



ANNUAL FINANCIAL STATEMENTS

30 JUNE 2017

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GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2017

E Van Lingen	Executive Mayor
D Petersen	Infrastructure, Planning and Development
B Dhludhlu	Local Economic Development
B Williams	Finance
N Botha	Administration, Monitoring, Evaluation and Special Projects
D Benson	Social Services
F Baxter	Tourism and Creative Industries

AUDITOR-GENERAL

69 Frere Road, Vincent, East London, 5247
Eastern Cape

BANKERS

First National Bank
Private Bag X5
Jeffreys Bay, 6330

REGISTERED OFFICE

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Jeffreys Bay

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MUNICIPAL MANAGER

Mr. C. du Plessis

CHIEF FINANCIAL OFFICER

Mr. S Thys

GENERAL INFORMATION (continued)

LEGAL FORM

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

The Objects of Local Government are:

- to provide democratic and accountable government for local communities;
- to ensure the provision of services to communities in a sustainable manner;
- to promote social and economic development;
- to promote a safe and healthy environment and
- to encourage the involvement of communities and community organisations in the matters of local government

The Municipality must strive, within its financial and administrative capacity, to achieve the objects as set out above.

JURISDICTION

Greater Kouga area which includes:

Humansdorp
St Francis Bay, Cape St Francis, Oyster Bay
Hankey, Jeffreys Bay, Loerie
Patensie, Thornhill

MEMBERS OF THE KOUGA LOCAL MUNICIPALITY

WARD	COUNCILLOR	
1	Mayoni	Z
2	Meleni	T
3	Gertenbach	W
4	Campher	F
5	Petersen	D
6	Vumazonke	L
7	Februarie	C
8	Vorster	L
9	Jujwana	S
10	Mabukane	A
11	Bornman	H
12	Rheeder	B
13	Peters	M
14	Mandeka	S
15	Hendricks	H
Proportional	Biggs	D
Proportional	Camelio-Benjamin	V
Proportional	Carstens	A
Proportional	Dayimani	M
Proportional	Louw	F
Proportional	Matroos	C
Proportional	Nkomo	A
Proportional	Nkwalase	P
Proportional	Botha	N
Proportional	Dhludhlu	B
Proportional	Benson	D
Proportional	Petersen	D
Proportional	Williams	B
Proportional	Baxter	F
	Van Lingen	E

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, in accordance with 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 Office Bearers Act and the Minister for Cooperative Governance and Traditional Affairs' determination in accordance with this Act.

Mr. C du Plessis
Municipal Manager

Date

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

	Note	Actual	
		2017 R	2016 Restated R
ASSETS			
Current Assets		175 948 201	167 568 767
Inventories	2	4 952 364	5 433 902
Receivables from Exchange Transactions	3	42 558 781	48 615 571
Receivables from Non-exchange Transactions	4	32 609 810	30 282 085
VAT Receivable	5	11 288 813	4 381 953
Cash and Cash Equivalents	6	84 253 706	78 573 452
Operating Lease Receivables	7	281 727	278 803
Current Portion of Long-term Receivables	8	3 000	3 000
Non-Current Assets		2 294 797 631	2 311 559 553
Property, Plant and Equipment	9	2 012 443 885	2 029 018 596
Intangible Assets	10	62 224	146 584
Investment Property	11	282 226 771	282 226 771
Long-term Receivables	12	64 751	167 601
Total Assets		2 470 745 833	2 479 128 320
LIABILITIES			
Current Liabilities		177 964 845	192 337 941
Consumer Deposits	13	10 273 091	9 590 330
Provisions	14	22 644 269	22 109 217
Payables from Exchange Transactions	15	111 806 798	127 745 017
Payables from Non-exchange Transactions	16	17 914 063	17 316 019
Unspent Conditional Grants and Receipts	17	6 726 723	7 841 525
Current Portion of Long-term Liabilities	19	8 599 901	7 735 833
Non-Current Liabilities		187 477 006	187 431 393
Long-term Liabilities	19	32 567 197	37 504 424
Employee Benefit Liabilities	20	92 444 000	91 046 000
Non-current Provisions	21	62 465 810	58 880 970
Total Liabilities		365 441 851	379 769 334
Total Assets and Liabilities		2 105 303 982	2 099 358 985
NET ASSETS		2 105 303 980	2 099 358 985
Accumulated Surplus / (Deficit)	22	2 105 303 980	2 099 358 985
Total Net Assets		2 105 303 980	2 099 358 985

KOUGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

	Note	Actual	
		2017 R	2016 Restated R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	23	148 074 778	135 339 445
Fines	24	10 551 532	9 798 101
Licences and Permits	25	6 877 409	6 065 570
Government Grants and Subsidies Received	26	144 304 831	168 177 211
Public Contributions and Donations	27	4 000	118 424
Revenue from Exchange Transactions			
Service Charges	28	338 256 321	326 545 507
Rental of Facilities and Equipment	29	1 505 650	744 348
Interest Earned - External Investments	30	7 776 128	5 031 308
Interest Earned - Outstanding Debtors	30	8 144 334	3 306 788
Operational Revenue	31	12 566 040	10 682 545
Gains on Disposal of Property, Plant and Equipment	40	-	26 553
Total Revenue		678 061 023	665 835 801
EXPENDITURE			
Employee Related Costs	32	228 043 152	228 746 553
Remuneration of Councillors	33	11 101 213	10 513 662
Depreciation and Amortisation	34	70 508 259	63 282 440
Impairment Losses	35	24 779 495	22 593 439
Repairs and Maintenance	36	34 087 476	29 615 905
Finance Costs	37	15 460 643	9 127 512
Bulk Purchases	38	220 618 051	204 008 829
Operational Costs	39	65 459 316	50 904 456
Loss on Disposal of Property, Plant and Equipment	40	2 058 422	-
Total Expenditure		672 116 027	618 792 795
SURPLUS / (DEFICIT) FOR THE YEAR		5 944 995	47 043 006
Refer to Budget Statement for explanation of budget variances			

KOUGA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017

Description	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R
2016		
Balance at 30 June 2015	2 386 776 416	2 386 776 416
Correction of Error (Note 41)	(334 460 437)	(334 460 437)
Restated Balance at 30 June 2015	2 052 315 979	2 052 315 979
Adjusted Surplus for the year (Note 41)	47 043 006	47 043 006
Restated Balance at 30 June 2016	2 099 358 985	2 099 358 985
2017		
Surplus for the year	5 944 995	5 944 995
Balance at 30 June 2017	2 105 303 980	2 105 303 980

Details on the movement of the Funds and Reserves are set out in Note 41.

KOUGA LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

	Note	Actual	
		2017	2016
		R	Restated R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates	23	148 315 596	141 533 123
Government Grant and Subsidies	26	143 190 028	170 188 377
Public Contributions and Donations	27	4 000	118 424
Service Charges	28	329 141 149	321 508 454
Interest Received	30	7 776 128	5 031 308
Other Receipts	31	33 865 546	30 796 189
VAT Receivable / Payable		-	1 698 781
Payments			
Employee Related Costs	32	(225 793 649)	(222 291 197)
Remuneration of Councillors	33	(11 101 213)	(10 513 662)
Interest Paid	37	(15 460 643)	(9 127 512)
Suppliers Paid		(284 690 309)	(225 563 784)
Other Payments	39	(1 929 607)	(22 263 043)
VAT Receivable / Payable		(6 906 860)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		116 410 166	181 115 458
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	9	(104 612 702)	(115 965 436)
Purchase of Intangible Assets	10	-	(152 527)
Proceeds on Disposal of Property, Plant and Equipment	40	(2 058 422)	26 553
Decrease / (Increase) in Long-term Receivables	12	14 371	3 000
NET CASH FLOWS FROM INVESTING ACTIVITIES		(106 656 753)	(116 088 410)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowings	19	(4 073 159)	(26 135 775)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(4 073 159)	(26 135 775)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		5 680 254	38 891 273
		0	0
Cash and Cash Equivalents at Beginning of Period		78 573 452	39 682 179
Cash and Cash Equivalents at End of Period	6	84 253 706	78 573 452

KOUGA LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017

30 June 2017

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R	R
FINANCIAL POSITION										
Current Assets										
Inventories	4 844 996	-	4 844 996	-	4 844 996	4 952 364	-	107 368	102.22	102.22
Receivables from Exchange Transactions	49 675 240	5 566 634	55 241 874	-	55 241 874	42 558 781	-	(12 683 093)	77.04	85.67
Receivables from Non-exchange Transactions	43 667 818	(19 018 467)	24 649 351	-	24 649 351	32 609 810	-	7 960 459	132.29	74.68
VAT Receivable	-	-	-	-	-	11 288 813	-	11 288 813	0.00	0.00
Cash and Cash Equivalents	29 044 947	65 248 795	94 293 742	-	94 293 742	84 253 706	-	(10 040 036)	89.35	290.08
Operating Lease Receivables	-	-	-	-	-	281 727	-	281 727	0.00	0.00
Current Portion of Long-term Receivables	8 207	-	8 207	-	8 207	3 000	-	(5 207)	36.56	36.56
Non-Current Assets										
Property, Plant and Equipment	2 649 006 198	5 316 718	2 654 322 915	-	2 654 322 915	2 012 443 885	-	(641 879 031)	75.82	75.97
Intangible Assets	100 970	-	100 970	-	100 970	62 224	-	(38 746)	61.63	61.63
Investment Property	63 704 539	-	63 704 539	-	63 704 539	282 226 771	-	218 522 233	443.02	443.02
Long-term Receivables	113 144	51 509	164 653	-	164 653	64 751	-	(99 902)	39.33	57.23
Total Assets	2 840 166 058	57 165 189	2 897 331 246	-	2 897 331 246	2 470 745 833	-	(426 585 414)	85.28	86.99
Current Liabilities										
Consumer Deposits	9 329 629	-	9 329 629	-	9 329 629	10 273 091	-	943 462	110.11	110.11
Provisions	29 995 284	-	29 995 284	-	29 995 284	22 644 269	-	(7 351 015)	75.49	75.49
Payables from Exchange Transactions	94 112 731	15 007 186	109 119 917	-	109 119 917	111 806 798	-	2 686 881	102.46	118.80
Payables from Non-exchange Transactions	-	-	-	-	-	17 914 063	-	17 914 063	0.00	0.00
Unspent Conditional Grants and Receipts	-	-	-	-	-	6 726 723	-	6 726 723	0.00	0.00
Current Portion of Long-term Liabilities	7 302 537	-	7 302 537	-	7 302 537	8 599 901	-	1 297 364	117.77	117.77
Non-Current Liabilities										
Long-term Liabilities	36 733 750	-	36 733 750	-	36 733 750	32 567 197	-	(4 166 553)	88.66	88.66
Retirement Benefit Liabilities	100 661 614	-	100 661 614	-	100 661 614	92 444 000	-	(8 217 615)	91.84	91.84
Non-current Provisions	-	-	-	-	-	62 465 810	-	62 465 810	0.00	0.00
Total Liabilities	278 135 546	15 007 186	293 142 732	-	293 142 732	365 441 851	-	72 299 119	124.66	131.39
Total Assets and Liabilities	2 562 030 512	42 158 003	2 604 188 515	-	2 604 188 515	2 105 303 982	-	(498 884 533)	80.84	82.17
Net Assets (Equity)										
Accumulated Surplus / (Deficit)	2 562 030 512	42 158 003	2 604 188 515	-	2 604 188 515	2 105 303 980	-	(498 884 535)	80.84	82.17
Total Net Assets	2 562 030 512	42 158 003	2 604 188 515	-	2 604 188 515	2 105 303 980	-	(498 884 535)	80.84	82.17

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:

Receivables from Exchange Transactions:

Increase in Provision for Bad Debts, due to decline in recovery of Debtors, not budgeted for and restatement done in terms of GRAP 23.

Receivables from Non-exchange Transactions:

It has been under-budgeted for Assessment Rates Receivables.

VAT Receivable:

NT Budget Template not aligned to GRAP and does not provide for VAT Receivable.

Operating Lease Receivables:

NT Budget Template not aligned to GRAP and does not provide for Operating Lease Receivables.

Current Portion of Long-term Receivables:

It has been over-budgeted for Arrangement Debtors.

Property, Plant and Equipment:

It has been over-budgeted for new capital expenditure. Furthermore, some PPE assets reclassified to Investment Property.

Intangible Assets:

Capital expenditure budgeted for, not realised.

Investment Property:

Property Plant and Equipment reclassified as Investment Property during the compilation of the Annual Financial Statement.

Long-term Receivables:

It was over-budgeted for Arrangement Debtors.

Provisions:

It was under-budgeted for Performance Bonuses, Post Retirement Medical Aid Benefit Liability and Long-term Service Liability.

Payables from Non-exchange Transactions:

NT Budget Template not aligned to GRAP and does not provide for Payables from Non-exchange Transactions - included in budget for Payables from Exchange Transactions.

Unspent Conditional Grants and Receipts:

It was budgeted for Conditional Grants and Receipts to be fully spent at year-end.

Current Portion of Long-term Liabilities:

Current Portion of Long-Term Liabilities include landfill provision liability not budgeted for.

Long-term Liabilities:

It was over-budgeted for Long-Term Liabilities.

Non-current Provisions:

No budget Provision was made for Rehabilitation of Landfill Sites, which were restated during the current financial year.

Accumulated Surplus / (Deficit):

It was over-budgeted for Accumulated Surplus.

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE										
Revenue from Non-exchange Transactions										
Property Rates	148 563 488	107 773	148 671 261	-	148 671 261	148 074 778	-	(596 483)	99.60	99.67
Fines	3 085 695	373 682	3 459 377	-	3 459 377	10 551 532	-	7 092 155	305.01	341.95
Licences and Permits	9 086 136	(1 036 119)	8 050 017	-	8 050 017	6 877 409	-	(1 172 608)	85.43	75.69
Government Grants and Subsidies Received	100 681 408	322 300	101 003 708	-	101 003 708	106 667 240	-	5 663 532	105.61	105.95
Public Contributions and Donations	-	-	-	-	-	4 000	-	4 000	0.00	0.00
Revenue from Exchange Transactions										
Service Charges	356 823 910	(5 369 253)	351 454 658	-	351 454 658	338 256 321	-	(13 198 337)	96.24	94.80
Rental of Facilities and Equipment	590 630	609 734	1 200 364	-	1 200 364	1 505 650	-	305 286	125.43	254.92
Interest Earned - External Investments	3 000 000	3 787 662	6 787 662	-	6 787 662	7 776 128	-	988 466	114.56	259.20
Interest Earned - Outstanding Debtors	4 500 000	3 036 296	7 536 296	-	7 536 296	8 144 334	-	608 038	108.07	180.99
Operational Revenue	10 842 980	389 825	11 232 805	-	11 232 805	12 566 040	-	1 333 235	111.87	115.89
Total Revenue	637 174 247	2 221 900	639 396 148	-	639 396 148	640 423 432	-	1 027 284	100.16	100.51
Expenditure										
Employee Related Costs	233 201 498	(3 835 211)	229 366 288	-	229 366 288	228 043 152	-	(1 323 136)	99.42	97.79
Remuneration of Councillors	11 003 887	(86 578)	10 917 309	-	10 917 309	11 101 213	183 904	183 904	101.68	100.88
Depreciation and Amortisation	83 123 169	(1)	83 123 168	-	83 123 168	70 508 259	-	(12 614 909)	84.82	84.82
Impairment Losses	30 323 244	(315 689)	30 007 555	-	30 007 555	24 779 495	-	(5 228 060)	82.58	81.72
Repairs and Maintenance	35 999 395	(2 806 193)	33 193 202	-	33 193 202	34 087 476	894 275	894 275	102.69	94.69
Finance Costs	4 462 808	0	4 462 808	-	4 462 808	15 460 643	10 997 835	10 997 835	346.43	346.43
Bulk Purchases	207 393 791	14 481 492	221 875 282	-	221 875 282	220 618 051	-	(1 257 231)	99.43	106.38
Operational Costs	80 848 732	1 745 175	82 593 906	-	82 593 906	65 459 316	-	(17 134 590)	79.25	80.97
Total Expenditure	686 356 523	9 182 995	695 539 518	-	695 539 518	672 116 027	14 134 436	(23 423 490)	96.63	97.93
Surplus/(Deficit)	(49 182 275)	(6 961 095)	(56 143 370)	-	(56 143 370)	(31 692 595)	(14 134 436)	24 450 775	0.00	0.00
Transfers Recognised - Capital	38 383 347	-	38 383 347	-	38 383 347	37 637 591	-	(745 756)	98.06	98.06
Surplus/(Deficit for the Year)	(10 798 928)	(6 961 095)	(17 760 023)	-	(17 760 023)	5 944 995	(14 134 436)	23 705 018	-	-

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:

Fines mostly relate to traffic fines and arise from unanticipated traffic infringements

Licences and Permits:

Licences and Permits mostly relate to motor registration and is influenced by the extent of vehicle registrations.

