)
-	-	3 593 071	1 476 326	2 116 745	Mechanical Workshop	227	1 385 712	-	1 385 712	1 559 831	1 559 831	(1 385 712)
183	2 974	18 916 804	4 018 884	14 897 920	Human Resources	333	4 344 336	-	4 344 336	3 919 773	3 919 773	(4 344 336)
52 087	50 082 073	2 734 707	1 953 885	780 822	Corporate Services	120	20 987	25 306	19 308 497	17 320 089	17 320 089	(19 310 285)
-	-	-	-	-	Corporate Services Director		20 987	25 306	1 728 668	2 407 660	2 407 660	(2 702 661)
-	-	-	-	-	Corporate Services		-	-	-	-	-	-
4 284 218	4 611 800	12 688 287	14 453 842	(1 865 042)	Community and Public Safety		4 615 161	10 384 020	13 783 148	18 336 798	18 336 798	(9 177 687)
186 430	183 000	453 089	1 118 708	(935 708)	Community and Social Services	119	317 755	398 485	451 543	1 466 728	1 466 728	(134 369)
836	8 712	3 544	3 074 009	(2 265 297)	Competition	400	3 038 678	7 501 871	142 453	692 248	692 248	(142 453)
2 031 515	3 034 875	4 014 873	4 477 220	(1 442 345)	Kouga Cultural Centre	500	-	-	4 248 901	5 348 667	5 348 667	(2 311 123)
-	82 023	165 871	168 224	(85 153)	Literature	580	-	-	131 906	133 070	133 070	(131 906)
-	-	3 029 548	2 740 865	288 683	Museum	040	-	-	3 146 397	4 083 462	4 083 462	(3 146 397)
-	-	188 821	448 183	(259 362)	Beach	041	-	-	169 825	408 651	408 651	(169 825)
-	-	3 463 183	3 971 269	(508 086)	Blue Flag	100	2 269 915	2 683 854	3 401 953	3 760 030	3 760 030	(1 141 038)
2 078 077	2 281 750	1 088 551	913 381	1 368 369	Canoeing Profits	761	1 841 081	-	1 841 081	2 383 005	2 383 005	(1 841 081)
360	451	28 430	452 268	(123 787)	Community & Social Services Director	115	414	-	256 390	282 038	282 038	(267 977)
8 474 953	11 131 721	27 534 655	30 085 286	(18 950 565)	Public Safety		9 150 088	18 059 240	29 074 332	31 020 781	31 020 781	(19 824 244)
(932 256)	2 064	11 868 836	13 421 759	(1 552 923)	Risk Services	230	630 085	390 705	1 535 124	12 582 642	12 582 642	(11 005 039)
8 537 439	9 109 803	4 380 852	4 618 339	4 490 964	Disaster Management	140	7 059 318	9 705 635	4 426 355	4 477 189	4 477 189	(2 829 963)
279 789	2 018 854	10 618 115	12 204 623	(1 585 769)	National Traffic	690	1 583 685	8 000 000	12 641 881	13 141 189	13 141 189	(11 076 198)
24 804	686	22 842 715	23 777 484	(934 769)	Protection Services	710	-	-	-	-	-	-
22 708	-	28 115 330	22 697 663	5 417 667	Sport and Recreation	680	84 217	7 508 360	24 087 023	24 340 561	24 340 561	(23 872 807)
2 085	689	527 385	1 080 432	(553 047)	Paths & Open Space	680	3 757	86 480	23 544 863	23 709 319	23 709 319	(23 454 402)
-	-	3 582 338	4 848 298	(1 265 960)	Sport & Recreation	800	-	7 423 830	522 141	631 242	631 242	(618 414)
-	-	8 683 338	4 848 298	3 835 040	Housing	325	-	-	3 585 622	3 703 761	3 703 761	(3 655 622)
-	-	8 683 338	4 848 298	3 835 040	Housing Services		-	-	3 605 622	3 709 761	3 709 761	(3 655 622)

APPENDIX D
 SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016
 KOUGA MUNICIPALITY

