

VOLUME 2

PART 8: AUDITOR – GENERAL REPORT



ANNUAL FINANCIAL STATEMENTS

30 JUNE 2013

Index

General Information	1 - 2
Approval of the Financial Statements	3
Report of the Auditor General	4 - 15
Report of the Chief Financial Officer	16-22
Accounting Policies	23 - 62
Statement of Financial Position	63
Statement of Financial Performance	64
Statement Of Changes in Net Assets	65
Cash Flow Statement	66
Statement of Comparison of Budget and Actual	67-80
Notes to the Financial Statements	81-121

APPENDICES (APPENDICES ARE UNAUDITED)

A Schedule of External Loans	122
B Analysis of Property, Plant and Equipment	123
C Segmental Analysis of Property, Plant and Equipment	124
D Segmental Statement of Financial Performance	125-126
E (1) Actual Versus Budget (Revenue and Expenditure)	127
E (2) Reconciliation Budgeted Financial Performance by Standard Classification	128
F Disclosure of Grants and Subsidies in terms of section 123 of MFMA, 56 of 2003	129

GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE AS AT 30 JUNE 2012

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

AUDITORS

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

BANKERS

First National Bank
Private Bag X5
Jeffreys Bay, 6330

REGISTERED OFFICE

33 Da Gama Drive
Jeffreys Bay

P O Box 21
Jeffreys Bay
6330

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

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

MUNICIPAL MANAGER

Mr. S Fadi

CHIEF FINANCIAL OFFICER

Ms.C Burger

GENERAL INFORMATION (continued)**LEGAL FORM**

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

GRADING

Grade 8

JURISDICTION

Greater Kouga area which includes:

Jeffreys Bay, Lorie, Thornhill

Humansdorp

St Francis Bay, Cape St Francis, Oyster Bay

Hankey

Patensie

MEMBERS OF THE KOUGA LOCAL MUNICIPALITY

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

APPROVAL OF FINANCIAL STATEMENTS

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

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

Mr. S Fadi
Municipal Manager

Date

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON KOUGA MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Kouga Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flows statement, statement of comparison of budgets and actual amounts, for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for preparation and the fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2012 (Act No 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Provisions and Non – current provisions

6. Sufficient appropriate audit evidence was not available to support the provision and non – current provision for the rehabilitation of landfill sites disclosed in note 16 and 23 respectively, to the financial statements. Supporting documentation was not submitted for audit purposes. I was unable to confirm the provision and non – current provision by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provision and non -current provision for rehabilitation of landfill sites of

R4.7 million (2012: R4.7 million) as disclosed in note 16 and R9.3 million (2012: R9.3 million) as disclosed in note 23 to the financial statements.

Prior year comparative information

7. During 2011-12 sufficient appropriate audit evidence was not available for payables from exchange and non - exchange transactions as disclosed in note 17 and 18 to the financial statements and I was unable to confirm the balance by alternative means. This amount relates to sundry deposits (building deposits) and creditors suspense accounts. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions of R105.4 million and payables from non exchange transactions of R5.0 million as disclosed in note 17 and 18 to the financial statements. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
8. Sufficient appropriate audit evidence was not available for the correction of error relating to unspent grants and subsidies disclosed in note 41.1 to the financial statements and I was unable to confirm the correction of error by alternative means. This amount relates to the clearing of conditional grant liabilities. Consequently, I was unable to determine whether any adjustments were necessary to the opening balance of accumulated surplus of R2.6 billion as disclosed in note 41.1 to the financial statements. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 41 to the financial statements, the prior period corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2013, that existed as at 30 June 2012.

Material impairments/losses

11. As disclosed in note 34 to the financial statements, an amount of R 5.4 million (2012: R29.7 million) was written off as impairment losses due to the non payment of consumer debtor accounts.
12. As disclosed in note 47.9 to the financial statements, the municipality incurred material losses relating to electricity of R5.5 million (2012: R9.9 million) as a result of tampering of meters, faulty meters and illegal electricity connections.
13. As disclosed in note 47.10 to the financial statements, the municipality incurred material losses relating to water of R9.1 million (2012: R8.2 million) as result of faulty meters.

Financial sustainability

14. As disclosed in note 53 to the financial statements, the cash flow of the municipality is under strict cash management processes and is being closely monitored. The revenue is not always received in the form of actual cash receipts. This has resulted in significant cash flow constraints. This situation, along with other matters as set forth in the note, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities in the normal course of business.

Significant uncertainties

15. As disclosed in note 50 to the financial statements, the municipality is a defendant in a number of lawsuits. The results of these lawsuits cannot be determined at present as litigation is still in progress.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 3 to 14 of the annual report.
18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPi)*.
19. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
20. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

21. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 68% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of adequately and sufficiently skilled resources in place to ensure that performance is monitored and accurately reported on.

Consistency

Reported targets not consistent with planned targets

22. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 32% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of an established performance management system which entails reviews from management, internal audit and the audit committee of the annual performance report against the integrated development plan.

Reliability of selected development priorities in the annual performance report

Development Priority Two - Basic services and infrastructure

23. The National Treasury *FMPP* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Provision of Basic Service Delivery. This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management:

25. The performance management system of the municipality did not provide for the monitoring of performance and for the measuring and review of performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the Municipal Systems Act (MSA).
26. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
27. The annual performance report for the year under review does not include the performance of the municipality and of each external service provider as required by section 46 (1)(a) of the MSA.
28. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

29. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).
30. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
31. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
32. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1)(a).
33. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
34. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
35. The internal audit unit did not audit the performance measurements on a continuous basis and/or submitted quarterly reports on their audits to the municipal manager and the performance audit committee], as required by Municipal planning and performance management regulation 14(1)(c).