Public Contributions and Donations:

Public Contributions and Donations relate to various donations made by public to the municipality and are mostly unanticipated.

Rental of Facilities and Equipment:

Rental of facilities and equipment relates to the rental of municipal buildings, community halls and other municipal facilities.

Interest Earned - External Investments:

Interest earnings are influenced by the extent of the municipality's investment portfolio.

Operational Revenue:

Other revenue relates to services rendered which are billed to or paid for by the users as the services are required. It includes augmentation fees, building plan fees, caravan park fees and other sundry revenue.

Depreciation and Amortisation:

Depreciation and Amortisation is below budget due to reclassification of Property Plant and Equipment and Investment Property between owner occupied and leased properties. Furthermore, the depreciation for Infrastructure Assets and WIP was revised to reflect the carrying values as per Asset Register.

Impairment Losses:

It was under-budgeted for Impairment Losses on Receivables.

Finance Costs:

Interest and Penalties on late payments made were not budgeted for.

Operational Costs:

Operational Costs relate to the running costs of the municipality, such as printing and stationery, electricity and water consumption, telephone etc. These costs are influenced by the implementation of cost containment measures and budget related internal controls.

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R	R
CAPITAL EXPENDITURE PER FUNCTION										
Executive and Council	30 000	-	30 000	-	30 000	21 901	-	(8 099)	73.00	73.00
Financial Services	670 200	226 000	896 200	-	896 200	214 555	-	(681 645)	23.94	32.01
Administration, Monitoring and Evaluation	675 000	-	675 000	-	675 000	196 528	-	(478 472)	29.12	29.12
Led, Tourism and Creative Industries	1 470 485	(675 065)	795 420	-	795 420	497 856	-	(297 564)	62.59	33.86
Infrastructure, Planning and Development	39 581 407	10 927 238	50 508 645	-	50 508 645	47 688 360	-	(2 820 284)	94.42	120.48
Social Services	20 641 455	(5 161 455)	15 480 000	-	15 480 000	1 246 709	-	(14 233 291)	8.05	6.04
Total Capital Expenditure	63 068 547	5 316 718	68 385 265	-	68 385 265	49 865 910	-	(18 519 355)	72.92	79.07

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:

The underspending on capital budget for Executive and Council was due to lack of planning and the budget had to be forfeited.

Budget and Treasury Office:

Project relates to the acquisition of light delivery vehicle, with budget rolled over to 2017/18 for implementation of the project. The budget rollover was approved by Council on 1 August 2017.

Administration, Monitoring and Evaluation

The underspending on capital budget for Administration, Monitoring and Evaluation was due to lack of planning and the budget had to be forfeited.

Led, Tourism and Creative Industries

Project relates to the renovations of Kouga Cultural Centre, with budget rolled over to 2017/18 for implementation of the project. The budget rollover was approved by Council on 31 August 2017.

Social Services

Projects relate to the acquisition of two 21 m³ refuse compactor trucks, two mesh trucks, tables and chairs, skip bins, and skip truck, with the budget rolled over to 2017/18 for implementation of the project. The budget rollovers were approved by Council on 1 August 2017 and 31 August 2017.

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R	R
CASH FLOW										
Cash Flows from/(used in) Operating Activities										
Property Rates	139 649 679	101 307	139 750 986	-	139 750 986	148 315 596	8 564 611	8 564 611	106.13%	106.21
Grants	139 064 755	322 300	139 387 055	-	139 387 055	143 190 028	3 802 973	3 802 973	102.73%	102.97
Public Contributions and Donations	-	-	-	-	-	4 000	4 000	4 000	0.00%	0.00
Service Charges	335 414 476	(5 047 098)	330 367 378	-	330 367 378	329 141 149	-	(1 226 228)	99.63%	98.13
Interest Received	7 500 000	6 823 958	14 323 958	-	14 323 958	7 776 128	-	(6 547 830)	54.29%	103.68
Other Receipts	23 605 441	337 122	23 942 563	-	23 942 563	33 865 546	9 922 983	9 922 983	141.44%	143.47
Employee Related Costs	(233 201 498)	3 835 211	(229 366 288)	-	(229 366 288)	(225 793 649)	3 572 638	3 572 638	98.44%	0.00
Remuneration of Councillors	(11 003 887)	86 578	(10 917 309)	-	(10 917 309)	(11 101 213)	-	(183 904)	101.68%	0.00
Interest Paid	(4 462 808)	-	(4 462 808)	-	(4 462 808)	(15 460 643)	-	(10 997 835)	346.43%	0.00
Suppliers Paid	(323 661 917)	(12 920 473)	(336 582 390)	-	(336 582 390)	(284 690 309)	51 892 081	51 892 081	84.58%	0.00
Other Payments	(580 000)	(500 000)	(1 080 000)	-	(1 080 000)	(1 929 607)	-	(849 607)	178.67%	0.00
VAT Receivable / Payable	-	-	-	-	-	(6 906 860)	-	(6 906 860)	0.00%	0.00
Cash Flows from/(used in) Investing Activities										
Purchase of Property, Plant and Equipment	(63 068 547)	(5 316 718)	(68 385 265)	-	(68 385 265)	(104 612 702)	-	(36 227 437)	152.98%	0.00
Decrease / (Increase) in Long-term Receivables	-	-	-	-	-	14 371	14 371	14 371	0.00%	0.00
Cash Flows from/(used in) Financing Activities										
Loans repaid	(7 302 537)	-	(7 302 537)	-	(7 302 537)	(4 073 159)	3 229 378	3 229 378	55.78%	0.00
Cash and Cash Equivalents at End of the Year	1 953 156	(12 277 813)	(10 324 657)	-	(10 324 657)	5 680 254	81 003 035	16 004 911	-55.02%	290.82

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:

Interest Received

Interest Received relate to interest on outstanding debtors and investments. Interest on investment is influenced by the investment portfolio balance and interest on outstanding debtors influenced by overdue amount.

Other Receipts

Not all Other Receipts were taken into consideration in the budgeted amount.

Interest Paid

It was not budgeted for Interest and Penalties on late payments made.

Suppliers Paid

Suppliers Paid include various payments to creditors, outstanding payables from prior year were not budgeted for.

Other Payments

Suppliers Paid include various payments to creditors, outstanding payables from prior year were not budgeted for.

Vat Payable

It was not budgeted for Vat payable.

Purchase of Property, Plant and Equipment:

Purchase of Property, Plant and Equipment is influenced by Infrastructure projects (WIP) from prior years, capitalised during the year.

Loans repaid:

It was over-budgeted for Long-Term Liabilities.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

For the years ended 30 June 2016 and 30 June 2017 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out below and in the relevant Notes to the Annual Financial Statements.

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 the Annual Financial Statements:

Statements

1.2.1 Revenue Recognition

Accounting Policy 11.2 on Revenue from Exchange Transactions and Accounting Policy 11.3 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 are 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 9.1 on Financial Assets Classification and Accounting Policy 9.2 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 LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1.2.3 Impairment of Financial Assets

Accounting Policy 9.4 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, 5.2 and 6.2, 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 assessment and considerations of useful lives are set out in Accounting Policy 8, Estimation of Useful Lives.

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 5.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 10.2 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.

Estimated impairments during the year to Inventory, Property, Plant and Equipment, Heritage Assets, Intangible Assets and Investment Property are disclosed in Notes 2, 9, 10 and 11 to the Annual Financial Statements, if applicable.

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 10.2.2 .

1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 13.2, 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.

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.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 20 Related Party Disclosures
- GRAP 32 Service Concession Arrangement Grantor
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents

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

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.

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:

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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).

2.1.4 Government Grants Reserve

When items of Property, Plant and Equipment are financed from government grants, a transfer is made from the Accumulated Surplus/(Deficit) to the Government Grants Reserve equal to the government grants 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 Government Grants 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 government grants.

When an item of Property, Plant and Equipment financed from government grants is disposed, the balance in the Government Grants Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance.

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.

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:

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	Asset Class	Years		Asset Class	Years
	Buildings			Community	
	Improvements	5 - 50		Community Facilities	5 - 50
				Recreational Facilities	10 - 40
	Infrastructure			Other	
	Electricity	10 - 80		Computer Equipment	3 - 10
	Railways	30		Emergency Equipment	5 - 10
	Roads and Paving	5 - 80		Furniture and Fittings	5 - 15
	Sanitation	5 - 80		Motor Vehicles	7 - 15
	Sewerage / Solid Waste	5 - 80		Office Equipment	3 - 15
	Water	5 - 80		Plant and Equipment	2 - 20
	Landfill Sites	30 - 50		Other Assets	5 - 15

The assets' residual values, estimated useful lives and depreciation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

3.4 Land

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

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.

4. 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.

KOUGA LOCAL MUNICIPALITY

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4.1 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.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance.

4.2 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.

4.3 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.

5. INTANGIBLE ASSETS

5.1 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.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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, it's deemed cost is the carrying amount of the asset(s) given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance.

5.2 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.

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 Purchased	3 - 5			

The assets' residual values, estimated useful lives and amortisation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

5.3 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.

6. INVESTMENT PROPERTY

6.1 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.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

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.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

6.2 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, which is estimated at 5 - 50 years. 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.

6.3 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.

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*.

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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.

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.

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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. ESTIMATION OF USEFUL LIVES

The municipality depreciates its assets over their estimated useful lives.

The useful life of an asset is defined as:

- The period over which an asset is expected to be available for use by an municipality; or
- The number of production or similar units expected to be obtained from the asset by the municipality.

The municipality assesses at each reporting date whether there is any indication that the useful life of an asset has changed. If any such indication exists, the useful life is changed.

Any change in the useful life is accounted for as Change in Estimate in accordance with GRAP 3 (Accounting Policies, Change in Accounting Estimates and Errors).

Annually the municipality considers whether there is any indication that the initial useful lives of assets need to be revised. The municipality considers the following during the assessment of its assets' useful lives. Whether:

- (a) The composition of the asset has changed.
- (b) The use of the asset has changed because of the following:
 - (i) The municipality has changed the manner in which the asset is used;
 - (ii) The municipality has changed the utilisation rate of the asset;
 - (iii) The municipality has made the decision to dispose of the asset during a future reporting period which results in a change in the useful life of the asset;
 - (iv) Technological, environmental or commercial changes occurred during the reporting period that will change the use of the asset; and
 - (v) The asset was idle or retired during the current reporting period.
- (c) The asset is approaching its previously expected useful life.
- (d) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (e) The asset is assessed as being impaired in accordance with the Accounting Policy 7.1 and 7.2 on Impairment of Assets.

A decrease in the estimated useful life of an asset is accounted for as an impairment in the Statement of Financial Performance.

The impairment of an asset is accounted for in accordance with Accounting policy 7.1 and 7.2 on Impairment of Assets.

The estimation of the useful lives of the municipality's assets is a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

9. 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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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.

9.1 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 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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9.2 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 Asset	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
Bank Overdraft	Financial Liabilities at Amortised Cost
Short-term Loans	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).

9.3 Initial and Subsequent Measurement

9.3.1 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.

9.3.2 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.

9.4 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.

9.4.1 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).

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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.

9.4.2 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.

9.5 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.

9.6 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.

10. INVENTORIES

10.1 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.

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10.2 Subsequent Measurement

10.2.1 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 current replacement cost (the cost the municipality would incur to acquire the asset on the reporting date). The cost is determined using the *Weighted average cost* of commodities.

Inventories distributed through a non-exchange transaction and those consumed in the production process of goods to be distributed at no or nominal cost are subsequently measured at the lower of cost and current replacement cost.

10.2.2 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). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

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.

10.2.3 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.

10.2.4 Other Arrangements

Redundant and slow-moving Inventories identified are written down from cost to current replacement cost, if applicable.

Inventories identified to be sold by public auction are written down from cost to net realisable value with regard to their estimated economic or realisable values. 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 current replacement cost or 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 current replacement cost or net realisable value 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.

11. REVENUE RECOGNITION

11.1 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.

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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.

11.2 Revenue from Exchange Transactions

11.2.1 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.

11.2.2 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.

11.2.3 Rentals Received

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

11.2.4 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.

11.2.5 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.

11.2.6 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.

11.2.7 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.

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11.3 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.

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.

11.3.1 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.

11.3.2 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 be made at the time of initial recognition.

11.3.3 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.

11.3.4 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.

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11.3.5 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.

12. 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.

12.1 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.

13. EMPLOYEE BENEFIT LIABILITIES

13.1 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.

The municipality has opted to treat its provision for leave pay as an accrual.

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.

13.2 Post-employment Benefits

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

13.2.1 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.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

13.2.2 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.

14. LEASES

14.1 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.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as **Operating Leases**.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

14.2 The Municipality as Lessee

14.2.1 Finance Leases

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset, plus any direct costs incurred. Lease payments are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred.

14.2.2 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.

14.3 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.

15. 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.

16. 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).

17. 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.

18. 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.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

19. 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.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

20. MATERIAL LOSSES

The MFMA requires the disclosure of material losses incurred during the year under review. The disclosure is provided in order to comply to the legislative requirements governing Municipalities.

Due to their significance, the complete calculation of water and electricity losses is provided, including the opening balance, purchases, sales and closing balance where applicable. The unit rate is the rate per the last purchase as inventory is measured based on the *First-In-First-Out Method* as defined by GRAP 12 (*Inventories*).

21. 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.

22. 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.

23. 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.

24. 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.

KOUGA LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

25. RELATED PARTIES

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 Councillors, 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.

26. 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.

27. COMPARATIVE INFORMATION

27.1 Current Year Comparatives

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

27.2 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.