2014 Actual Income	2014 Budgeted Income	2014 Actual Expenditure	2014 Budgeted Expenditure	2014 Surplus/ (Deficit)	Description	Vote Number	2015 Actual Income	2015 Budgeted Income	2015 Actual Expenditure	2015 Budgeted Expenditure	2015 Surplus/ (Deficit)
R	R	R	R	R			R	R	R	R	R
12 611 591	12 131 546	7 150 841	11 280 420	5 460 749	Health	323	14 168 400	18 300 060	6 300 815	9 322 334	7 865 464
2 143 566	1 820 207	2 930 060	3 200 830	(608 513)	Chic Anabes/Reef	321	2 218 738	4 764 373	2 888 296	3 578 811	(654 560)
432 101	769 028	12 387	1 361 354	4 18 713	Chic Kwazozozo	322	750 052	892 599	8 697	1 147 456	766 335
10 035 904	9 543 318	4 188 355	7 509 706	5 847 549	Chic Pekaia	320	11 180 612	12 616 086	3 423 822	4 645 008	7 780 690
1 730 889	1 455 167	11 510 899	12 408 485	(9 789 232)	Occupational Health and Safety	650	1 885 258	1 839 618	12 820 885	14 101 733	(10 625 360)
18 000	-	411 853	424 890	(911 853)	Economic and Environmental Services	171	6 598 602	6 305 063	73 253 080	70 539 522	(659 063)
-	-	446 942	529 922	(408 642)	Environmental Protection	172	19 000	19 000	723 902	1 231 110	(722 902)
-	50 000	904 144	861 376	(801 144)	Economic Development, Agriculture	170	69 000	69 000	1 162 334	1 167 049	(1 162 334)
-	-	897 317	1 117 461	(897 317)	Economic Development, Business	173	1 783 828	1 783 828	1 783 828	1 803 480	(1 785 828)
-	50 000	1 610 615	2 000 838	(1 610 615)	Economic Development, General	340	1 086 629	1 086 629	1 086 629	1 017 898	(1 086 629)
-	-	870 544	851 469	(870 544)	Economic Development, Tourism	780	932 382	932 382	932 382	965 368	(932 382)
1 712 866	1 395 167	6 378 453	8 830 840	(4 883 816)	Social Development	701	1 771 818	1 771 818	6 305 437	6 646 638	(4 410 161)
7 378 116	8 326 001	79 303 942	68 118 272	(68 926 826)	Director Planning and Development	700	3 466 602	6 598 302	6 598 302	70 539 522	(69 796 476)
1 663 748	1 796 596	19 135 794	919 347	(8 572 046)	Roads and Transport	900	1 807 065	1 875 467	10 488 536	5 388 656	(8 580 551)
5 814 389	6 529 405	63 188 148	65 188 425	(67 353 779)	Water Ways	720	1 648 617	4 630 836	62 754 544	65 200 886	(61 205 926)
183 624 684	211 385 545	178 807 433	200 403 247	17 716 881	Public Works	180	183 800 515	218 718 890	178 018 903	218 479 322	14 783 612
183 624 094	211 395 545	178 807 433	200 403 247	17 716 881	Trading Services	180	183 800 515	218 718 890	178 018 903	218 479 322	14 783 612
68 011 858	73 533 453	59 597 764	55 183 304	6 414 154	Electricity	750	103 889 386	90 717 128	55 032 858	62 670 414	48 856 541
12 708	208 897	4 358 601	5 049 702	(4 312 833)	Electricity	750	44 937	189 735	4 070 099	4 581 044	(4 025 291)
46 612 957	46 638 540	29 229 546	25 589 387	18 284 609	Waste Management	780	61 609 056	61 676 817	29 974 478	31 541 090	54 934 829
20 458 333	26 485 726	26 673 615	24 537 245	(9 557 562)	Sanitation	730	21 735 604	38 651 876	29 888 332	28 518 280	(2 252 827)
-	-	-	-	-	Water Removal	-	-	-	-	-	-
-	-	-	-	-	Waste Water Management	-	-	-	-	-	-
41 720 027	61 237 536	33 992 644	52 994 694	7 727 353	Water	900	127 761 167	51 732 184	35 450 470	57 089 880	82 310 697
41 720 027	61 337 536	33 892 644	52 894 694	7 727 353	Water	900	127 761 167	51 732 184	35 450 470	57 089 880	82 310 697
807 467	2 553 376	31 374 387	18 789 675	(30 766 320)	Other	900	1 801 246	3 985 246	27 780 029	25 109 879	(28 958 764)
408 580	848 000	1 837 240	3 364 045	(1 528 879)	Skills Development	920	483 163	1 390 067	2 486 478	2 865 077	(2 004 316)
(58 387)	-	3 732 783	4 498 351	(3 781 150)	Finance IT	234	(84 353)	628 688	3 148 622	6 218 650	(4 347 374)
(223 220)	11 215	2 231 602	2 432 839	(2 454 723)	Engineering	300	920 314	628 688	3 148 622	3 086 576	(2 228 307)
-	1 478 360	1 158 306	1 216 638	(1 188 306)	Information Systems Unit	580	1 491 000	847 653	1 207 824	1 273 768	(1 207 824)
-	-	1 089 643	1 002 048	(1 089 643)	Technical Services Director	551	-	-	-	1 037 100	(647 683)
-	(168 776)	14 435 100	1 054 458	(14 435 100)	Technical Services, Information Systems	552	-	-	8 782 140	1 080 303	(8 782 140)
-	-	6 771 786	7 294 026	(6 291 292)	Strategic Services Director	330	473 321	518 874	7 024 102	8 588 825	(6 580 761)
489 494	464 587	-	-	-	Strategic Services, Secretariats	331	-	-	-	-	-
-	-	-	-	-	Building & Property	070	-	-	-	-	-
630 646 091	630 690 299	589 224 141	619 690 487	(50 678 140)	Sub-Total	-	670 080 172	644 660 146	578 835 272	677 821 451	91 224 900
-	-	-	-	-	Revenue Foregone	-	-	-	-	-	-
630 646 091	630 690 299	589 224 141	619 690 487	(50 678 140)	Total	-	670 080 172	644 660 146	578 835 272	677 821 451	91 224 900