Budgets

36. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

Annual financial statements and annual report

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
38. The 2011/12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
39. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
40. The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges and the report of the audit committee, as required by section 121(3)(e), 121(4)(c) and 121(3)(j) and 121(4)(g) of the MFMA respectively.

Audit committee

41. An audit committee was not in place for the full financial year with a full complement of members as required by section 166(1) of the MFMA.
42. The audit committee did not advise the council nor accounting officer on matters relating to internal financial control and internal audits; risk management; accounting policies; effective governance; performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
43. The audit committee did not advise the council nor accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
44. The audit committee did not advise the council nor accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
45. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
46. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
47. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.

Internal Audit

48. The internal audit unit did not function as required by section 165(2) of the MFMA, in that :
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
49. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

50. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
51. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, in accordance with the requirements of section 62(2) of the MFMA.

Human Resources

52. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 67(d).

Liability Management

53. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

54. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

55. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

INTERNAL CONTROL

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

Leadership

57. Management did not address all deficiencies during the year and leadership does not exercise consequence management for poor performance and transgressions. In addition here is a lack of monitoring and oversight by the leadership.

Financial and performance management

58. Management did not maintain a proper filing system for payables and did not effectively manage and monitor daily and monthly processing. In addition, they did not fully understand the requirements of the financial reporting framework and there is no formal documented system over information technology. Furthermore, management did not comply with all laws and regulations due to a lack of appropriate monitoring.

Governance

59. No risk assessments were performed during the year under review in order to manage risks within the control environment. In addition, the audit committee and internal audit did not function throughout the year.

Andrew - General

East London

29 November 2013



AUDITOR GENERAL
SOUTH AFRICA

Auditing to build public confidence

KOUGA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2013

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of Kouga Municipality at 30 June 2013.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/12 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2013 indicates a decrease in Net Assets, and an increase in Non-current Liabilities and decrease in Current Liabilities.

The decrease in Assets is ascribed primarily to the decrease in Accumulated Surplus as a result of the deficit generated on the operating account. The decrease in Non-current Liabilities is primarily as a result of the decreases in Long-term liabilities. The increase in Current Liabilities is primarily as a result of the increase in the current portion of long-term liabilities.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory.

2.1 Financial Statement Ratios:

INDICATOR	2013	2012
Surplus / (Deficit) before Appropriations	(41 009 958)	(87 561 214)
Surplus / (Deficit) at the end of the Year	2 546 042 482	2 587 052 441
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	34.39%	33.02%
Remuneration of Councillors	1.53%	1.44%
Collection Costs	0.00%	0.11%
Depreciation and Amortisation	14.36%	13.91%
Impairment Losses	0.96%	5.37%
Repairs and Maintenance	3.42%	2.78%
Interest Paid	3.36%	3.77%
Bulk Purchases	28.88%	27.58%
Contracted Services	0.00%	0.00%
Grants and Subsidies Paid	3.79%	3.28%
General Expenses	9.32%	8.74%
Current Ratio:		
Trade Creditors Days	161	178
Debtors from Exchange Transactions Days	44	35

The extremely good ratio for Debtors Days, calculated on net debtors, is because of a substantial increase in the Provision for Impairment, which renders a favourable ratio for the year.

2.2 Performance Indicators:

INDICATOR	2013	2012
Borrowing Management:		
Capital Charges to Operating Expenditure	4.31%	4.00%
Borrowing to Total Capital Assets	2.30%	2.68%
Safety of Capital:		
Gearing	2.35%	2.75%
Liquidity:		
Current Ratio	1.50	1.46
Liquidity Ratio	0.10	0.10
Revenue Management:		
Current Debtors Collection Rate	98.40%	98.23%
Outstanding Debtors to Revenue	15.16%	14.71%
Creditors Management:		
Creditors to Cash and Investments	575.53%	617.04%
Financial Viability:		
Debt Coverage	64.54	178.97
Outstanding Service Debtors to Revenue	17.82%	16.91%
Cost Coverage	0.04	0.04

3. OPERATING RESULTS

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

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

The overall operating results for the year ended 30 June 2013 are as follows:

DETAILS	Actual 2012/13 R	Actual 2011/12 R	Percentage Variance %	Budgeted 2012/13 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	2 587 052 441	2 799 214 242	(7.58)	-	100.00
Operating income for the year	521 023 075	466 115 008	11.78	550 044 672	(5.28)
Appropriations for the year	-	-	-	-	-
	3 108 075 517	3 265 329 250	(4.82)	550 044 672	465.06
Expenditure:					
Operating expenditure for the year	562 033 034	553 676 222	1.51	583 553 274	(3.69)
Correction of error	0	124 600 587	(100.00)	-	100.00
Closing surplus / (deficit)	2 546 042 483	2 587 052 441	(1.59)	(33 508 602)	(7 698.18)
	3 108 075 517	3 265 329 250	(4.82)	550 044 672	465.06