27.3 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 2016 to 30 June 2017.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017
R

2016
R

1. GENERAL INFORMATION

Kouga Municipality is a local government institution in Jeffrey's Bay, Eastern Cape, and is one of seven local municipalities under the jurisdiction of the Sarah Baartman District Municipality. The address of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

Consumable Stores	4 564 953	5 071 064
Water	429 688	382 425
Less Provision for obsolete stock	(42 278)	(19 587)
Total Inventories	4 952 364	5 433 902

Inventories are held for own use and measured at the lower of Cost and net realisable value (net amount that the municipality expects to realise from the sale of Inventory in the ordinary course of business). No write downs of Inventory to Net Realisable Value were required.

Water Inventory

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.

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 2017			
Service Debtors:	99 863 814	72 653 101	27 210 713
Electricity	28 710 600	10 170 542	18 540 058
Refuse	18 214 918	17 660 705	554 213
Sewerage	16 320 975	14 148 549	2 172 425
Water	36 617 321	30 673 305	5 944 016
Other Receivables	24 670 075	9 322 007	15 348 068
Total Receivables from Exchange Transactions	124 533 889	81 975 109	42 558 781

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2016			
Service Debtors:	97 962 876	63 942 439	34 020 437
Electricity	34 093 546	9 381 519	24 712 027
Refuse	16 386 447	15 362 768	1 023 679
Sewerage	14 712 310	12 171 368	2 540 942
Water	32 770 575	27 026 785	5 743 790
Other Receivables	23 581 396	8 986 262	14 595 134
Total Receivables from Exchange Transactions	121 544 273	72 928 701	48 615 571

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 2017, the municipality was owed R1 778 475 (30 June 2016: R1 440 016) by National and Provincial Government.

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

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017
R

2016
R

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2017

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	15 378 666	2 109 615	1 037 225	10 185 093	28 710 600
Less: Provision for Impairment					10 170 542
Net Balances	15 378 666	2 109 615	1 037 225	10 185 093	18 540 058
Refuse:					
Gross Balances	2 204 071	600 932	443 941	14 965 974	18 214 918
Less: Provision for Impairment					17 660 705
Net Balances	2 204 071	600 932	443 941	14 965 974	554 213
Sewerage:					
Gross Balances	2 733 774	739 630	540 450	12 307 122	16 320 975
Less: Provision for Impairment					14 148 549
Net Balances	2 733 774	739 630	540 450	12 307 122	2 172 425
Water:					
Gross Balances	8 003 476.09	1 227 251.05	1 035 370.61	26 351 223.25	36 617 321
Less: Provision for Impairment					30 673 305
Net Balances	8 003 476	1 227 251	1 035 371	26 351 223	5 944 016
Other Receivables:					
Gross Balances	14 834 708	316 419	200 104	9 318 876	24 670 075
Less: Provision for Impairment					9 322 007
Net Balances	14 834 708	316 419	200 104	9 318 876	15 348 068

As at 30 June 2017 Receivables of R42 558 780 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	43 154 695	4 993 847	3 257 090	43 154 664	124 533 889
Less: Provision for Impairment	-	-	-	-	81 975 109
Net Balances	43 154 695	4 993 847	3 257 090	43 154 664	42 558 780

As at 30 June 2016

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	23 628 295	932 175	588 239	8 944 836	34 093 546
Less: Provision for Impairment					9 381 519
Net Balances	23 628 295	932 175	588 239	8 944 836	24 712 027
Refuse:					
Gross Balances	2 636 726	421 381	352 203	12 976 137	16 386 447
Less: Provision for Impairment					15 362 768
Net Balances	2 636 726	421 381	352 203	12 976 137	1 023 679
Sewerage:					
Gross Balances	3 495 163	474 126	347 982	10 395 038	14 712 310
Less: Provision for Impairment					12 171 368
Net Balances	3 495 163	474 126	347 982	10 395 038	2 540 942

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017			2016	
	R			R	
Water:					
Gross Balances	8 106 526	888 165	707 312	23 068 572	32 770 575
Less: Provision for Impairment					27 026 785
Net Balances	8 106 526	888 165	707 312	23 068 572	5 743 790

Other Receivables:					
Gross Balances	14 745 723	214 252	238 636	8 382 785	23 581 395
Less: Provision for Impairment					8 986 262
Net Balances	14 745 723	214 252	238 636	8 382 785	14 595 133

As at 30 June 2016 Receivables of R48 615 571 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due				Total
	Current	31 - 60 Days	61 - 90 Days	+ 90 Days	
	0 - 30 days				
All Receivables:					
Gross Balances	52 612 432	2 930 100	2 234 372	63 767 368	121 544 272
Less: Provision for Impairment	-	-	-	-	72 928 701
Net Balances	52 612 432	2 930 100	2 234 372	63 767 368	48 615 571

3.2 Summary of Receivables from Exchange Transactions by Customer Classification

	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2017				
<u>Current:</u>				
0 - 30 days	25 125 126	5 520 878	401 150	346 459
<u>Past Due:</u>				
31 - 60 Days	4 536 466	743 745	304 836	56 741
61 - 90 Days	3 005 555	331 354	350 968	23 524
+ 90 Days	68 935 058	3 073 518	721 522	11 056 990
Sub-total	101 602 205	9 669 496	1 778 475	11 483 713
Less: Provision for Impairment	72 738 522	3 404 872	-	5 831 715
Total Trade Receivables by Customer Classification	28 863 683	6 264 624	1 778 475	5 651 998
As at 30 June 2016				
<u>Current:</u>				
0 - 30 days	34 560 478	6 592 976	779 643	1 028 879
<u>Past Due:</u>				
31 - 60 Days	2 691 982	418 017	147 539	82 776
61 - 90 Days	2 033 558	293 689	77 025	142 911
+ 90 Days	58 230 328	2 663 541	435 809	11 365 122
Sub-total	97 516 346	9 968 224	1 440 016	12 619 688
Less: Provision for Impairment	62 023 150	2 957 230	-	7 948 322
Total Trade Receivables by Customer Classification	35 493 196	7 010 993	1 440 016	4 671 366

	2017	2016
	R	R
3.3 Reconciliation of the Provision for Impairment		
Balance at beginning of year	72 928 701	65 597 507
Impairment Losses recognised	15 171 963	-
Amounts written off as uncollectable	(6 125 555)	4 911 566
Amounts recovered	-	2 419 629
Balance at end of year	81 975 109	72 928 701

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017
R 2016
R

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 2017			
Assessment Rates Debtors	35 163 570	17 589 394	17 574 176
Staff Debtors	(4 898)	-	(4 898)
Sundry Debtors	25 003 940	11 672 617	13 331 323
Other Control Accounts	1 709 209	-	1 709 209
Total Receivables from Non-exchange Transactions	61 871 821	29 262 011	32 609 810
As at 30 June 2016			
Assessment Rates Debtors	35 572 295	18 527 749	17 044 546
Staff Debtors	30 830	-	30 830
Sundry Debtors	19 054 142	7 011 455	12 042 687
Other Control Accounts	1 164 022	-	1 164 022
Total Receivables from Non-exchange Transactions	55 821 289	25 539 204	30 282 085

Sundry Debtors are in respect of balances outstanding at year-end on normal business transactions entered into by the municipality.

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2017

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	6 261 777	1 241 192	742 313	26 918 289	35 163 570
Less: Provision for Impairment	3 132 235	620 863	371 316	13 464 981	17 589 394
Net Balances	3 129 542	620 329	370 997	13 453 403	17 574 176
Sundry Deposits:					
Gross Balances	(4 898)	-	-	-	(4 898)
Net Balances	(4 898)	-	-	-	(4 898)

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R			2016 R
Sundry Debtors:				
Gross Balances	25 003 940	-	-	25 003 940
	11672617			11 672 617
Net Balances	13 331 323	-	-	13 331 323

Other Control Accounts:				
Gross Balances	1 709 209	-	-	1 709 209
Net Balances	1 709 209	-	-	1 709 209

As at 30 June 2017 Receivables of R14 444 634 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	1 241 192	742 313	26 918 289	28 901 793
Less: Provision for Impairment	620 863	371 316	13 464 981	14 457 159
Net Balances	620 329	370 997	13 453 308	14 444 634

As at 30 June 2016

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	5 422 743	1 693 521	622 226	27 833 805	35 572 295
Less: Provision for Impairment					18 527 749
Net Balances	5 422 743	1 693 521	622 226	27 833 805	17 044 546

Sundry Deposits:				
Gross Balances	30 830	-	-	30 830
Net Balances	30 830	-	-	30 830

Sundry Debtors:				
Gross Balances	19 054 142	-	-	19 054 142
Less: Provision for Impairment	7 011 455	-	-	7 011 455
Net Balances	12 042 687	-	-	12 042 687

Suspense Accounts:				
Gross Balances	1 164 002	-	-	1 164 002
Net Balances	1 164 002	-	-	1 164 002

As at 30 June 2016 Receivables of R30 149 552 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	1 693 521	622 226	27 833 805	30 149 552
Net Balances	1 693 521	622 226	27 833 805	30 149 552

4.2 Summary of Assessment Rates Debtors by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2017				
<u>Current:</u>				
0 - 30 days	5 694 352	550 023	371	16 936
<u>Past Due:</u>				
31 - 60 Days	1 150 005	84 848	371	5 968
61 - 90 Days	679 169	57 779	371	4 995
+ 90 Days	4 952 442	473 900	1 249 889	20 242 153
Sub-total	12 475 968	1 166 549	1 251 000	20 270 053
Less: Provision for Impairment	6 853 091	531 679	-	10 204 625
Total Rates Debtors by Customer Classification	5 622 877	634 871	1 251 000	10 065 428

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017			2016
	R			R
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2016				
<i>Current:</i>				
0 - 30 days	6 629 721	637 054	156 123	684 064
<i>Past Due:</i>				
31 - 60 Days	616 134	56 952	334	36 086
61 - 90 Days	426 258	37 262	334	29 441
+ 90 Days	4 357 755	790 724	1 102 812	20 013 242
Sub-total	<u>12 029 868</u>	<u>1 521 992</u>	<u>1 259 603</u>	<u>20 762 833</u>
Less: Provision for Impairment	4 933 404	827 987	-	12 768 359
Total Rates Debtors by Customer Classification	<u>7 096 464</u>	<u>694 005</u>	<u>1 259 603</u>	<u>7 994 474</u>

	2017	2016
	R	R
4.3 Reconciliation of Provision for Impairment		
Balance at beginning of year	25 539 204	17 217 959
Amounts written off as uncollectable	(167 907)	8 772 731
Balance at end of year	<u>29 262 011</u>	<u>25 539 204</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.

5. VAT RECEIVABLE

Vat Receivable	<u>11 288 813</u>	<u>4 381 953</u>
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Vat is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

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

6. CASH AND CASH EQUIVALENTS

Current Investments	78 566 856	75 798 167
Bank Accounts	5 694 930	2 783 364
Cash and Cash Equivalents	(8 079)	(8 079)
Total Bank, Cash and Cash Equivalents	<u>84 253 706</u>	<u>78 573 452</u>

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

6.1 Current Investment Deposits

Call Deposits	78 566 856	75 798 167
Total Current Investment Deposits	<u>78 566 856</u>	<u>75 798 167</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
Call Deposits are investments with a maturity period of less than 3 months and earn interest at rates varying from 6,25 % to 6,85 % (2016: 5,25% to 6,20%) per annum.		
Deposits attributable to General Investments	71 159 248	68 767 655
Deposits attributable to Unspent Conditional Grants	7 407 608	7 030 512
Total Deposits attributable to Commitments of the Municipality	78 566 856	75 798 167

6.2 Bank Accounts

Cash in Bank	5 694 930	2 783 364
Total Bank Accounts	5 694 930	2 783 364

The Municipality has the following bank accounts:

Primary Bank Account

Cash book balance at beginning of year	2 783 364	2 903 276
Cash book balance at end of year	5 694 930	2 783 364

First National Bank - Jeffreys bay Branch-Account Number: 52540020791

Bank statement balance at beginning of year	2 037 926	945 422
Bank statement balance at end of year	783 359	2 037 926

First National Bank - Jeffreys bay Branch-Account Number: 52540033304

Bank statement balance at beginning of year	525 179	1 544 947
Bank statement balance at end of year	4 648 585	525 179

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	(8 079)	(8 079)
Total Cash on hand in Cash Floats, Advances and Equivalents	(8 079)	(8 079)

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.

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	278 803	249 227
Operating Lease Revenue recorded	2 924	29 576
Total Operating Lease Receivables	281 727	278 803

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 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	472 278	459 174
2 to 5 years	1 716 525	1 656 288
More than 5 years	238 334	654 479
Total Operating Lease Arrangements	2 427 136	2 769 940

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 R-2 924 (2016: decrease of R-29 576) in current year income.

8. CURRENT PORTION OF LONG-TERM RECEIVABLES

Other Loans	3 000	3 000
Total Current Portion of Long-term Receivables	3 000	3 000

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

10 PROPERTY, PLANT AND EQUIPMENT

30 June 2017

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Other	Leased Assets	Total
	R	R	R	R	R
Carrying values at 01 July 2016	318 346 899	1 687 082 465	21 220 104	2 369 128	2 029 018 596
Cost	332 489 157	2 088 211 487	68 018 909	10 266 721	2 498 986 274
- Completed Assets	332 489 157	1 963 799 421	68 018 909	10 266 721	2 374 574 208
- Under Construction	-	124 412 066	-	-	124 412 066
Correction of error (Note 41)	-	-	-	-	-
Revaluation	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-
Accumulated Depreciation:	(14 142 258)	(401 129 022)	(46 798 806)	(7 897 593)	(469 967 678)
- Cost	(14 142 258)	(401 129 022)	(46 798 806)	(7 897 593)	(469 967 678)
- Revaluation	-	-	-	-	-
Acquisitions	3 121 147	94 911 419	2 089 742	4 490 394	104 612 702
Assets Under construction Capitalised	-	23 648 205	-	-	23 648 205
Capital under Construction - Additions:	-	(47 794 640)	-	-	-
- Cost	-	-	-	-	-
Additions	-	(47 737 915)	-	-	(47 737 915)
Transfer in	-	(56 726)	(9 100 241)	(6 721 919)	(15 878 886)
- Borrowing Costs Capitalised	-	-	-	-	-
Depreciation:	(6 613 458)	(57 497 763)	(4 728 945)	(1 625 707)	(70 465 873)
- Based on Cost	(6 613 458)	(57 497 763)	(4 728 945)	(1 625 707)	(70 465 873)
- Based on Revaluation	-	-	-	-	-
Impairment Losses	-	-	(967 177)	-	(967 177)
- Accumulated Depreciation	-	22 472	7 748 035	6 091 931	13 862 438
- Based on Cost	-	22 472	7 748 035	6 091 931	13 862 438
- Transfer Out	-	22 472	7 748 035	6 091 931	13 862 438
Carrying values at 30 June 2017	314 854 588	1 676 723 953	16 261 518	4 603 826	2 012 443 885
Cost	335 610 304	2 135 328 266	61 008 411	8 035 195	2 539 982 175
- Completed Assets	335 610 304	2 058 654 114	61 008 411	8 035 195	2 463 308 024
- Under Construction	-	76 674 151	-	-	76 674 151
Accumulated Impairment Losses	-	-	(967 177)	-	(967 177)
Accumulated Depreciation:	(20 755 716)	(458 604 313)	(43 779 716)	(3 431 369)	(526 571 114)
- Cost	(20 755 716)	(458 604 313)	(43 779 716)	(3 431 369)	(526 571 114)
- Revaluation	-	-	-	-	-