**APPENDIX E(1)
KOUGA MUNICIPALITY
RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY STANDARD CLASSIFICATION FOR THE YEAR ENDED 30 JUNE 2015**

Description	2014/15					2013/14			
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Revised Audited Outcome
	R	R	R	R	R	R	R	R	R
REVENUE - STANDARD									
Governance and Administration:									
Executive and Council	4 483	28 090	32 574	32 574	488 414	435 840	1 438.01	10 447.64	4 238
Budget and Treasury Office	216 951 891	(186 710)	216 753 181	216 753 181	209 162 479	(7 590 702)	96.50	96.41	202 110 919
Corporate Services	3 704 387	306 202	4 010 589	4 010 589	1 820 478	(2 190 111)	45.39	48.14	659 717
Community and Public Safety:									
Community and Social Services	11 498 935	(1 104 915)	10 394 020	10 394 020	4 615 181	(5 778 859)	44.40	40.14	4 294 218
Sport and Recreation	4 251 789	3 257 570	7 509 360	7 509 360	94 217	(7 415 143)	1.25	2.22	24 804
Public Safety	17 708 478	347 762	18 056 240	18 056 240	9 150 068	(8 906 152)	50.88	51.67	8 474 953
DRAFT ANNUAL FINANCIAL STATEMENTS									
Health	-	-	-	-	-	-	0.00	0.00	-
Economic and Environmental Services:									
Planning and Development	3 248 702	(1 409 084)	1 839 618	1 839 618	1 869 256	55 637	103.02	58.34	1 730 669
Road Transport	6 070 459	525 843	6 596 302	6 596 302	3 458 602	(3 137 701)	52.40	56.94	7 378 116
Environmental Protection	17 053 808	1 246 154	18 300 060	18 300 060	14 166 400	(4 133 660)	77.41	83.07	12 611 591
Trading Services:									
Electricity	219 728 106	(1 009 216)	218 718 890	218 718 890	193 800 515	(24 918 375)	88.61	88.20	193 824 094
Water	57 983 047	(6 150 863)	51 732 184	51 732 184	127 761 167	76 028 983	246.97	220.72	41 720 027
Waste Water Management	45 327 404	16 737 848	62 065 252	62 065 252	81 853 893	19 888 641	132.04	180.80	45 555 725
Waste Management	28 485 051	156 825	28 651 876	28 651 876	21 735 504	(6 916 371)	75.86	76.28	20 456 233
Total Revenue - Standard	851 925 640	12 783 905	844 960 145	844 960 145	670 060 172	25 420 027	103.94	106.04	539 645 001
EXPENDITURE - STANDARD									
Governance and Administration:									
Executive and Council	29 849 024	2 576 064	32 425 089	32 425 089	24 517 090	(7 908 000)	58.60	82.14	25 828 237
Budget and Treasury Office	76 374 761	5 049 007	81 423 768	81 423 768	68 036 695	(13 387 073)	83.63	86.81	80 965 418
Corporate Services	47 133 690	1 622 952	48 756 642	48 756 642	54 136 531	5 379 890	111.03	114.86	54 528 868
Community and Public Safety:									
Community and Social Services	18 455 337	541 460	18 996 798	18 996 798	13 793 148	(4 543 648)	75.22	74.74	12 689 287
Sport and Recreation	24 077 361	263 199	24 340 561	24 340 561	24 067 023	(273 537)	98.68	99.96	22 642 715
Public Safety	32 274 878	(1 254 098)	31 020 781	31 020 781	29 074 332	(1 946 448)	93.73	90.08	27 534 656
Housing	4 617 013	(813 252)	3 703 761	3 703 761	3 655 622	(48 139)	98.70	78.18	3 392 336
Health	-	-	-	-	-	-	0.00	0.00	-
Economic and Environmental Services:									
Planning and Development	17 716 360	(1 722 286)	15 994 074	15 994 074	12 520 605	(3 473 469)	86.79	70.66	11 519 898
Road Transport	67 692 854	896 666	68 589 520	68 589 520	73 253 060	4 663 540	103.77	108.21	73 303 942
Environmental Protection	10 683 780	(291 445)	10 392 335	10 392 335	6 300 815	(3 091 419)	67.08	58.98	7 150 841
Trading Services:									
Electricity	221 785 870	(1 370 149)	220 415 721	220 415 721	179 016 903	(40 408 818)	81.58	80.72	175 907 433
Water	57 331 979	(242 090)	57 089 889	57 089 889	35 450 470	(21 639 419)	62.10	61.83	33 992 644
Waste Water Management	37 998 368	(1 876 235)	36 122 133	36 122 133	31 044 525	(5 077 608)	85.94	81.70	33 583 849
Waste Management	28 064 171	(1 515 891)	26 548 280	26 548 280	23 888 332	(2 559 948)	90.36	85.48	26 013 815
Other:									
Tourism	-	-	-	-	-	-	0.00	0.00	-
Total Expenditure - Standard	676 057 547	1 763 904	677 821 451	677 821 451	578 955 272	(98 866 179)	85.40	85.62	589 224 141
Surplus/(Deficit) for the year	(44 130 906)	10 989 801	(33 161 306)	(33 161 306)	91 224 900	124 986 206	9.00	0.00	(50 579 140)