3.1 Rates and General Services:

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

DETAILS	Actual 2012/13 R	Actual 2011/12 R	Percentage Variance %	Budgeted 2012/13 R	Variance actual/ budgeted %
Income	219 830 490	186 656 804	17.77	221 362 316	(0.69)
Expenditure	291 794 753	270 263 473	7.97	279 393 164	4.44
Surplus / (Deficit)	(71 964 264)	(83 606 669)	(13.93)	(58 030 848)	24.01
Surplus / (Deficit) as % of total income	(32.74)%	(44.79)%		(26.22)%	

3.2 Waste Management Services:

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

DETAILS	Actual 2012/13 R	Actual 2011/12 R	Percentage Variance %	Budgeted 2012/13 R	Variance actual/ budgeted %
Income	87 189 963	77 832 585	12.02	83 296 441	4.67
Expenditure	60 856 014	61 025 158	(0.28)	65 074 388	(6.48)
Surplus / (Deficit)	26 333 949	16 807 427	56.68	18 222 053	44.52
Surplus / (Deficit) as % of total income	30.20%	21.59%		21.88%	

3.3 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R146 128 688 (2012: R129 914 987). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2012/13 R	Actual 2011/12 R	Percentage Variance %	Budgeted 2012/13 R	Variance actual/ budgeted %
Income	183 641 252	176 490 950	4.05	200 001 439	(8.18)
Expenditure	169 780 024	160 882 480	5.53	180 865 222	(6.13)
Surplus / (Deficit)	13 861 228	15 608 470	(11.19)	19 136 217	(27.57)
Surplus / (Deficit) as % of total income	7.55%	8.84%		9.57%	

3.4 Water Services:

Water is bought in bulk from NMBM and "Gamtoos Irrigation Board" and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality from NMBM was R16 161 171 (2012: R22 767 807). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2012/13 R	Actual 2011/12 R	Percentage Variance %	Budgeted 2012/13 R	Variance actual/ budgeted %
Income	40 951 738	38 625 302	6.02	45 384 476	(9.77)
Expenditure	42 330 114	46 807 285	(9.57)	54 037 105	(21.66)
Surplus / (Deficit)	(1 378 376)	(8 181 983)	(83.15)	(8 652 629)	(84.07)
Surplus / (Deficit) as % of total income	(3.37)%	(21.18)%		(19.07)%	

4. RECONCILIATION OF BUDGET TO ACTUAL

4.1 Operating Budget:

DETAILS	2013	2012
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(33 508 602)	53 187 523
Revenue variances	(29 021 597)	(55 169 490)
Expenditure variances:		
Employee Related Costs	(12 057 533)	(16 354 844)
Remuneration of Councillors	(103 140)	1 184 348
Collection Costs	235 176	(622 156)
Depreciation and Amortisation	(9 581 575)	(77 007 101)
Impairment Losses	20 010 871	(4 364 483)
Repairs and Maintenance	19 719 763	18 087 435
Interest Paid	(1 401 053)	3 153 399
Bulk Purchases	(2 762 710)	(12 170 274)
Contracted Services	63 000	49 019
Grants and Subsidies Paid	(6 949 304)	(3 204 676)
General Expenses	14 346 746	5 675 346
Loss on disposal of Property, Plant and Equipment	-	(5 260)
Actual surplus before appropriations	(41 009 958)	(87 561 214)

DETAILS	2013	2012
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(33 508 602)	53 187 523
Executive and Council	2 272 091	779 899
Finance and Administration	(10 050 538)	(32 257 296)
Planning and Development	3 199 879	(328 862)
Health	-	-
Community and Social Services	11 430 129	5 419 922
Housing	492 533	92 978
Public Safety	(7 832 581)	(7 918 035)
Sport and Recreation	1 276 183	(43 408)
Environmental Protection	5 508 248	3 365 191
Waste Management	8 111 896	4 891 831
Roads and Transport	(9 836 662)	(50 365 896)
Water	7 274 253	(9 577 154)
Electricity	(5 274 989)	(11 404 025)
Other	(9 900 164)	7 055 497
Actual surplus before appropriations	(36 838 325)	(37 101 838)

Details of the operating results per segmental classification of expenditure are included in Appendix "D"

5. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2013 amounted to R2 546 042 482 (30 June 2012: R2 587 052 441) and is made up as follows:

Accumulated Surplus	2 546 042 483
	<u>2 546 042 483</u>

Refer to Note 24 and the Statement of Change in Net Assets for more detail.

6. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2013 was R59 880 244 (30 June 2012: R71 191 312).

Refer to Note 21 and Appendix "A" for more detail.

7. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2013 was R67 554 000 (30 June 2012: R60 111 000).

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

Refer to Note 22 for more detail.

8. NON-CURRENT PROVISIONS

Non-current Provisions amounted R18 416 516 as at 30 June 2013 (30 June 2012: R16 188 316) and is made up as follows:

Provision for Augmentation fees	52 200
Provision for Long-term Service	9 099 000
Provision for Rehabilitation of Land-fill Sites	<u>9 265 316</u>
	<u>18 416 516</u>

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

Refer to Note 23 for more detail.

9. CURRENT LIABILITIES

Current Liabilities amounted R183 573 022 as at 30 June 2013 (30 June 2012: R180 168 937) and is made up as follows:

Consumer Deposits	Note 15	8 693 418
Provisions	Note 16	19 468 077
Payables from Exchange Transactions	Note 17	106 705 228
Payables from Non-exchange Transactions	Note 18	4 730 739
Unspent Conditional Grants and Receipts	Note 19	9 952 857
Bank Overdraft	Note 7	474 883
Current position of Long Term Liabilities	Note 20	<u>22 524 330</u>
		<u>183 573 022</u>

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

Refer to the indicated Notes for more detail.

10. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R2 535 249 548 as at 30 June 2013 (30 June 2012: R2 586 157 029).

Refer to Note 10 and Appendices "B, C and E (2)" for more detail.

11. INTANGIBLE ASSETS

The net value of Intangible Assets were R121 587 as at 30 June 2013 (30 June 2012: R150 446).

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

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

12. INVESTMENT PROPERTY

The net value of Investment Properties were R65 613 070 as at 30 June 2013 (30 June 2012: R66 167 010).

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

Refer to Note 12 and Appendix "B" for more detail.

13. LONG-TERM RECEIVABLES

Long-term Receivables of R336 529 at 30 June 2013 (30 June 2012: R385 900)

The decrease in the amount for Long-term Receivables is due to the increased amount of debt arrangements entered into with debtors.

Refer to Note 14 for more detail.

14. CURRENT ASSETS

Current Assets amounted R274 581 530 as at 30 June 2013 (30 June 2012: R262 498 621) and is made up as follows:

Inventories	Note 2	3 513 045
Receivables from Exchange Transactions	Note 4	47 890 755
Receivables from Non-exchange Transactions	Note 5	24 177 611
VAT Receivable	Note 6	4 501 730
Cash and Cash Equivalents	Note 7	18 540 246
Operating lease receivables	Note 7	126 258
Current portion of Long Term Receivable	Note 8	9 000
		<u>274 581 530</u>

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

The substantial increase in VAT receivable is due to an independent review done in June 2013 and a claim to be submitted to SARS as a result.

Refer to the indicated Notes for more detail.

15. INTER-GOVERNMENTAL GRANTS

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

Refer to Notes 19 and 26, and Appendix "F" for more detail.

16. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 52. Currently management is not aware of any such events.

17. EXPRESSION OF APPRECIATION

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

CHIEF FINANCIAL OFFICER

31 August 2013

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

1. BASIS OF PRESENTATION

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

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

1.1 *Changes in Accounting Policy and Comparability*

Accounting Policies have been consistently applied, except where otherwise indicated below. The details of any changes in accounting policies are explained in the relevant notes to the Annual Financial Statements.

For the years ended 30 June 2012 and 30 June 2013 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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

1. BASIS OF PRESENTATION (continued)

1.2 Critical Judgements, Estimations and Assumptions (continued)

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

1.2.1 Revenue Recognition

Accounting Policy 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 is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial Assets and Liabilities

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

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

1.2.3 Impairment of Financial Assets

Accounting Policy 8.4 on *Impairment of Financial Assets* describes the process followed to determine the value by 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.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

1. BASIS OF PRESENTATION (continued)

1.2 Critical Judgements, Estimations and Assumptions (continued)

1.2.3 Impairment of Financial Assets (continued)

♦ **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.

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

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

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

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

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

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

1.2.5 Impairment: Write-down of Property, Plant and Equipment, and Inventories

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

1. BASIS OF PRESENTATION (continued)

1.2 Critical Judgements, Estimations and Assumptions (continued)

1.2.5 Impairment: Write-down of Property, Plant and Equipment and Inventories (continued)

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 Cash Generating Assets*) and GRAP 26 (*Impairment of Non-cash Generating Assets*). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the NRV for Inventories involves significant judgment by management.

1.2.6 Water Inventory

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

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 IAS 19. 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.

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.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

1. BASIS OF PRESENTATION (continued)

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. No foreign exchange transactions are included in the statements.

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:

REFERENCE	TOPIC	EFFECTIVE DATE
GRAP 18	<u>Segment Reporting</u> Information to a large extent is already included in the notes to the annual financial statements.	Unknown
GRAP 20	<u>Related Party Disclosure</u> Information to a large extent is already included in the notes to the annual financial statements.	Unknown
GRAP 25	<u>Employee Benefits</u> Information to a large extent is already included in the notes to the annual financial statements.	Unknown
GRAP 105	<u>Transfer of Functions between Entities under Common Control</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 106	<u>Transfer of Functions between Entities not under Common Control</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 107	<u>Mergers</u> No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

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

1.6 Standards, Amendments to Standards and Interpretations Issued but not yet Effective (continued)

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*.

1. BASIS OF PRESENTATION (continued)

1.7 MATERIALITY

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

2. PROPERTY, PLANT AND EQUIPMENT

2.1 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

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

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.

2. PROPERTY, PLANT AND EQUIPMENT (continued)

2.2 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 (or deemed 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 surplus or deficit when the compensation becomes receivable.

2.3 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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

2. PROPERTY, PLANT AND EQUIPMENT (continued)

2.4 Depreciation (continued)

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

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

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

2.5 Land

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

2.6 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.

2.7 Incomplete Construction Work

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

2. PROPERTY, PLANT AND EQUIPMENT (continued)

2.8 Derecognition of Property, Plant and Equipment

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.

3. INTANGIBLE ASSETS

3.1 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 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:

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

3. INTANGIBLE ASSETS (continued)

3.1 Initial Recognition (continued)

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 ready for use on a *Straight-line Basis* over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP 21 / 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. Intangible Assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

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

3.2 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 102, 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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

3. INTANGIBLE ASSETS (continued)

3.2 Subsequent Measurement, Amortisation and Impairment (continued)

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

Asset Class	Years	Asset Class	Years
Computer Software	3 - 10	Computer Software Licenses	As per agreement

Intangible Assets are annually tested for impairment, including Intangible Assets not yet available for use. Where items of Intangible Assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable service amount.