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2016

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Other	Leased Assets	Total
	R	R	R	R	R
Carrying values at 01 July 2015	286 074 998	1 580 447 662	24 261 211	3 776 380	1 894 560 252
Cost	294 656 017	1 913 922 428	65 016 665	38 153 432	2 311 748 542
- Completed Assets	294 656 017	1 893 809 578	65 016 665	38 153 432	2 291 635 692
- Under Construction	-	20 112 850	-	-	20 112 850
Accumulated Impairment Losses	-	-	-	-	-
Accumulated Depreciation:	(8 581 018)	(333 474 766)	(40 755 455)	(34 377 052)	(417 188 290)
- Cost	(8 581 018)	(333 474 766)	(40 755 455)	(34 377 052)	(417 188 290)
- Revaluation	-	-	-	-	-
Acquisitions	37 833 141	69 989 843	3 002 244	5 140 208	115 965 436
Capital under Construction - Additions:	-	-	-	-	104 299 216
- Cost	-	-	-	-	104 299 216
Additions	-	104 299 216	-	-	104 299 216
Reversals of Impairment Losses	-	-	-	-	-
Depreciation:	(5 561 240)	(67 716 327)	(6 043 351)	(39 574 379)	(118 895 297)
- Based on Cost	(5 561 240)	(67 716 327)	(6 043 351)	(39 574 379)	(118 895 297)
- Based on Revaluation	-	-	-	-	-
Carrying value of Disposals:	-	62 071	-	(33 026 919)	33 026 919
- Cost	-	-	-	(33 026 919)	(33 026 919)
- Accumulated Impairment Losses	-	-	-	-	-
- Accumulated Depreciation	-	62 071	-	-	66 053 838
- Based on Cost	-	-	-	66 053 838	66 053 838
- Based on Revaluation	-	-	-	-	-
Carrying values at 30 June 2016	318 346 899	1 687 082 465	21 220 104	2 369 128	2 029 018 596
Cost	332 489 157	2 088 211 487	68 018 909	10 266 721	2 498 986 274
- Completed Assets	332 489 157	1 963 799 421	68 018 909	10 266 721	2 374 574 208
- Under Construction	-	124 412 066	-	-	124 412 066
Accumulated Impairment Losses	-	-	-	-	-
Accumulated Depreciation:	(14 142 258)	(401 129 022)	(46 798 806)	(7 897 593)	(469 967 678)
- Cost	(14 142 258)	(401 129 022)	(46 798 806)	(7 897 593)	(469 967 678)
- Revaluation	-	-	-	-	-

Note: Erf 13 (Value - R166 000.00 of Kouga Municipality in Patensie is being held as surety by ABSA Bank (Pty) Ltd.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

10.1 Expenditure incurred to Repair and Maintain

The following specific costs included in the amount of Repairs and Maintenance as disclosed in Note 36 were incurred by the municipality during the reporting period:

Land & Buildings:	1 115 481	643 951
- Inventory Consumed	1 115 481	643 951
Electrical Infrastructure:	11 694 137	10 814 284
- Inventory Consumed	11 694 137	10 814 284
Roads Infrastructure:	5 037 705	4 788 158
- Inventory Consumed	5 037 705	4 788 158
Sanitation Infrastructure:	1 173 348	1 049 990
- Inventory Consumed	1 173 348	1 049 990
Water Supply Infrastructure:	346 153	230 175
- Inventory Consumed	346 153	230 175
Other Infrastructure:	3 591 144	3 316 002
- Inventory Consumed	3 591 144	3 316 002
Other Assets:	10 242 292	7 649 563
- Inventory Consumed	10 242 292	7 649 563
Total Expenditure incurred to Repair and Maintain	33 200 259	28 492 123

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
10 INTANGIBLE ASSETS		
At Cost less Accumulated Amortisation and Accumulated Impairment Losses	<u>62 224</u>	<u>146 584</u>
The movement in Intangible Assets is reconciled as follows:		
		Total
Carrying values at 01 July 2016		146 584
Cost		592 899
Accumulated Amortisation		(446 314)
Amortisation:		(42 386)
Purchased		(42 386)
At Cost		(401 994)
At Accumulated Amortisation		360 020
Carrying values at 30 June 2017		62 224
Cost		190 904
Accumulated Amortisation		(128 680)
		Total
Carrying values at 01 July 2015		77 046
Cost		440 371
Accumulated Amortisation		(363 325)
Acquisitions:		152 527
Purchased		152 527
Amortisation:		(82 989)
Purchased		(82 989)
Carrying values at 30 June 2016		146 584
Cost		592 899
Accumulated Amortisation		(446 314)

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

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.

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 none 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.

10.4 Work-in-Progress

The municipality had no capital projects for Intangible Assets which were not completed at year-end.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
11 INVESTMENT PROPERTY		
At Cost less Accumulated Depreciation	<u>282 226 771</u>	<u>282 226 771</u>
The movement in Investment Property is reconciled as follows:		
Carrying values at 1 July	282 226 771	281 504 201
Cost	282 226 771	282 226 771
Accumulated Depreciation	-	(722 570)
Acquisitions during the Year	-	-
Depreciation during the Year	-	722 570
Carrying values at 30 June	282 226 771	282 226 771
Cost	282 226 771	282 226 771
Accumulated Depreciation	-	-
Estimated Fair Value of Investment Property at 30 June	<u>282 226 771</u>	<u>282 226 771</u>

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.

11.1 Investment Property

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.

11.3 Work-in-Progress

The municipality had no capital projects for Investment Property which were not completed at year-end.

11.4 Delayed Projects

No projects that are currently in progress are experiencing significant delays or were halted.

12 LONG-TERM RECEIVABLES

	Gross Balances	Provision for Impairment	Net Balances
	R	R	R
As at 30 June 2017			
Other Loans	296 832	214 710	82 122
	<u>296 832</u>	<u>214 710</u>	<u>82 122</u>
Less: Current Portion transferred to Current Receivables:-			17 371
Recovered			14 371
Current Portion transferred to Current Receivables			3 000
Total Long-term Receivables			<u>64 751</u>
	Gross Balances	Provision for Impairment	Net Balances
	R	R	R
As at 30 June 2016			

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
Other Loans	304 574	178 343
	<u>304 574</u>	<u>178 343</u>
Less: Current Portion transferred to Current Receivables:-		10 742
Recovered		7 742
Current Portion transferred to Current Receivables		3 000
Total Long-term Receivables		<u>167 601</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

<u>Past Due:</u>		
+ 120 Days	296 832	304 574
Total	<u>296 832</u>	<u>304 574</u>

12.2 Reconciliation of the Provision for Impairment

Balance at beginning of year	126 231	126 231
Contribution to provision	214 710	126 231
Impairment Losses reversed	(126 231)	(126 231)
Balance at end of year	<u>214 710</u>	<u>126 231</u>

13 CONSUMER DEPOSITS

Electricity and Water	10 273 091	9 590 330
Total Consumer Deposits	<u>10 273 091</u>	<u>9 590 330</u>

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	898 174	678 671
Staff Leave	14 561 561	14 293 355
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 20)	2 776 000	2 312 000
Current Portion of Long-term Service Liability (See Note 20)	1 606 000	1 438 000
Current Portion of Non-Current Provisions (See Note 21):	2 802 534	3 387 190
Ex-Gratia Pension	61 000	95 000
Clearing of Environmental Cleanup	200 000	597 604
Rehabilitation of Land-fill Sites	2 541 534	2 694 586
Total Provisions	<u>22 644 269</u>	<u>22 109 217</u>

Provision for environmental clean - up

Illegal dumping of builders' and other rubble is taking place through out the KOUGA area on the municipality's property. Contrary to S19A of Environmental Conservation Act, (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 builders and other rubble as required by GRAP 19.20 - Provisions, contingent liabilities and contingent assets. The net present value of the clean - up costs have been determined as at 30 June 2017. The provision is the best estimate of the net present value of future clean - up costs. The payment dates of the costs to clean up the builders and other rubble are uncertain, but are currently expected to be in the following years.

The movement in provisions are reconciled as follows:

Current Provisions:

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
Performance Bonuses:		
Balance at beginning of year	678 671	550 316
Expenditure incurred	219 503	128 355
Balance at end of year	<u>898 174</u>	<u>678 671</u>

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

Staff Leave:

Balance at beginning of year	14 293 355	12 133 593
Contributions to provision	-	2 159 762
Expenditure incurred	268 206	-
Balance at end of year	<u>14 561 561</u>	<u>14 293 355</u>

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.

Current Portion of Non-Current Provisions:

	Long-term Service	Post-retirement
	R	R
30 June 2017		
Balance at beginning of year	1 438 000	2 312 000
Transfer from non-current	1 606 000	2 776 000
Expenditure incurred	(1 438 000)	(2 312 000)
Balance at end of year	<u>1 606 000</u>	<u>2 776 000</u>

	Long-term Service	Post-retirement
	R	R
30 June 2016		
Balance at beginning of year	1 837 000	2 314 000
Transfer from non-current	1 438 000	2 312 000
Expenditure incurred	(1 837 000)	(2 314 000)
Balance at end of year	<u>1 438 000</u>	<u>2 312 000</u>

Current Portion of Non-Current Provisions:

	Ex-Gratia Pension	Other Provisions	Rehabilitation of Land-fill Sites
	R	R	R
30 June 2017			
Balance at beginning of year	95 000	597 604	2 694 586
Transfer from non-current	61 000	-	(153 052)
Contributions to provision	-	(397 604)	-
Balance at end of year	<u>61 000</u>	<u>200 000</u>	<u>2 541 534</u>

	Ex-Gratia Pension	Other Provisions	Rehabilitation of Land-fill Sites
	R	R	R
30 June 2016			
Balance at beginning of year	75 000	795 852	12 175 921
Transfer from non-current	95 000	-	2 694 586
Contributions to provision	-	(198 248)	-
Expenditure incurred	(75 000)	-	(12 175 921)
Balance at end of year	<u>95 000</u>	<u>597 604</u>	<u>2 694 586</u>

	2017	2016
	R	R

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
15 PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade Creditors	91 125 488	114 497 408
Retentions	450 944	181 895
Other Creditors	20 230 366	13 065 713
Total Payables	<u>111 806 798</u>	<u>127 745 017</u>

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.

16 PAYABLES FROM NON-EXCHANGE TRANSACTIONS		
Other Creditors	14 620 130	14 583 732
Sundry Deposits	3 293 933	2 732 288
Total Payables	<u>17 914 063</u>	<u>17 316 019</u>

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		
	6 726 723	7 841 525
National Government Grants	348 891	2 320 536
Provincial Government Grants	6 085 831	5 228 989
Local Government Grants	157 000	157 000
Other Spheres of Government	135 000	135 000
Total Conditional Grants and Receipts	<u>6 726 723</u>	<u>7 841 525</u>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised. See Note 26 for the reconciliation of Grants from Government and Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

An amount of R1 243 022 (R2016: R0) was offset against the equitable share allocation due to underspending of grants by the municipality. Refer to Appendix "C" for more detail on Conditional Grants.

18 OPERATING LEASE LIABILITIES		
18.1 Leasing Arrangements		
The Municipality as Lessee:		
Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 5 years.		
18.2 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:	6 941 824	4 776 203
Up to 1 year	6 941 824	4 776 203
2 to 5 years	-	-
More than 5 years	-	-
Total Operating Lease Arrangements	<u>6 941 824</u>	<u>4 776 203</u>

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

Minimum lease payments	6 941 824	4 776 203
Total Operating Lease Expenses	<u>6 941 824</u>	<u>4 776 203</u>

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

- Office Equipment

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2017 **2016**
R **R**

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.

19 LONG-TERM LIABILITIES

Annuity Loans	36 734 307	42 485 867
Finance Lease Liabilities	4 432 790	2 754 390
Sub-total	41 167 098	45 240 257
Less: Current Portion transferred to Current Liabilities:-	8 599 901	7 735 833
Annuity Loans	6 444 933	5 756 979
Finance Lease Liabilities	2 154 968	1 978 854
Total Long-term Liabilities (Neither past due, nor impaired)	32 567 197	37 504 424

19.1 Summary of Arrangements

Annuity Loans are repaid over a period of 5 years and at interest rates varying from 10,50% to 11,18% (2016: 11,18% to 11,88%) per annum. The Absa loan is secured, with ERF 13 in Patensie. No security is held on DBSA loans.

Finance Lease Liabilities relates to Office Equipment with lease terms not more than 2 years (2016: 3) years. The effective interest rate on Finance Leases is between 13,21% and 24,88% (2016: 13,21 to 24,88%). Capitalised Lease Liabilities are secured over the items of vehicles and equipment leased.

The total Annuity Loans is made up of the following loans:

Absa	37 618	46 419
Development Bank of South Africa	36 696 689	42 439 448
	36 734 307	42 485 867

Refer to Appendix "A" for more detail on Long-term Liabilities.

19.2 Obligations under Finance Lease Liabilities

The Municipality as Lessee:

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 1 years (2016: 2 years). The effective interest rate on Finance Leases is 24,88% (2016: 24,88%).

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
- Wireless radio network

Included in these classes are the following significant leases:

(i) Various photocopier and fax machines	R 775 540	R 2 754 393
- Installments are payable monthly		
- Average period outstanding	4 months	12 months
- Average effective interest rate	24,88%	24,88%
- Average capital redemption per month over the period leased	R 142 784	R 229 533
(ii) Wireless radio network	R 3 657 254	-
- Installments are payable monthly in advance		
- Average period outstanding	12 months	-
- Average effective interest rate, based on prime	24,88%	-
- Average capital redemption per month over the period leased	R 124 733	-

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	2017		2016	
	R		R	
The obligations under Finance Leases are as follows:				
	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2017	2016	2017	2016
	R	R	R	R
Amounts payable under finance leases:				
Within one year	2 955 049	2 448 431	2 154 968	1 978 854
In the second to fifth years, inclusive	2 673 632	816 143	2 277 822	775 540
Over five years	-	-	-	-
	<u>5 628 681</u>	<u>3 264 574</u>	<u>4 432 790</u>	<u>2 754 393</u>
Less: Future Finance Obligations	1 195 887	510 181	2 154 968	1 978 854
Present Value of Minimum Lease Obligations	<u>4 432 794</u>	<u>2 754 393</u>	<u>2 277 822</u>	<u>775 539</u>

20 EMPLOYEE BENEFIT LIABILITIES

Post-retirement Health Care Benefits Liability	80 197 999	78 606 999
Long Service Awards Liability	11 504 000	11 610 000
Ex-Gratia Pension	742 000	829 000
Total Employee Benefit Liabilities	<u>92 444 000</u>	<u>91 046 000</u>

20.1 Post-retirement Health Care Benefits Liability

Balance at beginning of Year	78 606 999	72 739 999
Contributions to Provision	2 055 000	5 865 000
Balance at end of Year	<u>82 973 999</u>	<u>80 918 999</u>
Transfer to Current Provisions	(2 776 000)	(2 312 000)
Total Post-retirement Health Care Benefits Liability	<u>80 197 999</u>	<u>78 606 999</u>

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 2017 by One Pangaea Financial 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 members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	406	429
Continuation Members (Retirees, widowers and orphans)	67	63
Total Members	<u>473</u>	<u>492</u>

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

In-service Members	43 147 000	45 905 000
Continuation Members	39 826 999	35 014 000
Total Liability	<u>82 973 999</u>	<u>80 919 000</u>

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

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

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2017
R

2016
R

The Current-service Cost for the year ending 30 June 2017 is estimated to be R4 463 000, whereas the cost for the ensuing year is estimated to be R3 598 000 (30 June 2016: R6 933 000 and R7 793 000 respectively).