APPENDIX E (2)
KOUGA MUNICIPALITY
RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY MUNICIPAL VOTE FOR THE YEAR ENDED 30 JUNE 2015

Description	2014/15						2013/14		
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R
REVENUE BY VOTE									
Vote 1 - EXECUTIVE & COUNCIL	4 483	28 090	32 574	32 574	468 414	435 840	1 438.01	10 447.64	4 238
Vote 2 - FINANCIAL SERVICES	216 954 202	(201 021)	216 753 181	216 753 181	209 077 926	(7 675 255)	96.46	96.37	202 052 252
Vote 3 - ADMINISTRATION, MONITORING AND EVALUATION	94 944	(69 601)	25 343	25 343	19 232	(6 111)	75.89	20.26	52 250
Vote 4 - SOCIAL SERVICES	80 793 873	4 093 150	84 887 023	84 887 023	51 669 355	(33 217 668)	60.87	63.95	47 424 710
Vote 5 - INFRASTRUCTURE, PLANNING & DEVELOPMENT	331 196 213	10 347 725	341 543 938	341 543 938	408 353 083	66 809 145	119.56	123.30	288 684 154
Vote 6 - LED, TOURISM AND CREATIVE INDUSTRIES	2 882 925	(1 464 838)	1 418 087	1 418 087	492 163	(925 924)	34.71	17.07	427 396
Total Revenue by Vote	631 926 840	12 733 505	644 660 145	644 660 145	670 080 172	25 420 027	103.94	106.04	538 645 001
DRAFT ANNUAL FINANCIAL STATEMENTS									
Vote 1 - EXECUTIVE & COUNCIL	4 483	28 090	32 574	32 574	468 414	435 840	1 438.01	10 447.64	4 238
Vote 2 - FINANCIAL SERVICES	216 954 202	(201 021)	216 753 181	216 753 181	209 077 926	(7 675 255)	96.46	96.37	202 052 252
Vote 3 - ADMINISTRATION, MONITORING AND EVALUATION	94 944	(69 601)	25 343	25 343	19 232	(6 111)	75.89	20.26	52 250
Vote 4 - SOCIAL SERVICES	80 793 873	4 093 150	84 887 023	84 887 023	51 669 355	(33 217 668)	60.87	63.95	47 424 710
Vote 5 - INFRASTRUCTURE, PLANNING & DEVELOPMENT	331 196 213	10 347 725	341 543 938	341 543 938	408 353 083	66 809 145	119.56	123.30	288 684 154
Vote 6 - LED, TOURISM AND CREATIVE INDUSTRIES	2 882 925	(1 464 838)	1 418 087	1 418 087	492 163	(925 924)	34.71	17.07	427 396
Total Expenditure by Vote	631 926 840	12 733 505	644 660 145	644 660 145	670 080 172	25 420 027	103.94	106.04	538 645 001
Surplus/(Deficit) for the year	(44 130 906)		(33 161 306)	(33 161 306)	93 346 651				(50 859 546)
					2 121 951				(280 406)