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

3.3 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.

4. INVESTMENT PROPERTY

4.1 Initial Recognition

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

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

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

4. INVESTMENT PROPERTY (continued)

4.1 Initial Recognition (continued)

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:

- ◆ Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- ◆ 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);
- ◆ 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);
- ◆ A property owned by the municipality and leased out at a below market rental; and
- ◆ Property that is being constructed or developed for future use as investment property.

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

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:

- ◆ Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- ◆ Property being constructed or developed on behalf of third parties;
- ◆ 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;
- ◆ Property that is leased to another entity under a finance lease;
- ◆ Property held to provide goods and services and also generates cash inflows; and
- ◆ Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

4. INVESTMENT PROPERTY (continued)

4.2 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 25-30 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.

4.3 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.

4.4 Application of deemed cost (Directive 7)

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

5. 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.

5.1 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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

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.

5. HERITAGE ASSETS (continued)

5.1 Initial Recognition (continued)

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 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.

5.2 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.

5.3 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.

5.4 Transitional Provisions

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

6. 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*.

6.1 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.

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 surplus or deficit.

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 as follows:

- ◆ To 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 surplus or deficit.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

6. IMPAIRMENT OF ASSETS (continued)

6.2 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.

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 surplus or deficit.

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 as follows:

- ◆ To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

7. 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.

Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- ◆ The fair values of quoted investments are based on current bid prices.
- ◆ If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Effective Interest Rate Method

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

Amortised Cost

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

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

7. FINANCIAL INSTRUMENTS (continued)

7.1 Financial Assets – Classification

A Financial Asset is any asset that is a cash or contractual right to receive cash.

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 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 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 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 may have 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	Financial Assets at Amortised Cost

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

7. FINANCIAL INSTRUMENTS (continued)

7.1 Financial Assets – Classification (continued)

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.

7.2 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
Creditors	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).

Bank Overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

7. FINANCIAL INSTRUMENTS (continued)

7.3 Initial and Subsequent Measurement

7.3.1 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 plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the Statement of Financial Performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the Statement of Financial Performance.

7.3.2 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.

Bank Borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the *Accrual Basis* and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

7. FINANCIAL INSTRUMENTS (continued)

7.4 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.

7.4.1 Financial Assets at Amortised Cost

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

Initially Accounts Receivable are valued at fair value 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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

7. FINANCIAL INSTRUMENTS (continued)

7.4 *Impairment of Financial Assets (continued)*

7.4.2 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.

7.5 *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.

7.6 *Derecognition of Financial Liabilities*

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

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

8. INVENTORIES

8.1 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.

8.2 Subsequent Measurement

8.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods:

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If Inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

8.2.2 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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

8. INVENTORIES (continued)

8.2.3 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.

8.2.4 Other Inventories:

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of Inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

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

9. NON-CURRENT ASSETS HELD-FOR-SALE

9.1 Initial Recognition

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

9. NON-CURRENT ASSETS HELD-FOR-SALE (continued)

9.2 Subsequent Measurement

Non-current Assets and Disposal Groups classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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

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

The gain or loss on the eventual sale of non-current assets held-for-sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held-for-sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

10. REVENUE RECOGNITION

10.1 General

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

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

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

Revenue from *Exchange Transactions* refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

10. REVENUE RECOGNITION (continued)

10.1 General (continued)

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.

10.2 Revenue from Exchange Transactions

10.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

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

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

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

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

10.2.2 Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised as an unutilised portion based on an estimate of the prepaid electricity consumed as at the reporting date.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

10. REVENUE RECOGNITION (continued)

10.2 Revenue from Exchange Transactions (continued)

10.2.3 Rentals Received

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

10.2.4 Finance Income

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

10.2.5 Tariff Charges

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

10.2.6 Revenue from Agency Services

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

10.2.7 Sale of Goods (including Houses)

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

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

10. REVENUE RECOGNITION (continued)

10.3 Revenue from Non-exchange Transactions

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

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

10.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

10.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with the management's best estimate of the probable inflows from spot fines and summonses that will be received based on past experience of amounts collected.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

10. REVENUE RECOGNITION (continued)

10.3 Revenue from Non-exchange Transactions (continued)

10.3.3 Public Contributions

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

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

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

10.3.4 Government Grants and Receipts

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

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

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

10. REVENUE RECOGNITION (continued)

10.3 Revenue from Non-exchange Transactions (continued)

10.3.4 Government Grants and Receipts (continued)

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

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

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

11. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

11. PROVISIONS (continued)

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.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Municipalities policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises in accordance with the requirements of GRAP 19 as stated in the preceding paragraphs. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

12. EMPLOYEE BENEFITS

12.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

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.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

12. EMPLOYEE BENEFITS (continued)

12.2 Post-employment Benefits

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

12.2.1 Defined Contribution Plans

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

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

12.2.2 Defined Benefit Plans

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

Post-retirement Health Care Benefits:

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

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

12. EMPLOYEE BENEFITS (continued)

12.2 Post-employment Benefits (continued)

12.2.2 Defined Benefit Plans (continued)

Actuarial gains or losses are accounted for using the *Straight-line Method*. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a *Straight-line Basis* over the vesting period.

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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

12. EMPLOYEE BENEFITS (continued)

12.2 Post-employment Benefits (continued)

12.2.2 Defined Benefit Plans (continued)

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 accounted for using the *Straight-line Method*. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a *Straight-line Basis* over the vesting period.