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

Discount Rate	9.93%	9.77%
Health Care Cost Inflation Rate	7.29%	7.89%
Net Effective Discount Rate	1.51%	0.81%
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	80 919 000	75 054 000
Current service costs	4 463 000	3 598 000
Interest cost	7 793 000	6 933 000
Benefits paid	(2 312 000)	(2 314 000)
Actuarial losses / (gains)	(7 889 001)	(2 352 000)

Total Recognised Benefit Liability 82 973 999 80 919 000

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

Present value of fund obligations	82 973 999	80 919 000
Unfunded Accrued Liability	<u>82 973 999</u>	<u>80 919 000</u>

Total Benefit Liability 82 973 999 80 919 000

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

Current service cost	4 463 000	3 598 000
Interest cost	7 793 000	6 933 000
Actuarial losses / (gains)	(7 889 001)	(2 352 000)
Adjustment for Short-term Portion from Previous Year	(2 311 999)	(2 314 000)

Total Post-retirement Benefit included in Employee Related Costs (Note 32) 2 055 000 5 865 000

The history of experienced adjustments is as follows:

	2017 R	2016 R	2015 R	2014 R	2013 R
Present Value of Defined Benefit Obligation	82 974 000	80 919 000	75 054 000	69 141 000	69 432 000
Deficit	<u><u>82 974 000</u></u>	<u><u>80 919 000</u></u>	<u><u>75 054 000</u></u>	<u><u>69 141 000</u></u>	<u><u>69 432 000</u></u>

2017
R

2016
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	2 401 000	2 580 000
Effect on the defined benefit obligation	14 427 000	14 829 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(1 897 000)	(1 263 000)
Effect on the defined benefit obligation	(11 603 000)	(11 838 000)

The municipality expects to make a contribution of R7 793 000 (2016: R6 933 000) to the Defined Benefit Plans during the next financial year.

20.2 Long Service Awards Liability

Balance at beginning of year	11 610 000	11 578 000
Contributions to provision	62 000	(367 000)
Balance at end of Year	<u>13 110 000</u>	<u>13 048 000</u>
Transfer to Current Provisions	(1 606 000)	(1 438 000)
Total Long Service Awards Liability	<u><u>11 504 000</u></u>	<u><u>11 610 000</u></u>

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2017 **2016**
R **R**

The long-service bonus is granted to employees after the completion of fixed periods of continuous service with the municipality. The said award comprise 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 2017 may become entitled to in future, based on actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by One Pangaea Financial 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. No other long service benefits are provided by the municipality.

At year end, 818 (2016: 876) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2017 is estimated to be R 1 130 000, whereas the cost for the ensuing year is estimated to be (30 June 2016: R1 185 000 and R1 194 000 respectively).

2017 **2016**
R **R**

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

Discount Rate	8.43%	8.65%
Cost Inflation Rate	6.24%	7.83%
Net Effective Discount Rate	2.06%	0.76%
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	13 048 000	13 415 000
Current service costs	1 130 000	1 185 000
Interest cost	1 066 000	1 194 000
Benefits paid	(243 000)	(1 837 000)
Actuarial losses / (gains)	(1 891 000)	(909 000)

Total Recognised Benefit Liability

13 110 000 **13 048 000**

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

Present value of fund obligations	13 110 000	13 048 000
Unfunded Accrued Liability	13 110 000	13 048 000

Total Benefit Liability

13 110 000 **13 048 000**

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

Current service cost	1 130 000	1 185 000
Interest cost	1 066 000	1 194 000
Actuarial losses / (gains)	(1 891 000)	(909 000)

Total Post-retirement Benefit included in Employee Related Costs (Note 32)

305 000 **1 470 000**

The history of experienced adjustments is as follows:

	2017	2016	2015	2014	2013
	R	R	R	R	R
Present Value of Defined Benefit Obligation	13 110 000	13 048 000	13 415 000	12 825 000	10 820 000
Deficit	<u>13 110 000</u>	<u>13 048 000</u>	<u>13 415 000</u>	<u>12 825 000</u>	<u>10 820 000</u>

2017 **2016**
R **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	11 000	12 000
Effect on the defined benefit obligation	719 000	722 000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	13 000	14 000
Effect on the defined benefit obligation	801 000	995 000

The municipality expects to make a contribution of R1 066 000 (2016: R1 194 000) to the defined benefit plans during the next financial year.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
20.3 Ex-Gratia Pension		
Balance at beginning of year	829 000	837 000
Contributions to provision	(108 000)	10 000
Expenditure incurred	82 000	77 000
Balance at end of Year	803 000	924 000
Transfer to Current Provisions	(61 000)	(95 000)
Total Long Ex-Gratia Liability	742 000	829 000

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 plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by One Pangaea Financial 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.

	R	R
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	9.43%	9.36%
Cost Inflation Rate	6.76%	7.50%
Net Effective Discount Rate	6.60%	7.50%
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	924 000	912 000
Interest cost	82 000	77 000
Benefits paid	(95 000)	(75 000)
Actuarial losses / (gains)	(108 000)	10 000
Total Recognised Benefit Liability	803 000	924 000
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	803 000	924 000
Unfunded Accrued Liability	803 000	924 000
Total Benefit Liability	803 000	924 000
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	-	-
Interest cost	82 000	77 000
Actuarial losses / (gains)	(108 000)	10 000
Benefits Paid		(33 000)
Total Post-retirement Benefit included in Employee Related Costs (Note)	(26 000)	54 000

The history of experienced adjustments is as follows:

	R	R	R	R	R
Present Value of Defined Benefit Obligation	803 000	924 000	912 000	195 000	510 000
Deficit	803 000	924 000	912 000	195 000	510 000

	R	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	8 000	8 000
Effect on the defined benefit obligation	90 000	114 000

KOUGA LOCAL MUNICIPALITY
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	2017	2016
	R	R
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(7 000)	(12 000)
Effect on the defined benefit obligation	(77 000)	(92 000)

The municipality expects to make a contribution of R1 817 210 (: R82 000) to the defined benefit plans during the next financial year.

21 NON-CURRENT PROVISIONS

Provision for Augmentation Fees	52 200	52 200
Provision for Rehabilitation of Land-fill Sites	62 413 610	58 828 770
Total Non-current Provisions	62 465 810	58 880 970

Rehabilitation of Landfill Sites

The municipality has an obligation to rehabilitate its land-fill sites in terms of its licence stipulations. The net present value of the rehabilitation cost of land-fill sites has been determined as at 30 June 2017 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 2017 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

- (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.

Augmentation fees

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

	Augmentation Fees	Land-fill Sites
	R	R
30 June 2017		
Balance at beginning of year	52 200	58 828 770
Increase due to discounting	-	3 431 788
	52 200	62 260 558
Transfer to current provisions	-	153 052
Balance at end of year	52 200	62 413 610
30 June 2016		
Balance at beginning of year	52 200	25 947 857
Increase due to discounting	-	(125 085)
Expenditure incurred	-	35 700 584
	52 200	61 523 356
Transfer to current provisions	-	(2 694 586)
Balance at end of year	52 200	58 828 770

22 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Accumulated Surplus / (Deficit) due to the results of Operations	2 105 303 980	2 099 358 985
Total Accumulated Surplus	2 105 303 980	2 099 358 985

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

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	2017 R	2016 R
23 PROPERTY RATES		
	Actual Levies	
Residential & Commercial	162 917 094	148 234 661
Less: Revenue Foregone - Free Basic Services	(14 842 316)	(12 895 216)
Total Property Rates	<u>148 074 778</u>	<u>135 339 445</u>
23.1 Calculation of Cash Flow:		
Property Rates Income	148 074 778	135 339 445
Opening Balance of Debtors: Assessment Rates	35 572 295	33 444 729
Closing Balance of Debtors: Assessment Rates	(35 163 570)	(35 572 295)
Amounts written-off as uncollectable	(167 907)	8 772 731
Amounts written-off as uncollectable, recovered	-	(451 486)
Total Receipts for Property Rates	<u>148 315 596</u>	<u>141 533 123</u>
<p>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 2013.</p> <p>Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.</p> <p>An general rate is applied as follows to property valuations to determine property rates: Residential Properties: 0,00668052 c/R (2015/16: 0,00612892 c/R) Business Properties: 0,006947744 c/R (2015/16: 0,006254 c/R) Agricultural Properties: 0,00167013 c/R (2015/16: 0,0015635 c/R)</p> <p>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.</p>		
24 FINES		
Traffic Fines	2 019 949	1 850 266
Other Fines	8 531 583	7 947 835
Total Fines	<u>10 551 532</u>	<u>9 798 101</u>
25 LICENCES AND PERMITS		
Vehicle Licenses And Registration	2 743 849	2 190 591
Boat Licenses And Permits	1 860 825	1 418 627
Drivers Licenses	2 023 793	2 082 943
Other Licenses	248 942	373 408
Total Licences and Permits	<u>6 877 409</u>	<u>6 065 570</u>
26 GOVERNMENT GRANTS AND SUBSIDIES		
National Equitable Share	91 622 022	82 099 000
Other Subsidies	1 829 377	6 209 394
Operational Grants	<u>93 451 399</u>	<u>88 308 394</u>
Conditional Grants	<u>50 853 432</u>	<u>79 868 817</u>
National: EPWP	1 057 000	1 000 000
National: FMG	2 425 000	470 449
National: MIG	37 326 000	30 800 000
National: MSIG	-	16 530
National: DWA - Other Capital projects	1 931 618	9 313 484
National: Energy	5 928 623	3 887 985
Provincial: Department Human Settlement	-	33 347 961
Provincial: Department Human Settlement	1 827 891	157 425
Provincial: Department Human Settlement	357 300	874 983
Total Government Grants and Subsidies	<u>144 304 831</u>	<u>168 177 211</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
26.1 Calculation of Cash Flow:		
Government Grants and Subsidies Income	144 304 831	168 177 211
Opening Balance of Unspent Government Grants	(7 841 525)	(5 830 359)
Closing Balance of Unspent Government Grants	6 726 723	7 841 525
Total Receipts for Government Grants and Subsidies	<u>143 190 028</u>	<u>170 188 377</u>
Operational Grants:		
26.2 National: Equitable Share	<u>91 622 022</u>	<u>82 099 000</u>
<p>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 R692 (2016: R692), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 12 kl water and 50 kWh electricity (indigents only) free every month. .</p> <p>An amount of R1 243 022 (R2016: R0) was offset against the equitable share allocation due to underspending of grants by the municipality.</p> <p>Conditional Grants:</p>		
26.3 National: EPWP Grant		
Balance unspent at beginning of year	-	-
Current year receipts	1 057 000	1 000 000
Conditions met - transferred to Revenue: Operating Expenses	(1 057 000)	(1 000 000)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>-</u>	<u>-</u>
<p>The Expanded Public Works Programme Grant was allocated to the municipality for environmental projects. No funds has been withheld.</p>		
26.4 National: FMG Grant		
Balance unspent at beginning of year	1 129 551	-
Current year receipts	1 625 000	1 600 000
Conditions met - transferred to Revenue: Operating Expenses	(2 425 000)	(470 449)
Other Adjustments/Refunds	(329 551)	-
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>1 129 551</u>	<u>-</u>
<p>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. .</p> <p>An amount of R329 551 (R2016: R0) was offset against the equitable share allocation due to underspending of grants by the municipality.</p>		
26.5 National: MIG Funds		
Balance unspent at beginning of year	-	0
Current year receipts	37 326 000	30 800 000
Conditions met - transferred to Revenue: Operating Expenses	(1 516 300)	(1 540 000)
Conditions met - transferred to Revenue: Capital Expenses	(35 809 700)	(29 260 000)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>-</u>	<u>-</u>
<p>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.</p>		
26.6 National: MSIG Funds		
Balance unspent at beginning of year	913 471	1
Current year receipts	-	930 000
Conditions met - transferred to Revenue: Operating Expenses	-	(16 530)
Other Adjustments/Refunds	(913 471)	-
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>-</u>	<u>913 471</u>
<p>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.</p> <p>An amount of R913 471 (R2016: R0) was offset against the equitable share allocation due to underspending of grants by the municipality.</p>		
26.7 National: Department of economic development		
Balance unspent at beginning of year	65 500	65 500
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>65 500</u>	<u>65 500</u>
<p>No funds have been withheld.</p>		

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
26.8 National: Department Water Affairs (DWA) - Other Capital Projects		
Balance unspent at beginning of year	-	550 000
Current year receipts	1 931 618	8 763 484
Conditions met - transferred to Revenue: Operating Expenses	(1 931 618)	-
Conditions met - transferred to Revenue: Capital Expenses	-	(9 313 484)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>-</u>	<u>0</u>
<p>This grant was received for the maintenance of water schemes within the district. No funds have been withheld.</p>		
26.9 National: Department Energy		
Balance unspent at beginning of year	212 015	-
Current year receipts	6 000 000	4 100 000
Conditions met - transferred to Revenue: Operating Expenses	(5 928 623)	(3 887 985)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>263 392</u>	<u>212 015</u>
<p>Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds have been withheld.</p>		
26.10 Provincial: Department Human Settlements (Infrastructure)		
Balance unspent at beginning of year	-	-
Current year receipts	-	33 516 211
Conditions met - transferred to Revenue: Capital Expenses	-	(33 347 961)
Other Adjustments/Refunds	-	(168 250)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>-</u>	<u>-</u>
<p>This grant is for the building of low cost housing. The municipality is only the agent of the department of human settlements for the construction of low cost houses. No funds have been withheld.</p>		
26.11 Local Government: SBDM		
Balance unspent at beginning of year	157 000	157 000
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>157 000</u>	<u>157 000</u>
<p>This grant was allocated to assist the municipality to set up a Call Centre. No funds have been withheld.</p>		
26.12 Provincial: Department Human Settlement (Houses)		
Balance unspent at beginning of year	5 013 639	4 460 928
Current year receipts	2 426 025	710 136
Conditions met - transferred to Revenue: Capital Expenses	(1 827 891)	(157 425)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>5 611 773</u>	<u>5 013 639</u>
<p>This grant is for the building of low cost housing. The municipality is only the agent of the department of human settlements for the construction of low cost houses. No funds have been withheld.</p>		
26.13 Provincial: Department Provincial Local Government and Housing (DPLG&H)		
Balance unspent at beginning of year	-	-
Current year receipts	357 300	874 983
Conditions met - transferred to Revenue: Operating Expenses	(357 300)	(874 983)
Conditions still to be met - transferred to Liabilities (see Note 17)	<u>-</u>	<u>-</u>
26.14 Changes in levels of Government Grants		
<p>Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2017), government grant funding is expected to increase over the forthcoming three financial years.</p>		
27 PUBLIC CONTRIBUTIONS AND DONATIONS		
Public Contributions and Donations:		
Other Donations	4 000	118 424
Total Public Contributions and Donations	<u>4 000</u>	<u>118 424</u>
28 SERVICE CHARGES		
Sale of Electricity	242 106 691	234 162 285
Sale of Water	39 607 926	37 380 339
Refuse Removal	53 035 864	48 735 384
Sewerage and Sanitation Charges	41 827 973	40 540 705
Other Service Charges	(38 322 133)	(34 273 206)
Total Service Charges	<u>338 256 321</u>	<u>326 545 507</u>
28.1 Calculation of Cash Flow:		
Service Charges Income	338 256 321	326 545 507
Opening Balance of Debtors: Service Charges	121 544 273	109 176 025
Closing Balance of Debtors: Service Charges	(124 533 889)	(121 544 273)
Amounts written-off as uncollectable	(6 125 555)	4 911 566
Amounts written-off as uncollectable, recovered	-	2 419 629
Total Receipts for Service Charges	<u>329 141 149</u>	<u>321 508 454</u>
<p>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.</p>		
29 RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Amenities	12 565	9 000
Rental Revenue from Buildings	217 082	180 011
Rental Revenue from Halls	181 490	176 831
Rental Revenue from Land	88 743	82 177
Rental Revenue from Other Facilities	1 005 770	296 330
Total Rental of Facilities and Equipment	<u>1 505 650</u>	<u>744 348</u>
<p>Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.</p>		