APPENDIX E (3)
KOUGA MUNICIPALITY
RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

Description	2014/15						2013/14		
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R
Revenue by Source									
Property Rates	136 420 009	1 320 385	139 740 394	139 740 394	128 579 927	(11 160 467)	92.01	92.89	128 562 770
Service Charges - Electricity	247 439 134	3 393 174	250 832 308	250 832 308	215 207 840	(35 624 468)	85.80	86.97	211 719 491
Service Charges - Water	36 714 283	(4 093 185)	32 621 098	32 621 098	32 812 277	291 179	100.89	89.64	28 983 070
Service Charges - Sanitation	29 603 900	1 366 981	30 970 880	30 970 890	37 326 091	6 355 201	120.52	126.09	33 264 357
Service Charges - Refuse	45 903 423	1 531 602	47 435 024	47 435 024	45 874 578	(1 560 446)	96.71	99.94	41 458 330
Service Charges - Other	(29 194 928)	2 157 854	(27 037 074)	(27 037 074)	(30 268 679)	(3 231 605)	0.00	0.00	(24 347 164)
Rental of Facilities and Equipment	879 086	263 183	1 142 270	1 142 270	1 394 687	252 428	122.10	158.65	276 049
Interest Earned - External Investments	866 487	704 122	1 590 608	1 590 608	2 429 512	838 904	152.74	274.06	1 709 388
DRAFT ANNUAL FINANCIAL STATEMENTS									
Fines	7 254 327	(1 361 892)	5 892 435	5 892 435	3 925 942	(1 966 492)	66.63	54.12	3 841 248
Licences and Permits	8 094 550	87 772	8 182 323	8 182 323	1 736 819	(6 445 504)	21.23	21.46	357 247
Agency Services	9 116 150	106 174	9 222 323	9 222 323	6 503 038	(2 719 285)	70.51	71.34	7 847 710
Transfers Recognised - Operational	(121 521 632)	(189 151 637)	(310 673 269)	(310 673 269)	163 041 445	473 714 713	0.00	0.00	86 393 666
Other Revenue	22 836 702	(297 612)	22 539 090	22 539 090	19 710 084	(2 829 005)	87.45	86.31	17 491 840
Gains on Disposal of PPE	-	-	-	-	136 681	136 681	0.00	0.00	1 086 999
Total Revenue (excluding Capital Transfers & Contrib	396 431 489	(183 973 069)	212 458 420	212 458 420	628 510 232	416 051 812	295.83	158.54	538 645 001
Expenditure									
Employee Related Costs	206 451 718	(7 071 637)	199 380 081	199 380 081	212 826 380	(969 884)	99.55	103.09	208 085 170
Remuneration of Councillors	9 045 580	123 810	9 169 390	9 169 390	9 756 717	(72 673)	99.26	107.86	9 025 077
Debt Impairment	49 683 181	(0)	49 683 181	49 683 181	17 307 856	(32 375 325)	34.84	34.84	33 194 968
Depreciation and Asset Impairment	80 357 832	2	80 357 834	82 357 834	81 944 404	(413 430)	99.50	101.97	80 000 315
Finance Charges	23 494 001	(437 585)	23 056 417	23 056 417	7 130 939	(15 925 478)	30.93	30.35	13 356 400
Bulk Purchases	190 710 580	-	190 710 580	190 710 580	170 528 063	(20 182 517)	89.42	89.42	168 846 561
Other Materials	44 597 991	1 926 867	46 524 857	46 524 857	26 507 035	(20 017 823)	56.97	59.44	22 431 053
Contracted Services	-	-	-	-	-	-	0.00	0.00	-
Transfers and Grants	40 000	(38 250)	1 750	1 750	-	-	0.00	0.00	-
Other Expenditure	71 676 663	7 260 698	78 937 360	61 862 928	52 853 879	(9 009 049)	85.44	73.74	54 284 598
Loss on Disposal of PPE	-	-	-	-	-	-	0.00	0.00	-
Total Expenditure	676 057 547	1 763 904	677 821 451	677 821 451	578 855 272	(98 966 178)	85.40	85.62	569 224 141
Surplus/(Deficit)	(279 626 057)	(185 736 973)	(465 363 031)	(465 363 031)	49 654 960	515 017 990	0.00	0.00	(50 579 140)
Transfers Recognised - Capital	235 485 151	196 706 574	432 201 725	432 201 725	41 569 940	(390 631 785)	9.62	17.65	-
Surplus/(Deficit) for the Year	(44 130 906)	10 969 601	(33 161 306)	(33 161 306)	91 224 900	124 386 206	-	-	(50 579 140)