13. 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:

- ◆ Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- ◆ Expect to be repaid in future; or
- ◆ 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.

KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)

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**.

14.2 The Municipality as Lessee

14.2.1 Operating Leases

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

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

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.

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

15. VALUE ADDED TAX

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

16. UNAUTHORISED EXPENDITURE

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council, it is treated as an asset until it is recovered or written off as irrecoverable.

17. IRREGULAR EXPENDITURE

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council, it is treated as an asset until it is recovered or written off as irrecoverable.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council, it is treated as an asset until it is recovered or written off as irrecoverable.

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

19. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

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

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

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

20. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

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

21. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

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

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

22. COMMITMENTS

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

Commitments are disclosed for:

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

23. RELATED PARTIES

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.

24. EVENTS AFTER THE REPORTING DATE

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

**KOUGA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013 (continued)**

25. COMPARATIVE INFORMATION

25.1 Current year comparatives:

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

25.2 Prior year comparatives:

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

25.3 Budget Information:

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2012 to 30 June 2013.

KOUGA MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013

	Note	2013 R	Restated 2012 R
ASSETS			
Current Assets		274 581 530	262 498 621
Inventories	2	3 513 045	3 214 092
Non-current Assets Held-for-Sale	3	175 822 886	175 822 886
Receivables from Exchange Transactions	4	47 890 755	34 929 132
Receivables from Non-exchange Transactions	5	24 177 611	28 611 033
VAT Receivable	6	4 501 730	2 393 584
Cash and Cash Equivalents	7	18 540 246	17 401 277
Operating Lease Receivables	8	126 258	87 753
Current Portion of Long-term Receivables	9	9 000	38 865
Non-Current Assets		2 601 320 735	2 652 860 385
Property, Plant and Equipment	10	2 535 249 548	2 586 157 029
Intangible Assets	11	121 587	150 446
Investment Property	12	65 613 070	66 167 010
Long-term Receivables	14	336 529	385 900
Total Assets		2 875 902 265	2 915 359 006
LIABILITIES			
Current Liabilities		183 573 022	180 168 937
Consumer Deposits	15	8 693 418	7 606 800
Provisions	16	19 468 077	18 332 915
Payables from Exchange Transactions	17	106 705 228	107 371 987
Payables from Non-exchange Transactions	18	4 730 739	5 024 287
Unspent Conditional Grants and Receipts	19	9 952 857	13 104 861
Bank Overdraft	7	474 883	1 122 149
Current Portion of Long-term Liabilities	21	33 547 820	27 605 937
Non-Current Liabilities		146 286 760	148 137 628
Long-term Liabilities	21	59 880 244	71 191 312
Retirement Benefit Liabilities	22	67 554 000	60 111 000
Ex-Gratia Pension Benefit Liability	22	436 000	647 000
Non-current Provisions	23	18 416 516	16 188 316
Total Liabilities		329 859 782	328 306 565
Total Assets and Liabilities		2 546 042 483	2 587 052 442
NET ASSETS		2 546 042 482	2 587 052 441
Accumulated Surplus / (Deficit)	24	2 546 042 482	2 587 052 441
Total Net Assets		2 546 042 482	2 587 052 441

KOUGA MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

	Note	Actual 2013 R	2012 R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	25	113 542 635	103 602 651
Fines		1 035 182	2 879 888
Licences and Permits		7 268 669	7 304 080
Government Grants and Subsidies Received	26	94 663 910	70 762 710
Revenue from Exchange Transactions			
Service Charges	27	283 722 669	265 081 772
Rental of Facilities and Equipment	28	675 855	722 796
Interest Earned - External Investments	29	1 236 465	946 448
Interest Earned - Outstanding Debtors	29	6 458 023	6 646 186
Other Revenue	30	12 239 625	8 168 477
Gains on Disposal of Property, Plant and Equipment		180 045	-
Total Revenue		521 023 075	466 115 008
EXPENDITURE			
Employee Related Costs	31	193 299 330	182 822 233
Remuneration of Councillors	32	8 594 060	7 983 661
Collection Costs		-	622 156
Depreciation and Amortisation	33	80 723 704	77 007 101
Impairment Losses	34	5 400 817	29 743 773
Repairs and Maintenance		19 198 925	15 381 393
Finance Costs	36	18 859 348	20 859 098
Bulk Purchases	35	162 289 859	152 682 795
Contracted Services	37	-	7 799
Grants and Subsidies Paid	38	21 300 009	18 186 524
General Expenses	39	52 366 981	48 374 429
Loss on Disposal of Property, Plant and Equipment		-	5 260
Total Expenditure		562 033 034	553 676 222
SURPLUS / (DEFICIT) FOR THE YEAR		(41 009 958)	(87 561 214)
Refer to Budget Statement for explanation of budget variances			

KOUGA MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2013

Description	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R
2012		
Balance at 30 June 2011	2 799 214 242	2 799 214 242
Correction of Error (Note 41)	(124 600 587)	(124 600 587)
Restated Balance	2 674 613 655	2 674 613 655
Surplus / (Deficit) for the year	(87 561 214)	(87 561 214)
Balance at 30 June 2012	2 587 052 441	2 587 052 441
Surplus / (Deficit) for the year	(41 009 958)	(41 009 958)
Balance at 30 June 2013	2 546 042 483	2 546 042 483