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017
R

2016
R

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
30 INTEREST EARNED		
External Investments:		
Bank Account	1 086 277	488 743
Other Deposits	6 689 851	4 542 565
	<u>7 776 128</u>	<u>5 031 308</u>
Outstanding Debtors:		
Outstanding Billing Debtors	8 144 334	3 306 788
	<u>8 144 334</u>	<u>3 306 788</u>
Total Interest Earned	<u>15 920 462</u>	<u>8 338 097</u>
30.1 Calculation of Cash Flow:		
External Interest Income	7 776 128	5 031 308
Total Receipts for Interest Received	<u>7 776 128</u>	<u>5 031 308</u>
Interest Earned on Financial Assets, analysed by category of asset, is as follows:		
Available-for-Sale Financial Assets	1 086 277	488 743
Held-to-Maturity Investments	6 689 851	4 542 565
Loans and Receivables	8 144 334	3 306 788
	<u>15 920 462</u>	<u>8 338 097</u>

31 OPERATIONAL REVENUE

Augmentation Fees	307 912	2 168 743
Building Plan Fees	1 676 306	1 335 572
Caravan Park Fees	2 040 875	2 017 752
Cemetery Fees	431 045	388 775
Conversion Fees	1 748 082	1 613 508
Insurance Claims	2 208 211	-
Prints	7 363	11 121
Sundry Income	3 507 966	2 740 671
Tender Documents	48 105	78 309
Town Planning Fees	590 174	328 094
Total Operational Revenue	<u>12 566 040</u>	<u>10 682 545</u>
31.1 Calculation of Cash Flow:		
Income from Operational Revenue	12 566 040	10 682 545
Income from Interest on Outstanding Debtors	8 144 334	3 306 788
Income from Rental of Facilities and Equipment	1 505 650	744 348
Income from Licences and Permits	6 877 409	6 065 570
Income from Fines	10 551 532	9 798 101
Opening Balance of Debtors: Non-exchange Transactions	55 821 289	52 919 675
Opening Balance of Debtors: Assessment Rates	(35 572 295)	(33 444 729)
Closing Balance of Debtors: Non-exchange Transactions	(61 871 821)	(55 821 289)
Closing Balance of Debtors: Assessment Rates	35 163 570	35 572 295
Opening Balance of Operating Lease Receivables	278 803	249 227
Closing Balance of Operating Lease Receivables	(281 727)	(278 803)
Opening Balance of Current Portion of Long-term Receivables	3 000	7 742
Closing Balance of Current Portion of Long-term Receivables	(3 000)	(3 000)
Opening Balance of Consumer Deposits	(9 590 330)	(8 592 611)
Closing Balance of Consumer Deposits	10 273 091	9 590 330
Total Receipts for Operational Revenue	<u>33 865 546</u>	<u>30 796 189</u>

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 23 to 29, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
32 EMPLOYEE RELATED COSTS		
Employee Related Costs - Salaries and Wages	152 515 791	150 714 416
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	45 857 833	47 932 593
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	15 672 564	15 615 222
Housing Benefits and Allowances	1 899 062	2 310 598
Overtime Payments	11 958 037	11 488 603
Performance Bonuses	<u>139 866</u>	<u>685 121</u>
Total Employee Related Costs	<u>228 043 152</u>	<u>228 746 553</u>

32.1 Calculation of Cash Flow:

Employee Related Costs Expenditure	228 043 152	228 746 553
Opening Balance of Employee Benefit Liabilities	91 046 000	84 318 000
Closing Balance of Employee Benefit Liabilities	(92 444 000)	(91 046 000)
Opening Balance of Provision for Performance Bonuses	678 671	550 316
Closing Balance of Provision for Performance Bonuses	(898 174)	(678 671)
Opening Balance of Provision for Long-term Service	1 438 000	1 837 000
Closing Balance of Provision for Long-term Service	(1 606 000)	(1 438 000)
Opening Balance of Post-retirement Benefits	2 312 000	2 314 000
Closing Balance of Post-retirement Benefits	(2 776 000)	(2 312 000)
Total Payments for Employee Related Costs	<u>225 793 649</u>	<u>222 291 197</u>

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

Remuneration of Section 56/57 Employees:

Remuneration of the Municipal Manager

Annual Remuneration	1 085 650	1 004 392
Performance Bonus	75 128	-
Car and Other Allowances	159 172	181 523
Leave Encashment - contract expired	88 956	-
Company Contributions to UIF, Medical and Pension Funds	<u>17 885</u>	<u>12 608</u>
Total	<u>1 426 791</u>	<u>1 198 523</u>

Remuneration of the Chief Financial Officer

Annual Remuneration	1 058 333	583 333
Performance Bonus	33 367	-
Car and Other Allowances	100 000	58 333
Cellphone Allowance	14 250	-
Company Contributions to UIF, Medical and Pension Funds	<u>16 402</u>	<u>13 176</u>
Total	<u>1 222 352</u>	<u>654 842</u>

Remuneration of the Acting Chief Financial Officer

Acting Allowance	-	46 825
	<u>-</u>	<u>46 825</u>

Remuneration of the Director: Social Services

Annual Remuneration	936 350	920 023
Car and Other Allowances	144 000	144 000
Company Contributions to UIF, Medical and Pension Funds	<u>15 392</u>	<u>17 391</u>
Total	<u>1 095 742</u>	<u>1 081 414</u>

Remuneration of the Director: Administration, Monitoring and Evaluation

Annual Remuneration	984 350	923 198
Performance Bonus	178 200	-
Car and Other Allowances	113 796	110 408
Arbitration Award	264 387	-
Company Contributions to UIF, Medical and Pension Funds	<u>15 488</u>	<u>13 580</u>
Total	<u>1 556 221</u>	<u>1 047 186</u>

Remuneration of the Director: Infrastructure, Planning and Development

Annual Remuneration	984 350	923 198
Car and Other Allowances	96 630	96 000
Company Contributions to UIF, Medical and Pension Funds	<u>14 118</u>	<u>18 325</u>
Total	<u>1 095 097</u>	<u>1 037 523</u>

Remuneration of the Acting Director: Infrastructure, Planning and Development

Acting Allowance	33 044	168 985
	<u>33 044</u>	<u>168 985</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	R	R
Remuneration of the Director: Local Economic Development, Tourism and Creative Industries		
Annual Remuneration	984 350	923 198
Performance Bonus	129 869	-
Car and Other Allowances	100 731	96 000
Company Contributions to UIF, Medical and Pension Funds	15 488	14 877
Total	1 230 438	1 034 075
33 REMUNERATION OF COUNCILLORS		
Mayor	590 296	568 509
Speaker	472 235	454 808
Executive Committee Members	2 656 332	2 558 295
Councillors	3 885 919	3 627 081
Company Contributions to UIF, Medical and Pension Funds	189 311	178 228
Other Allowances (Cellular Phones, Housing, Transport, etc)	3 354 905	3 153 244
Total Councillors' Remuneration	11 101 213	10 513 662
Remuneration of Councillors:		
<i>In-kind Benefits</i>		
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.		
34 DEPRECIATION AND AMORTISATION		
Depreciation and Amortisation:		
Amortisation: Intangible Assets	42 386	97 760
Depreciation: Property, Plant and Equipment	70 465 873	63 184 680
Total Depreciation and Amortisation	70 508 259	63 282 440
35 IMPAIRMENT LOSSES		
35.1 Impairment Losses on Fixed Assets and Financial Assets		
Impairment Losses Recognised:	24 779 495	22 593 439
	24 779 495	22 593 439
36 REPAIRS AND MAINTENANCE		
Land and Buildings	1 115 481	643 951
Infrastructure - Electricity	11 694 137	10 814 284
Infrastructure - Road Transport	5 037 705	4 788 158
Infrastructure - Sanitation	1 173 348	1 049 990
Infrastructure - Water	346 153	230 175
Infrastructure - Other	3 591 144	3 316 002
Other Assets	10 242 292	7 649 563
Intangible Assets	887 217	1 123 782
Total Repairs and Maintenance	34 087 476	29 615 905
37 FINANCE COSTS		
Creditors Overdue	5 839 908	864 109
Landfill Provision	3 875 971	-
Loans and Payables at amortised cost	4 461 657	7 357 841
Operating Leases	1 283 107	905 562
Total Interest Paid on External Borrowings	15 460 643	9 127 512
37.1 Calculation of Cash Flow:		
Finance Cost Expenditure	15 460 643	9 127 512
Total Payments for Finance Costs	15 460 643	9 127 512
38 BULK PURCHASES		
Electricity	185 413 050	171 711 422
Water	35 205 001	32 297 408
Total Bulk Purchases	220 618 051	204 008 829
39 OPERATIONAL COSTS		
Included in Operational Costs are the following:		
Advertising	747 843	369 112
Bank Charges	826 265	638 540
Chemicals & Poison	2 596 336	2 114 296
Clean Up Operation	(287 154)	(198 248)
Cleaning Material	501 167	472 343
Congress & Delegates Expenses	660 360	605 741
Connection Fees	359 560	565 070
Disaster Expenditure	200 278	126 592
Entertainment	195 784	137 491
Expenditure Incurred From Finance Management Grant	1 456 132	169 684
External Audit Fees	4 240 533	3 415 903
Fuel (Small Plant)	582 726	577 887
Other Expenses	26 518 473	18 673 492
Hire Of Facilities & Equipment	1 418 771	1 332 943
Idp Review	714	-

KOUGA LOCAL MUNICIPALITY
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	2017	2016
	R	R
Insurance	2 416 705	1 993 605
Inventory Items	146 731	42 392
Laboratorium Tests/Analysis	403 343	260 763
Lease Charges	628 873	47 844
Legal Cost	4 099 798	2 054 910
Licences	687 053	690 874
Mayoral Special Programmes	384 437	170 559
Network Connection	26 908	570 480
Planning Fees	468 345	508 864
Postage & Telegrams	1 109 802	1 364 791
Printing And Stationery	666 306	621 395
Refuse Bins/Bags	723 084	612 934
Security	516 859	485 745
St Francis Beach Rehabilitation	-	1 213 453
Statutory Obligations	2 238 873	-
Stock Shortages/Surpluses	32 255	(1 562)
Telephone Cost	3 651 174	3 418 249
Tourism Strategy	65 000	265 000
Training	199 984	135 102
Transport Cost	5 465 990	5 932 625
Uniforms & Protective Clothing	1 069 741	912 325
Valuation Costs	120 479	498 852
Ward Committee Management	312 589	104 409
Website Hosting	7 200	-
Total General Expenses	<u>65 459 316</u>	<u>50 904 456</u>

39.1 Calculation of Cash Flow:

Expenditure for General Expenses	Note 39	65 459 316	50 904 456
Opening Balance of Provision: Cleaning of Illegal Dumping	Note 14	14 293 355	12 133 593
Closing Balance of Provision: Cleaning of Illegal Dumping	Note 14	(14 561 561)	(14 293 355)
Opening Balance of Provision: Cleaning of Illegal Dumping	Note 14	95 000	75 000
Closing Balance of Provision: Cleaning of Illegal Dumping	Note 14	-	(95 000)
Opening Balance of Provision: Clearing of Alien Vegetation	Note 14	597 604	795 852
Closing Balance of Provision: Clearing of Alien Vegetation	Note 14	-	(597 604)
Opening Balance of Provision: Rehabilitation of Landfill Sites	Note 14	2 694 586	12 175 921
Closing Balance of Provision: Rehabilitation of Landfill Sites	Note 14	(62 465 810)	(2 694 586)
Opening Balance of Payables: Non-exchange Transactions	Note 16	17 316 019	14 107 899
Closing Balance of Payables: Non-exchange Transactions	Note 16	(17 914 063)	(17 316 019)
Opening Balance of Non-current Provisions	Note 21	58 880 970	25 947 857
Closing Balance of Non-current Provisions	Note 21	(62 465 810)	(58 880 970)
Total for Other Payments		<u>1 929 607</u>	<u>22 263 043</u>

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

No other extra-ordinary expenses were incurred.

40 GAINS / LOSSES ON DISPOSAL OF CAPITAL ASSETS

Proceeds on Sale of Assets	(2 058 422)	26 553
Total Gains / Losses on Disposal of Capital Assets	<u>(2 058 422)</u>	<u>26 553</u>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
41 CORRECTION OF ERROR		
Corrections were made during the previous financial years. Details of the corrections are described below:		
41.1 Reclassification of Accumulated Surplus		
The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.		
The effect of the changes are as follows:		
		Accumulated Surplus
Statement of Financial Position:		
Balances published as at 30 June 2015		2 386 776 416
Correction of Error:-		
Intangible Assets accumulated depreciation prior period balance has been adjusted - Note 10	(302)	
Investment Property prior period balance has been reclassified between owner occupied and leased properties - Note 11	196 040 301	
Property, Plant and Equipment prior period balance has been corrected to recognise properties of the municipality not previously included in the asset register - Note 9	(525 828 527)	
Adjustment for prior period error on accruals previously not accounted for - Note 15	<u>(4 671 909)</u>	(334 460 437)
Restated Balances as at 30 June 2015		2 052 315 979
Statement of Financial Performance		
Transactions incurred for the Year 2015/16		23 880 031
Correction of Error:-		
Adjustment for depreciation of Infrastructure Assets - Note 34	24 009 100	
Adjustment for Subsistence & Travelling (Officials) - Note 32	(67 590)	
Adjustment for Repairs and Maintenance on Plant/Machinery - Note 36	(2 795)	
Adjustment for Repairs and Maintenance on Infrastructure Other - Note 36	(30 155)	
Adjustment for Repairs and Maintenance on Vehicles - Note 36	(186)	
Adjustment for Eskom Bulk Electricity Account - Note 38	(600)	
Adjustment for Operating Costs - Note 39	<u>(744 800)</u>	23 162 975
Restated Balances as at 30 June 2016		2 099 358 984

41.2 Reclassification of Expenditure

The prior year figures of Expenditure Classes have been restated to correctly classify the nature of Expenditure of the municipality.