**APPENDIX F
KOUGA MUNICIPALITY
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies Delayed / Withheld				Reason for Delay / Withholding of Funds	Compliance to Revenue Act (*) See below	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June			
Equitable Share	Nat Treasury	26 176 000	22 043 000	17 910 000	0	26 176 000	22 043 000	17 910 000	0	0	0	0	0		Yes	N/A
FMG	Nat Treasury	1 600 000	0	0	0	316 180	314 735	266 916	702 170	0	0	0	0		Yes	N/A
Municipal Disaster Recovery	Nat Treasury	2 985 000	0	0	0	0	0	2 403 515	581 485	0	0	0	0		Yes	N/A
MIG Projects	MIG	3 450 000	5 773 000	20 608 000	0	2 439 695	6 506 574	9 217 225	11 668 506	0	0	0	0		Yes	N/A
DME Projects	DME	0	3 000 000	0	0	442 313	821 114	1 348 686	386 886	0	0	0	0		Yes	N/A
MSIG	DPLG	934 000	0	0	0	127 887	136 494	72 537	585 072	0	0	0	0		Yes	N/A
EPWP Incentive Grant	Province	514 000	386 000	385 000	0	514 000	386 000	385 000	0	0	0	0	0		Yes	N/A
Total Grants and Subsidies Received		35 659 000	31 202 000	35 994 000	0	30 016 084	30 209 918	31 604 879	13 934 118	0	0	0	0			

(*) Did your municipality comply with the grant conditions in terms of Grant Agreements in the Budget Document of Revenue Act?

Report of the auditor-general to the Eastern Cape provincial legislature and the council on Kouga Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Kouga Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kouga Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Impairments

8. As disclosed in note 3 to the financial statements, an amount of R65,6 million (2014: R47,6 million) in respect of receivables from exchange transactions has been impaired.
9. As disclosed in note 4 to the financial statements, an amount of R18.9 million (2014: R27,8 million) in respect of receivables from non-exchange transactions has been impaired.
10. As disclosed in the statement of financial performance and note 37 to the financial statements, debt impairments totalling R17.3 million (2014: R33,2 million) have been expensed.

Material losses

11. As disclosed in note 48.9 to the financial statements, the municipality incurred material water losses amounting to R10,2 million (2014: R11,9 million) mainly as a result of faulty meters and illegal connections.
12. As disclosed in note 48.9 to the financial statements, the municipality incurred material electricity losses amounting to R8,1 million (2014: R9,3 million) mainly as a result of technical and non-technical losses.

Fruitless and wasteful expenditure

13. As disclosed in note 47.2 to the financial statements, fruitless and wasteful expenditure amounting to R2,3 million (2014: R2,3 million) was incurred largely due to penalties and interest on late payment of creditors.

Significant uncertainty

14. The municipality is the defendant in a number of lawsuits to the amount of R53.8 million (2014: R20.5 million) as disclosed in note 52 to the financial statements, the outcome of these lawsuits cannot be determined at present.

Restatement of corresponding figures

15. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during the year ended 30 June 2015.

Additional matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion.

Unaudited supplementary schedules

18. The supplementary information set out on pages to does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I will not express an opinion thereon.

Report on other legal and regulatory requirements

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Development priority 5: Infrastructure and the provision of basic services on pages x to x.
21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the

planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. The material findings in respect of the selected development priority are as follows:

Development priority 5: Infrastructure and the provision of basic service delivery

Usefulness of reported performance information

25. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 27% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of review of planned targets per integrated development plan and service delivery and budget Implementation plan and reported targets per annual performance report.

Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matters

27. I draw attention to the following matters:

Achievement of planned targets

28. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs 25 and 26 of this report.

Unaudited supplementary information

29. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items were identified by the auditors in the submitted financial statements. These were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

32. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring review and reporting and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the municipal planning and performance management regulations.
33. The annual performance report for the year under review did not include a comparison with the previous financial year and measures taken to improve performance as required by section 46 (1)(a) of the MSA.

Audit committee

34. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2) (a) (vii) of the MFMA.
35. The audit committee did not review the municipality's performance management system or make recommendations to the council, as required by Municipal planning and performance management regulation 14(4) (a) (ii).
36. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4) (a) (iii).
37. The audit committee was not constituted, in the manner required by section 166(4)(a) of the MFMA as there were only 2 audit committee members for the majority of the financial year.
38. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Procurement and contract management

39. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).

Human resource management

40. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).
41. Senior managers did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

42. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
43. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by sections 62(1) (d) of the MFMA.