KOUGA MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	Note	Actual 2013 R	2012 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates	25	113 542 635	103 602 651
Government Grant and Subsidies	26	94 663 910	70 762 710
Public Contributions and Donations	27	-	-
Service Charges	26	283 722 669	265 081 772
Interest Received	28	1 236 465	946 448
Other Receipts		16 992 255	(662 677)
Payments			
Employee Related Costs	30	(193 299 330)	(182 822 233)
Remuneration of Councillors	31	8 594 060	7 983 661
Interest Paid	36	(18 859 348)	(20 859 098)
Suppliers Paid		(181 759 087)	(108 978 982)
Other Payments		(87 765 337)	(96 298 862)
NET CASH FLOWS FROM OPERATING ACTIVITIES		37 068 893	38 755 389
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	10	(29 176 226)	(1 931 043)
Purchase of Intangible Assets	11	(966 662)	(53 778)
Proceeds on Disposal of Property, Plant and Equipment		180 045	(5 260)
Decrease / (Increase) in Long-term Receivables	14	49 371	292 490
NET CASH FLOWS FROM INVESTING ACTIVITIES		(29 913 473)	(1 697 591)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Borrowings	21	(5 369 185)	(1 262 562)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(5 369 185)	(1 262 562)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	7	1 786 235	35 795 237
		0	0
Cash and Cash Equivalents at Beginning of Period		16 279 128	(19 516 109)
Cash and Cash Equivalents at End of Period		18 065 363	16 279 128

KOUGA MUNICIPALITY **STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2013**

Notes to this statement:

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

30 June 2013

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
FINANCIAL POSITION											
Current Assets											
Inventories	-	-	-	-	-	-	3 513 045	-	3 513 045	0.00	0.00
Non-current Assets Held-for-Sale	-	-	-	-	-	-	175 822 886	-	175 822 886	0.00	0.00
Receivables from Exchange Transactions	-	-	-	-	-	-	47 890 755	-	47 890 755	0.00	0.00
Receivables from Non-exchange Transactions	-	-	-	-	-	-	24 177 611	-	24 177 611	0.00	0.00
VAT Receivable	-	-	-	-	-	-	4 501 730	-	4 501 730	0.00	0.00
Cash and Cash Equivalents	-	-	-	-	-	-	18 534 066	-	18 534 066	0.00	0.00
Operating Lease Receivables	-	-	-	-	-	-	126 258	-	126 258	0.00	0.00
Current Portion of Finance Lease Receivables	-	-	-	-	-	-	9 000	-	9 000	0.00	0.00
Current Portion of Long-term Receivables	-	-	-	-	-	-	-	-	-	0.00	0.00
Non-Current Assets											
Property, Plant and Equipment	35 006 900	2 071 000	37 077 900	-	-	37 077 900	2 535 249 548	-	2 498 171 648	6 837.63	7 242.14
Intangible Assets	-	-	-	-	-	-	121 587	-	121 587	0.00	0.00
Investment Property	-	-	-	-	-	-	65 613 070	-	65 613 070	0.00	0.00
Heritage Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Biological Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Non-current Investments	-	-	-	-	-	-	-	-	-	0.00	0.00
Investments in Associates	-	-	-	-	-	-	-	-	-	0.00	0.00
Finance Lease Receivables	-	-	-	-	-	-	-	-	-	0.00	0.00
Long-term Receivables	-	-	-	-	-	-	336 529	-	336 529	0.00	0.00
Total Assets	35 006 900	2 071 000	37 077 900	-	-	37 077 900	2 875 896 085	-	2 838 818 185	7 756.36	8 215.23
Current Liabilities											
Consumer Deposits	-	-	-	-	-	-	8 693 418	-	8 693 418	0.00	0.00
Provisions	-	-	-	-	-	-	19 468 077	-	19 468 077	0.00	0.00
Payables from Exchange Transactions	-	-	-	-	-	-	106 705 228	-	69 627 328	287.79	304.81
Payables from Non-exchange Transactions	-	-	-	-	-	-	4 730 739	-	4 730 739	0.00	0.00
Unspent Conditional Grants and Receipts	-	-	-	-	-	-	9 952 857	-	9 952 857	0.00	0.00
VAT Payable	-	-	-	-	-	-	-	-	-	0.00	0.00
Short-term Loans	-	-	-	-	-	-	-	-	-	0.00	0.00
Operating Lease Liabilities	-	-	-	-	-	-	-	-	-	0.00	0.00
Liabilities associated with Assets Held-for-Sale	-	-	-	-	-	-	468 703	-	468 703	0.00	0.00
Bank Overdraft	-	-	-	-	-	-	33 547 821	-	33 547 821	0.00	0.00
Current Portion of Long-term Liabilities	-	-	-	-	-	-	-	-	-	0.00	0.00
Non-Current Liabilities											
Long-term Liabilities	-	-	-	-	-	-	59 880 245	-	59 880 245	0.00	0.00
Retirement Benefit Liabilities	-	-	-	-	-	-	67 989 999	-	67 989 999	0.00	0.00
Non-current Provisions	-	-	-	-	-	-	18 416 516	-	18 416 516	0.00	0.00
Total Liabilities	35 006 900	2 071 000	37 077 900	-	-	37 077 900	329 853 602	-	292 775 702	889.62	942.25
Total Assets and Liabilities	-	-	-	-	-	-	2 546 042 483	-	2 546 042 483	0.00	0.00
Net Assets (Equity)											
Statutory Funds	-	-	-	-	-	-	-	-	-	0.00	0.00
Reserves	-	-	-	-	-	-	2 546 042 483	-	2 546 042 483	0.00	0.00
Accumulated Surplus / (Deficit)	-	-	-	-	-	-	-	-	-	0.00	0.00
Total Net Assets	-	-	-	-	-	-	2 546 042 483	-	2 546 042 483	0.00	0.00