The effect of the Correction of Error is as follows:

		Prior Year 2015/16 Expenditure	Current Year 2015/16 Expenditure	Restated Amount
Employee Related Costs	32	228 678 963	228 746 553	-67 590
Remuneration of Councillors	33	10 513 662	10 513 662	-
Depreciation and Amortisation	34	87 291 540	63 282 440	24 009 100
Impairment Losses	35	22 593 439	22 593 439	0
Repairs and Maintenance	36	29 582 769	29 615 905	-33 136
Finance Costs	37	9 127 512	9 127 512	0
Bulk Purchases	38	204 008 229	204 008 829	-600
Operational Costs	39	50 159 656	50 904 456	-744 800
Surplus / (Deficit) for the Year		23 880 031	47 043 006	-23 162 975
		<u>665 835 801</u>	<u>665 835 801</u>	<u>(0)</u>

Prior year amounts of items in **Expenditure** included in the Statement of Financial Performance have been restated as indicated below:

Employee Related Costs:

The employee related costs have been adjusted to correctly reflect subsistence & travelling allowances for the municipal officials.

Depreciation and Amortisation:

The prior year amounts for *Depreciation & Amortisation* and Property, Plant & Equipment have been restated to correctly disclose the depreciation for Infrastructure Assets, previously not accounted for.

Furthermore, the prior year amounts for *Depreciation & Amortisation* and Property, Plant & Equipment have been restated to correctly disclose the depreciation for Infrastructure Assets from WIP, previously not capitalised.

Repairs and Maintenance:

The prior year amounts for *Repairs & Maintenance* have been restated to correctly disclose the expenditure for Repairs and Maintenance which was not accrued for.

Bulk Purchases:

The bulk purchases relate to Eskom Bulk Account previously not accrued for.

General Expenses:

The prior year general expenses adjustments relate to accruals previously not accounted for.

41.3 Reclassification of Statement of Financial Position

The prior year figures of Classes in the Statement of Financial Position have been restated to correctly classify the nature of Assets, Liabilities and Net Assets of the municipality.

The effect of the Correction of Error is as follows:

		Prior Year 2015/16 Balance	Current Year 2015/16 Balance	Restated Amount
Current Assets				
Inventories	2	5 433 902	5 433 902	-
Receivables from Exchange Transactions	3	48 615 571	48 615 571	-
Receivables from Non-exchange Transactions	4	29 302 917	30 282 085	(979 168)
VAT Receivable	5	4 353 896	4 381 953	(28 057)
Cash and Cash Equivalents	6	78 573 452	78 573 452	-
Operating Lease Receivables	7	278 803	278 803	-
Current Portion of Long-term Receivables	8	3 000	3 000	-
Non-Current Assets				
Property, Plant and Equipment	9	2 532 215 227	2 029 018 596	503 196 631

KOUGA LOCAL MUNICIPALITY
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			2017 R	2016 R
Intangible Assets	10	158 583	146 584	11 999
Investment Property	11	85 381 710	282 226 771	(196 845 061)
Long-term Receivables	12	167 601	167 601	-
Current Liabilities				
Consumer Deposits	13	(9 590 330)	(9 590 330)	-
Provisions	14	(31 715 636)	(22 109 217)	(9 606 420)
Payables from Exchange Transactions	15	(122 966 569)	(127 745 017)	4 778 447
Payables from Non-exchange Transactions	16	(16 153 347)	(17 316 019)	1 162 672
Unspent Conditional Grants and Receipts	17	(7 841 525)	(7 841 525)	-
Current Portion of Long-term Liabilities	19	(7 735 833)	(7 735 833)	0
Non-Current Liabilities				
Long-term Liabilities	19	(37 504 424)	(37 504 424)	(1)
Retirement Benefit Liabilities	20	(79 435 999)	(91 046 000)	11 610 000
Non-current Provisions	21	(60 884 551)	(58 880 970)	(2 003 581)
Net Assets				
Accumulated Surplus / (Deficit)	22	(2 410 656 447)	(2 099 358 985)	(311 297 463)
		<u>0</u>	<u>1</u>	<u>(1)</u>

Opening balances and prior year amounts of items in the Statement of Financial Position have been restated as indicated below:

Receivables from Non-exchange Transactions:

The opening balance of *Receivables from Non-exchange Transactions* have been restated to correctly disclose the amount for sundry debtors, previously recognised in Non-exchange Payables.

Furthermore, the opening balances of *Receivables from Non-exchange Transactions* have been restated to correctly disclose the amount for retentions on upgrade of electricity infrastructure project paid out at year-end, previously recognised in Non-exchange Receivables.

VAT Receivable

The opening balances of *VAT Receivable* have been restated to correctly disclose the amount for VAT.

Property, Plant and Equipment and Investment Property:

The prior period balance relating to Property Plant & Equipment (Land & Buildings) and Investment Property (Land & Buildings) has been corrected for classification errors identified between owner occupied and leased properties.

The prior period balance has also been corrected to recognise properties of Kouga Local Municipality not previously included in the asset register for which Kouga Local Municipality either owns per Deeds, exercises control and/or reflect Kouga as owner/debtor per Valuation Roll. This excludes RDP housing.

In addition, for all properties, Property Plant and Equipment (Buildings) and Investment Property (Buildings) a correction relating to residual values has been implemented. Residual values were previously estimated as zero but have now been corrected and re-estimated to the Market Value per the Valuation Roll. This resulted in restatements of accumulated depreciation on all buildings previously depreciated.

Other assets have been restated for assets verified at the end of the 2016/17 financial year but that were never included in the asset register previously. Costs were deemed for these assets as part of the restatement for take on and were then depreciated.

Infrastructure and Work in Progress balances were restated. Work in progress was corrected for payments included in error not of a capital nature as well as payments for projects not previously included in the balance of Work in Progress. The restatement also includes capitalisation of projects to infrastructure that were complete in previous years but were never transferred to Infrastructure. Furthermore, completeness issues were identified on roads, stormwater, street lights and high mast lights. These were restated with costs being deemed per GRAP requirements and depreciated.

Intangible Assets:

Intangible Assets accumulated depreciation prior period balance has been adjusted to reflect the correct carrying value of Intangible Assets as per Asset Register.

Provisions:

The opening balance of *Provisions* has been reclassified to Employee Retirement Benefit Liabilities in compliance with GRAP 25.

Payables from Exchange Transactions:

The opening balances of *Payables from Exchange Transactions* have been restated to correctly disclose the liability for Workmen's Compensation Insurance, previously not assessed and accrued for.

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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Payables from Non-exchange Transactions:

The **opening balance** of Payables from Non-exchange Transactions have been restated to correctly disclose the amount for sundry debtors, previously recognised in Non-exchange Payables.

Retirement Benefit Liabilities:

The **opening balances** of Retirement Benefit Liabilities have been restated to correctly disclose the amount for Long-Service Bonus in terms of GRAP 25, previously recognised as a non-current provision and provisions.

Non-current Provisions:

The **opening balances** of Non-current Provisions have been reclassified to Retirement Benefit Liabilities in compliance with GRAP 25.

42 CHANGE IN ACCOUNTING ESTIMATES

Property, Plant and Equipment

The useful life of certain items of Property, Plant and Equipment were revised during the current financial year. The effect of the revision has decreased the depreciation charge in the current financial years by R3,380,719 and changed the depreciation in the future period as set out in the below table.

	Change in Estimate 2017	Change in Estimate 2018	Change in Estimate 2019	Change in Estimate 2020	Change in Estimate 2021
PPE	(R 3 380 719)	(R 3 143 181)	R 1 496 646	R 2 732 658	R 2 611 644

Intangibles

The useful life of certain items of Intangible Assets were revised during the current financial year. The effect of the revision has decreased the depreciation charge in the current financial years by R27,063 and changed the depreciation in the future period as set out in the below table.

	Change in Estimate 2017	Change in Estimate 2018	Change in Estimate 2019	Change in Estimate 2020	Change in Estimate 2021
Intangibles	R -27 063	(R 6 990)	R 11 351	R 11 351	R 11 351

KOUGA LOCAL MUNICIPALITY
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	2017 R	2016 R
43 CASH GENERATED BY OPERATIONS		
Surplus / (Deficit) for the Year	5 944 995	47 043 006
Adjustment for:		
Depreciation and Amortisation	70 508 259	63 282 440
Impairment Losses on Property, Plant and Equipment	967 177	-
Losses / (Gains) on Disposal of Property, Plant and Equipment	2 058 422	(26 553)
Other Movement on Property, Plant and Equipment	(13 862 438)	-
Contribution to Post-retirement Health Care Benefits	4 366 999	8 179 000
Expenditure incurred from Post-retirement Health Care Benefits	(2 312 000)	(2 314 000)
Contribution to Long Service Awards Liability	62 000	(367 000)
Expenditure incurred from Long Service Awards Liability	(1 438 000)	(1 837 000)
Contribution to Provisions - Current	-	2 159 762
Expenditure incurred from Provisions - Current	219 503	128 355
Expenditure incurred from Provisions - Non-current	-	35 700 584
Contribution to Impairment Provision	19 151 156	-
Bad Debts Recovered	-	1 968 143
Bad Debts Written-off	(6 293 462)	13 684 296
Operating surplus before working capital changes	79 372 612	167 601 033
Decrease/(Increase) in Inventories	481 538	(1 116 877)
Decrease/(Increase) in Receivables from Exchange Transactions	(2 989 616)	(12 368 248)
Decrease/(Increase) in Receivables from Non-exchange Transactions	(6 050 532)	(2 901 614)
Decrease/(Increase) in VAT Receivable	(6 906 860)	1 698 781
Decrease/(Increase) in Operating Lease Assets	(2 924)	(29 576)
Decrease/(Increase) in Current Portion of Long-term Receivables	-	4 742
Increase/(Decrease) in Consumer Deposits	682 761	997 719
Increase/(Decrease) in Payables from Exchange Transactions	(15 938 219)	12 175 266
Increase/(Decrease) in Payables from Non-exchange Transactions	598 043	3 208 120
Increase/(Decrease) in Conditional Grants and Receipts	(1 114 802)	2 011 166
Cash generated by / (utilised in) Operations	48 132 002	171 280 511

68 NON-CASH INVESTING AND FINANCING TRANSACTIONS

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2016/17 financial year.

44 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities (see note 19)	41 167 098	45 240 257
Used to finance Property, Plant and Equipment	(41 167 098)	(45 240 257)
	<u>-</u>	<u>-</u>

45 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

45.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:		
Opening balance	366 051 750	366 051 750
Unauthorised Expenditure current year	-	-
Approved by Council or condoned	(288 031 664)	-
Unauthorised Expenditure awaiting authorisation	<u>78 020 086</u>	<u>366 051 750</u>

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted votes exceeded:-</i>	
- Executive & Council - R 0 (2016: R0)	None
- Financial Services - R0 (2016: R0)	None
- Administration, Monitoring & Evaluation - R0 (2016: R0)	None
- Led, Tourism & Creative Industries - R 0 (2016: R0)	None
- Infrastructure, Planning & Development - R0 (2016: R0)	None
- Social Services - R0 (2016: R0)	None
2009/10	
The 2009/2010 approved budget was over spent by R 78,020,086	Currently None - subject to possible future investigation

45.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:		
Opening balance	34 805 555	33 941 446
Fruitless and Wasteful Expenditure current year	502 382	864 109
Fruitless and Wasteful Expenditure awaiting condonement	<u>35 307 936</u>	<u>34 805 555</u>

Incident	Amount	Disciplinary Steps / Criminal Proceedings
2008/2009:		
Interest on late payment of trade creditors	347 882	Currently None - subject to possible future investigation
Penalty on the late submission of the Employer Reconciliation Declaration (EMP501)	1 108 679	Currently None - subject to possible future investigation
Payments made to directors while on suspension for more than six months	1 500 000	Currently None - subject to possible future investigation
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.	510 000	Currently None - subject to possible future investigation
2009/2010:		
Interest on overdue accounts 2009/10	638 116	Currently None - subject to possible future investigation
Prolonged staff suspension	1 165 345	Currently None - subject to possible future investigation
2010/2011:		
Interest on late payment of trade creditors	2 268 205	Currently None - subject to possible future investigation
Payments made to directors while on suspension for more than six months	1 615 732	Currently None - subject to possible future investigation
Prolonged staff suspension (Mr. F. Dennis)	1 000 416	Currently None - subject to possible future investigation
2011/2012:		

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
<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>

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
Legal cost due to unfair dismissal of Mr Fred Dennis	1 500 000	Currently None - subject to possible future investigation
2012/2013:		
Interest and penalties on late payment of trade creditors (Including SARS accounts)	9 447 636	Currently None - subject to possible future investigation
2013/2014:		
Interest and penalties on late payment of trade creditors (Including SARS accounts)	2 305 973	Currently None - subject to possible future investigation
2014/2015:		
Interest and penalties on late payment of trade creditors (Including SARS accounts)	2 502 234	Currently None - subject to possible future investigation
Salary erroneously paid to former employee after his services were terminated.	1 958	Currently None - subject to possible future investigation
	2 504 192	
2015/2016:		
Interest and penalties on late payment of trade creditors	864 109	Currently None - subject to possible future investigation
2016/2017:		
Interest and penalties on late payment of trade creditors	502 382	Currently None - subject to possible future investigation

45.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	82 412 919	81 632 904
Irregular Expenditure current year	-	780 015
Irregular Expenditure awaiting condonement	82 412 919	82 412 919

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
	760 036	
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
	26 332 873	
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
	4 862 690	
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
	15 967 181	

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

	2017 R	2016 R
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	
2014/2015:		
Supply chain compliance not followed	24 681	Currently None - subject to possible future investigation
	24 681	
2015/2016:		
Supply chain compliance not followed	260 306	Currently None - subject to possible future investigation
HR recruitment processes not followed	244 596	Currently None - subject to possible future investigation
Acting directors acted for more than 3 months	215 810	Currently None - subject to possible future investigation
Supply chain compliance not followed	59 303	Currently None - subject to possible future investigation
	780 015	

46 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

46.1 Contributions to organised local government - SALGA

Opening Balance	-	2 167 250
Council Subscriptions	2 238 873	-
Amount Paid - current year	(2 238 873)	(2 167 250)
Balance Unpaid (included in Creditors)	-	-

46.2 Audit Fees

Opening Balance	2 307 621	4 336 647
Current year Audit Fee	4 240 533	2 307 621
Amount Paid - current year	(5 738 997)	(4 336 647)
Balance Unpaid (included in Creditors)	809 157	2 307 621

46.3 VAT

The net of VAT input payables and VAT output receivables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.