Consequence management

44. Investigations on fruitless and wasteful expenditure incurred by the municipality was not finalised at year end to determine if any person is liable for the expenditure, as required by sections 32(2)(a)(ii) of the MFMA.

Internal control

45. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

46. Leadership did not fulfil its oversight responsibilities with regards to the monitoring and reporting of performance information as well as compliance with laws and regulations. In addition, the accounting officer has not held officials accountable for non-performance of their functions.

Financial and performance management

47. The municipality did not consistently implement and monitor the required monthly disclosure requirements, to ensure that transactions were appropriately recorded and reported as required by the financial reporting framework. In addition, performance information was not adequately supported and reported throughout

the year. Furthermore, compliance with laws and regulations was not sufficiently reviewed and monitored during the year.

Governance

48. A risk assessment was conducted by the municipality and a risk strategy which included a fraud prevention plan was prepared. The risks identified by management were however not adequately matched with the appropriate internal controls of the municipality, which contributed to the internal control deficiencies identified during the audit.
49. The recommendations made by internal audit and the audit committee were not adequately followed up and responded to, by management as improvements in the control environment did not resolve all the control deficiencies identified.

Auditor-General

East London

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
	EMPHASIS OF MATTERS:				
8	Impairments As disclosed in note 3 to the financial statements, an amount of R65,6 million (2014: R47,6 million) in respect of receivables from exchange transactions has been impaired	This information has been provided for the end-users of the financial statements. No further action is required.	N/A	N/A	N/A
9	Impairments As disclosed in note 4 to the financial statements, an amount of R18,9 million (2014: R 27,8 million) in respect of receivables from non-exchange transactions has been impaired.	This information has been provided for the end-users of the financial statements. No further action is required.	N/A	N/A	N/A
10	Impairments As disclosed in the statement of financial performance and note 37 to the financial statements, debt impairments totalling R17,3 million (2014: R33,2 million) have been expensed.	This information has been provided for the end-users of the financial statements. No further action is required.	N/A	N/A	N/A
11	Material losses As disclosed in note 48.9 to the financial statements, the municipality incurred material water losses amounting to R10,2 million (2014: R11,9 million) mainly as a result of faulty meters and illegal connections.	Water losses are not only as a result of faulty meters and illegal connections, but also due to deteriorating infrastructure causing water pipe leakages and pipe bursts. The municipality has secured funding through the Accelerated Community Infrastructure Programme (ACIP) from the Department of Water Affairs in order to mitigate the water losses.	MM	Performing conditional assessments of water infrastructure pipes, fixing of water pipe leakages and prevention of illegal connections through regular inspection of water meters.	Ongoing
12	Material losses As disclosed in note 48.8 to the financial statements, the municipality incurred material electricity losses amounting to R3,1 million (2014: R9,3 million) mainly as a result of technical and non-technical losses.	It should be noted that the electricity losses have been reduced, compared to the previous financial year.	MM	Regular audit of prepaid meters for tampering and inspection of conventional meters for tampering and illegal connections.	Ongoing
13	Fruitless and wasteful expenditure As disclosed in note 47.2 to the financial statements, fruitless and wasteful expenditure amounting to R2,3 million (2014: R2,3 million) was incurred largely due to penalties and interest on late payments of creditors.	The penalties and interest on late payment of creditors relate to certain accounts, being Nelson Mandela Bay Municipality, Estkom and Department of Transport.	MM	The fruitless and wasteful expenditure incurred will be reported to MPAC for investigation where after it will be tabled in Council for write-off, as this was only incurred as a result of cash flow constraints and not due to fraud nor corruption.	May-16
14	Significant uncertainty The municipality is the defendant in a number of lawsuits to the amount of R53,8 million (2014: R20,5 million) as disclosed in note S2 to the financial statements, the outcome of these lawsuits cannot be determined at present.	The information has been provided for the end-users of the financial statements. No further action is required at this stage, until the cases are finalised.	N/A	N/A	N/A
15	Restatement of corresponding figures As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during the year ended 30 June 2015.	This information has been provided for the end-users of the financial statements. No further action is required.	N/A	N/A	N/A

AUDIT REPORT 2014/2015 ACTION PLAN

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
	REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS				
25	Usefulness of reported performance information	Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 27% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of review of planned targets per integrated development plan and service delivery and budget implementation plan and reported targets per annual performance report.	MM	This issue will be addressed during the Municipality's Strategic Planning session being planned for February 2016.	Ongoing
26	Reliability of reported performance information	This matter relates to paragraphs 31 - 44, Compliance with legislation and paragraph 46 - 49, Internal Control. Refer to management comments and actions listed under each paragraph.	MM	N/A	N/A
	COMPLIANCE WITH LEGISLATION				
31	Annual Financial Statements	The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatement of disclosure items were identified by the auditors in the submitted financial statements. These were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	MM	Management submitted Draft Annual Financial Statements on 31 August 2015 and a final set in November 2015. Changes were made to the initial draft set, as agreed with the Office of the Auditor-General.	SCM will compile a register of all tenders awarded relating to capital projects. This register will be updated on a monthly basis to track the outstanding commitments on a regular basis.
32	Strategic Planning and Performance Management.	The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, review and reporting and how it is conducted, organised and managed, as required by section 38 of the MSA and regulation 7 of the municipal planning and performance management regulations.	MM	Management agrees with the audit finding raised.	Review Performance Management Policy Framework to include measures and processes of planning, monitoring, review and reporting.

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
33	Strategic Planning and Performance Management	The annual performance report for the year under review did not include a comparison with the previous financial year and measures taken to improve performance as required by section 46 (1) (a) of the MSA.	MM	Previous year's performance and corrective measures will be included in the 2015/16 annual report	31-Aug-16
34	Audit Committee	The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA	MM	The audit finding to be included in the work schedule of the audit committee for completion by the end of the 2015/16 financial year.	31-Aug-16
35	Audit Committee	The audit committee did not review the municipality's performance management system or make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(i).	MM	The audit finding to be included in the work schedule of the audit committee for completion by the end of the 2015/16 financial year.	31-Aug-16
36	Audit Committee	The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance regulations 14(4)(a)(iii).	MM	The audit finding to be included in the work schedule of the audit committee for completion by the end of the 2015/16 financial year.	31-Aug-16
37	Audit Committee	The audit committee was not constituted, in the manner required by section 166(4)(a) of the MFMA as there were only 2 audit committee members for the majority of the financial year.	MM	The audit finding to be reported to the audit committee for implementation.	Ongoing
38	Audit Committee	The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.	MM	The audit finding to be reported to the audit committee for implementation.	Ongoing
39	Procurement and contract management	Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e)	MM	HR and SCM will draft a memorandum for approval by the Municipal Manager to ensure that all employees complete declaration form. Completed forms will have to be submitted to HR and will be compiled into a register by a designated SCM official. A notice will be drafted to request all service providers to update their declarations for finalisation by April 2016.	Ongoing
40	Human resource management	The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels regulation 14(2)(a).	MM	The required compliance reports will be submitted to National Treasury and Provincial Treasury by 30 January and 30 July of each year.	Ongoing
41	Human resource management	Senior managers did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.	MM	Performance agreements will be prepared and submitted for signature by not later than 1 July of each year	1-Jul-16

AUDIT REPORT 2014/2015 ACTION PLAN

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
42	Expenditure management	Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.	MM	The expenditure section will compile a register of all contractual agreements, such as Telkom, Eskom etc., and follow up all outstanding invoices on a monthly basis, so as to ensure payment within 30 days.	Ongoing
43	Expenditure management	Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by sections 62(1)(d) of the MFMA.	MM	Steps have been taken by management such as restructuring of long-term loans and payment of creditors within 30 days.	Ongoing
44	Consequence management	Investigations on fruitless and wasteful expenditure incurred by the municipality was not finalised at year end to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.	MM	This matter is currently being investigated by MPAC. As at 30 June 2015, the report from MPAC, had not yet been tabled in Council. MPAC is considering legal guidance on the recoverability of this expenditure.	30-Jun-16
INTERNAL CONTROL					
46	Leadership	Leadership did not fulfil its oversight responsibilities with regards to the monitoring and reporting of performance information as well compliance with laws and regulations. In addition, the accounting officer has not held officials accountable for non-performance of their functions.	MM	Management agrees with the finding raised.	Ongoing
47	Financial and Performance management	The municipality did not consistently implement and monitor the required monthly disclosure requirements, to ensure that transactions were approximately recorded and reported as required by the financial reporting framework. In addition, performance information was not adequately supported and reported throughout the year. Furthermore, compliance with laws and regulations was not sufficiently reviewed and monitored during the year.	MM	Management agrees with the finding raised.	Ongoing
48	Governance	A risk assessment was conducted by the municipality and a risk strategy which included a fraud prevention plan was prepared. The risks identified by management were however not adequately matched with the appropriate internal controls of the municipality, which contributed to the internal control deficiencies identified during the audit.	MM	Management agrees with the finding raised.	30-Jun-16
49	Governance	The recommendations made by internal audit and the audit committee were not adequately followed up and responded to, by management as improvements in the control environment did not resolve all the control deficiencies identified.	MM	Management has made certain improvements in terms of implementing the recommendations made by internal audit.	Ongoing