46.4 PAYE, Skills Development Levy and UIF

Opening Balance	2 518 209	-
Current year Payroll Deductions	28 400 250	28 417 853
Amount Paid - current year	(30 918 459)	(25 899 644)
Balance Unpaid (included in Creditors)	-	2 518 209

46.5 Pension and Medical Aid Deductions

Opening Balance	-	2 457 688
Current year Payroll Deductions and Council Contributions	53 183 020	52 192 038
Amount Paid - current year	(53 183 020)	(54 649 726)
Balance Unpaid (included in Creditors)	-	-

46.6 Councillor's arrear Consumer Accounts

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

30 June 2017	Outstanding more than 90 days
Councillor Rheeder	-
Councillor Campher	37 659
Councillor Februarie	115 934
Councillor Mayoni	-
Total Councillor Arrear Consumer Accounts	153 593
30 June 2016	Outstanding more than 90 days
Councillor Kettleidas	3 794
Councillor Campher	30 603
Councillor Baxter	15
Total Councillor Arrear Consumer Accounts	34 412

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017 2016
R R

46.7 Non-Compliance with the Municipal Finance Management Act
No known matters existed at reporting date.

46.8 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	Date	Successful Tenderer	Reason	Amount
Finance	Year 2016/17	Various Occasions (96)	Various reasons such as impracticality/ urgency/ Preferred supplier/ Original Equipment Manufacturer	5 896 775.49
96 Occasions during the financial year procuring various services amounting to R5,896,775.49				
Infrastructure, Planning & Development	Year 2016/17	Various Occasions (24)	Various reason such as impracticality/ urgency/ Preferred supplier	3 583 803.39
24 Occasions during the financial year procuring various services amounting to R3,583,803.39				
Administration, Monitoring & Evaluation	Year 2016/17	Various Occasions (53)	Various reason such as impracticality/ urgency/ Preferred supplier	4 418 572.36
53 Occasions during the financial year procuring various services amounting to R4,418,572.36				
Social Services	Year 2016/17	Various Occasions (10)	Various reason such as Sole Supplier authorised by govt departments/ impracticality/ urgency/	592 222.65
25 Occasions during the financial year procuring various services amounting to R592,222.65				
				14 491 373.89

46.9 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 2017	Unaccounted Electricity Losses	<u>24 686 049</u>	<u>0.7862</u>	<u>19 408 172</u>
30 June 2016	Unaccounted Electricity Losses	<u>10 681 244</u>	<u>0.9700</u>	<u>10 323 210</u>

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.

	2017 R	2016 R
Volumes in kWh/year:		
System Input Volume	206 284 079	198 692 285
Billed Consumption	181 598 030	(172 115 658)
Distribution Loss	24 686 049	15 895 383
Percentage Distribution Loss	11.97%	4.62%

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

		2017	2016
		R	R
Water:			
		Lost Units	Tariff
			Value
30 June 2017	Unaccounted Water Losses	4 958 704	5.7400
			28 462 961
30 June 2016	Unaccounted Water Losses	3 785 682	5.2700
			19 950 544

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/repaired as soon as they are reported.

		2017	2016
		R	R
Volumes in KI/year:			
System Input Volume		9 471 235	9 803 846
Billed Consumption		(4 290 952)	(6 018 164)
Distribution Loss		5 180 283	3 785 682
Percentage Distribution Loss		52.36%	38.61%

47 COMMITMENTS FOR EXPENDITURE

47.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-

	29 570 368	51 178 661
Infrastructure	10 339 561	50 118 070
Community	9 117 221	1 060 591
Finance	10 113 586	-

Total Capital Commitments

29 570 368	51 178 661
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This expenditure will be financed from:

Internal Funding	29 570 368	51 178 661
	29 570 368	51 178 661

47.2 Lease Commitments

Finance Lease Liabilities and Non-cancellable Operating Lease Commitments are disclosed in Notes 18 and 19.

47.3 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.

48 FINANCIAL INSTRUMENTS

48.1 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>		
Long-term Receivables			
Debtors Capitalised Loans	Amortised cost	(214 710)	(126 231)
Study Cost Loans	Amortised cost	79 122	175 343
Receivables from Exchange Transactions			
Electricity	Amortised cost	18 540 058	24 712 027
Refuse	Amortised cost	554 213	1 023 679
Sewerage	Amortised cost	2 172 425	2 540 942
Water	Amortised cost	5 944 016	5 743 790
Other Receivables	Amortised cost	15 348 068	14 595 134
Receivables from Non-exchange Transactions			
Assessment Rates Debtors	Amortised cost	17 574 176	17 044 546
Sundry Deposits	Amortised cost	-	-
Sundry Debtors	Amortised cost	13 331 323	12 042 687
Suspense Accounts	Amortised cost	1 709 209	1 164 022
Cash and Cash Equivalents			
Call Deposits	Amortised cost	78 566 856	75 798 167
Bank Balances	Amortised cost	5 694 930	2 783 364
Cash Floats and Advances	Amortised cost	(8 079)	(8 079)
Current Portion of Long-term Receivables			
Debtors Capitalised Loans	Amortised cost	-	-
Sale of Stand Loans	Amortised cost	14 371	7 742
Study Cost Loans	Amortised cost	3 000	3 000

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

		2017	2016
		R	R
SUMMARY OF FINANCIAL ASSETS			
Financial Assets at Amortised Cost:			
Long-term Receivables	Debtors Capitalised Loans	(214 710)	(126 231)
Long-term Receivables	Sale of Stand Loans	(14 371)	(7 742)
Long-term Receivables	Study Cost Loans	79 122	175 343
Receivables from Exchange Transactions	Electricity	18 540 058	24 712 027
Receivables from Exchange Transactions	Refuse	554 213	1 023 679
Receivables from Exchange Transactions	Sewerage	2 172 425	2 540 942
Receivables from Exchange Transactions	Water	5 944 016	5 743 790
Receivables from Exchange Transactions	Other Debtors	15 348 068	14 595 134
Receivables from Non-exchange Transactions	Assessment Rates Debtors	17 574 176	17 044 546
Receivables from Non-exchange Transactions	Sundry Debtors	13 331 323	12 042 687
Receivables from Non-exchange Transactions	Other Control Accounts	1 709 209	1 164 022
Current Portion of Long-term Receivables	Sale of Stand Loans	14 371	7 742
Current Portion of Long-term Receivables	Study Cost Loans	3 000	3 000
Cash and Cash Equivalents	Call Deposits	78 566 856	75 798 167
Cash and Cash Equivalents	Notice Deposits	-	-
Cash and Cash Equivalents	Bank Balances	5 694 930	2 783 364
		<u>159 297 788</u>	<u>157 531 300</u>
Financial Assets at Fair Value:			
Cash and Cash Equivalents	Cash Floats and Advances	(8 079)	(8 079)
		<u>(8 079)</u>	<u>(8 079)</u>
Total Financial Assets		<u>159 289 709</u>	<u>157 523 221</u>

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>		
Long-term Liabilities			
Annuity Loans	Amortised cost	30 289 374	36 728 888
Finance Lease Liabilities	Amortised cost	2 277 822	775 536
Payables from Exchange Transactions			
Trade Creditors	Amortised cost	91 125 488	114 497 408
Retentions	Amortised cost	450 944	181 895
Other Creditors	Amortised cost	20 230 366	13 065 713
Payables from Non-exchange Transactions			
Suspense Accounts	Amortised cost	14 620 130	14 583 732
Sundry Deposits	Amortised cost	3 293 933	2 732 288

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Payables from Exchange Transactions	Trade Creditors	91 125 488	114 497 408
Payables from Exchange Transactions	Retentions	450 944	181 895
Payables from Exchange Transactions	Other Creditors	20 230 366	13 065 713
Payables from Non-exchange Transactions	Suspense Accounts	14 620 130	14 583 732
Payables from Non-exchange Transactions	Sundry Deposits	3 293 933	2 732 288
		<u>170 887 959</u>	<u>190 301 293</u>
Total Financial Liabilities		<u>170 887 959</u>	<u>190 301 293</u>

48.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Long-term Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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	2017	2016
	R	R

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2017, as a result of the short-term maturity of these assets and liabilities.

No Financial Instruments of the municipality have been reclassified during the year.

48.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2016.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 22 and the Statement of Changes in Net Assets.

Gearing Ratio

	2017	2016
	R	R
The gearing ratio at the year-end was as follows:		
Debt	41 167 098	45 240 257
Cash and Cash Equivalents	(78 558 777)	(75 790 088)
Net Debt	(37 391 679)	(30 549 831)
Equity	2 105 303 980	2 099 358 985
Net debt to equity ratio	-1.78%	-1.46%

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

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.

48.4 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 Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity 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.

48.5 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:

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017	2016
R	R

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.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Note 48.8 to the Annual Financial Statements.

48.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 48.7 below). No formal policy exists to hedge volatilities in the interest rate market.

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

48.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

48.6.2 Interest Rate Risk Management

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

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

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.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

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. Consumer Deposits are increased accordingly.

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

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

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 by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 48.8 below:

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

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	2017	2016
	R	R
Receivables from Non-exchange Transactions		
Group 1	29 837 793	18 691 092
Total Receivables from Non-exchange Transactions	<u>29 837 793</u>	<u>18 691 092</u>

Credit quality Groupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

None of the financial assets that are fully performing have been renegotiated in the last year.

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48 FINANCIAL INSTRUMENTS (Continued)

48.7 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 44 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

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

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
30 June 2017								
Non-interest Bearing		0.00%	129 720 861	129 720 861	-	-	-	-
- Payables from Exchange transactions			111 806 798	111 806 798	-	-	-	-
- Payables from Non-exchange transactions			17 914 063	17 914 063	-	-	-	-
			-					
Fixed Interest Rate Instruments			41 167 019	4 554 834	4 045 067	8 964 664	23 602 454	-
- DBSA		11.18%	36 696 687	3 124 795	3 303 363	7 179 375	23 089 154	-
- ABSA		14.50%	37 538	7 186	9 589	20 763	-	-
- Financial Lease Obligation		24.88%	4 432 794	1 422 853	732 115	1 764 526	513 300	-
			170 887 880	134 275 696	4 045 067	8 964 664	23 602 454	-
30 June 2016								
Non-interest Bearing			145 061 036	145 061 036	-	-	-	-
- Payables from Exchange transactions			127 745 017	127 745 017	-	-	-	-
- Payables from Exchange transactions			17 316 019	17 316 019	-	-	-	-
			-					
Fixed Interest Rate Instruments			42 485 864	2 787 043	2 964 597	6 444 934	24 160 982	6 128 309
- DBSA		11.18%	42 439 445	2 785 117	2 957 642	6 428 158	24 140 219	6 128 309
- ABSA		14.50%	46 419	1 926	6 955	16 776	20 763	-
- Financial Lease Obligation		24.88%	2 754 394	928 601	1 050 253	775 540	-	-
			190 301 294	147 848 079	2 964 597	6 444 934	24 160 982	6 128 309

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

At the year-end it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amount included above is nil.

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
30 June 2017								
Non-interest Bearing			186 694 463	186 685 778	8 686	-	-	-
- Long-term Receivables			296 832	288 147	8 686	-	-	-
- Trade Receivables from Exchange Transactions			124 533 889	124 533 889	-	-	-	-
- Trade Receivables from Non-exchange Transactions			61 871 821	61 871 821	-	-	-	-
- Cash and Cash Equivalents			(8 079)	(8 079)	-	-	-	-
Variable Interest Rate Instruments			84 261 785	84 261 785	-	-	-	-
- Call Deposits		6.55%	78 566 856	78 566 856	-	-	-	-
- Bank Account		5.50%	5 694 930	5 694 930	-	-	-	-
			270 956 248	270 947 563	8 686	-	-	-
30 June 2016								
Non-interest Bearing			177 662 057	176 837 091	5 371	819 595	-	-
- Long-term Receivables			304 574	(520 392)	5 371	819 595	-	-
- Trade Receivables from Exchange Transactions			121 544 273	121 544 273	-	-	-	-
- Trade Receivables from Non-exchange Transactions			55 821 289	55 821 289	-	-	-	-
- Cash and Cash Equivalents			(8 079)	(8 079)	-	-	-	-
Variable Interest Rate Instruments			78 581 531	78 581 531	-	-	-	-
- Call Deposits		5.99%	75 798 167	75 798 167	-	-	-	-
- Bank Account		4.90%	2 783 364	2 783 364	-	-	-	-
			256 243 588	255 418 622	5 371	819 595	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017 **2016**
R **R**

49 RELATED PARTY TRANSACTIONS

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

49.1 Compensation of Related Parties

Name of Related Person	Designation	Amount	Description of Related Party Relationship
S. Meleni	Official	233 358	Wife of councillor Meleni
M. Jenneker	Official	226 519	Daughter of the Manager Expenditure
N. Baartman	Official	250 847	Daughter of the Manager Asset & Fleet
B. Marais	Official	300 039	Son of the Manager Technical Services

49.2 Purchases from Related Parties

Listed below are the transactions with related parties during the financial year 2016/2017

Company Name	Related Person	Municipal Capacity	Description of Related Party	Purchases for the
Central Bridge Trading 436 CC	Z Thume	Official	Wife of the Director	134 310.80
Kwa Nandipha Catering	P Dondashe	Official	Husband of Director	140 339.00
Algoatime	J Beda	Official	Husband of Director	65 969.79
Alvirect (Prt) Ltd	N Zode	Official	Wife of the Director	404 484.00
Total Purchases				801 643.59

Refer to note 32 and 33 for remuneration of senior management and note 46.6 for councillors outstanding municipal accounts.

50 CONTINGENT LIABILITIES

50.1 Court Proceedings:

49 241 207 **109 495 066**

(i) Council is involved in a dispute with different individuals as at 30 June 2017:

Claims against the municipality	46 177 775	108 243 375
Possible legal fees	3 063 432	1 251 691

Detailed Description			
Savage unfair dismissal		250 000	250 000
Snyders unfair dismissal		210 000	210 000
Jansen outstanding leave monies		191 275	191 275
Rabela & 11 others promotion dispute		30 000	30 000
Luthuli & others promotion dispute		-	345 000
Blouw & others recoup overpayment		400 000	400 000
Gysman claim for ex-gratia payment		100 000	100 000
Roodt unfair dismissal		-	90 000
Vumazonke unfair dismissal		-	40 000
Myaneko & 11 others enforce a settlement agreement		100 000	100 000
L Syce legal opinion			29 681
Ziboti applied for condonation			25 000
Gysman unfair dismissal		180 000	
GCG consulting Engineers breach of contract		20 900 000	20 900 000
Tauris garden breach of contract		1 960 000	56 000 000
Eviction of Unlawful occupiers from Erf 3060, Erf 3523, Erf 3769			32 000
B Ntilini Erf 3060 Humansdorp eviction		7 000	
F Mema Erf 1104 Hankey eviction		7 000	
Atkinson damage to property		9 300 000	15 000 000
Landman & co transfer into the name of New Gospel Church			8 600
Impelelo Construction High court action		2 800 000	2 800 000
Plaatjies High court claim		12 100 000	12 100 000
FL Becker/ Sf Francis Links High court application			150 000
Armand Bester High court claim			197 000
Cape Retirement Fund claim for payment of contributions		166 500	166 500
Port St Francis Harbour High court application			100 000
Liyasakha Trading & Kouga Plant for Arbitration		524 584	
Mr Mullins Erf 324 Jeffreys Bay		14 848	
TOTAL		49 241 207	109 265 056

51 CONTINGENT ASSETS

51.1 Insurance Claims:

1 271 590 **10 639 057**

(i) Lost / Damaged Assets:

1 271 590 10 639 057

KOUGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2017	2016
R	R

52 IN-KIND DONATIONS AND ASSISTANCE

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

53 PRIVATE PUBLIC PARTNERSHIPS

The municipality is in the process of setting up a municipal entity, a company not having share capital. The main business and objects of the entity will be to market and develop tourism for the entire district. At year-end the entity was yet to be registered.

54 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2017.

55 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 41).

56 GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

- (i) On 31 May 2017 the Council adopted the 2017/18 to 2019/20 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 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 on-going inflow of revenue to support the on-going 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.