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	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	R
Financial Position: Explanation of Variances between Approved Budget and Actual											
Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:											
Proper procedures to budget for Financial Position have not been developed and implemented. Furthermore, the system utilised does not carry budget for Financial Position and no budgetary control can be performed.											
Inventories:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Non-current Assets Held-for-Sale:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Receivables from Exchange Transactions:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Receivables from Non-exchange Transactions:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
VAT Receivable:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Cash and Cash Equivalents:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Operating Lease Receivables:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Current Portion of Finance Lease Receivables:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Current Portion of Long-term Receivables:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Property, Plant and Equipment:											
Council approved a budget of R 37m for the PPE addition in 2012/2013 financial year, the PPE actual include R 2.3billion opening balance											
Intangible Assets:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Investment Property:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Heritage Assets:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Biological Assets:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Non-current Investments:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Investments in Associates:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Finance Lease Receivables:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Long-term Receivables:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Consumer Deposits:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Provisions:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Payables from Exchange Transactions:											
The budget amount of R 37m is grant funding to the Capital expenditure budget and No other budget amount was allocated for the other payables from exchange transactions											
Payables from Non-exchange Transactions:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Unspent Conditional Grants and Receipts:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
VAT Payable:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Short-term Loans:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Operating Lease Liabilities:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Liabilities associated with Assets Held-for-Sale:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Bank Overdraft:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Current Portion of Long-term Liabilities:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Long-term Liabilities:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
No budget amount was approved by Council on the related item for the 2012/2013 financial year	R	R	R	R	R	R	R	R	R	R	R
Retirement Benefit Liabilities:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Non-current Provisions:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Statutory Funds:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Reserves:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Accumulated Surplus / (Deficit):											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											

30 June 2013

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
FINANCIAL PERFORMANCE											
Revenue from Non-exchange Transactions	114 879 968	(854 036)	114 025 932	-	-	114 025 932	113 542 635	-	(483 297)	99.58	98.84
Property Rates	3 032 737	-	3 032 737	-	-	3 032 737	1 035 182	-	(1 997 555)	34.13	0.00
Fines	17 229 019	-	17 229 019	-	-	17 229 019	7 268 669	-	(9 960 350)	42.19	42.19
Licences and Permits	-	-	-	-	-	-	-	-	-	0.00	0.00
Income for Agency Services	90 043 900	6 649 421	96 693 321	-	-	96 693 321	82 275 676	-	(14 417 645)	85.09	91.37
Government Grants and Subsidies Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Public Contributions and Donations	-	-	-	-	-	-	-	-	-	0.00	0.00
Revenue from Exchange Transactions	301 787 388	-	301 787 388	-	-	301 787 388	283 722 669	-	(18 064 719)	94.01	94.01
Service Charges	481 099	81 560	562 659	-	-	562 659	675 855	-	113 195	120.12	140.48
Rental of Facilities and Equipment	604 093	-	604 093	-	-	604 093	1 236 465	-	632 372	204.68	204.68
Interest Earned - External Investments	5 284 265	-	5 284 285	-	-	5 284 285	6 458 023	-	1 163 738	121.98	121.98
Interest Earned - Outstanding Debtors	-	-	-	-	-	-	-	-	-	0.00	0.00
Dividends Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Royalties Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Other Income	10 632 894	2 299	10 635 193	-	-	10 635 193	12 187 810	-	1 552 617	114.62	114.62
Other Gains on Continued Operations	4 301	-	180 045	-	-	180 045	180 045	-	(0)	100.00	4 186.11
Gain on Disposal of Property, Plant and Equipment	-	175 744	180 045	-	-	180 045	180 045	-	-	0.00	0.00
Profit on Sale of Land	-	-	-	-	-	-	-	-	-	0.00	0.00
Total Revenue	543 989 684	6 054 988	550 044 672	-	-	550 044 672	508 583 027	-	(41 461 645)	92.46	93.49
Expenditure	174 569 797	6 682 000	181 241 797	-	-	181 241 797	193 298 330	12 057 533	12 057 533	106.65	110.74
Employee Related Costs	8 403 920	(21 630)	8 382 290	-	-	8 382 290	8 594 060	211 970	211 970	102.53	102.26
Remuneration of Councilors	235 176	-	235 176	-	-	235 176	151 814	-	(286 990)	0.00	0.00
Collection Costs	-	71 142 129	71 142 129	-	-	71 142 129	80 723 704	9 581 575	9 581 575	113.47	0.00
Depreciation and Amortisation	18 689 850	6 721 838	25 411 688	-	-	25 411 688	5 400 817	-	(20 010 871)	21.25	26.90
Impairment Losses	41 104 276	(2 165 588)	38 918 688	-	-	38 918 688	19 188 925	-	(19 719 763)	49.33	46.71
Repairs and Maintenance	28 088 295	(10 630 000)	17 458 295	-	-	17 458 295	18 858 348	1 401 053	1 401 053	108.03	67.14
Finance Costs	159 527 149	-	159 527 149	-	-	159 527 149	162 288 859	2 762 710	2 762 710	101.73	101.73
Bulk Purchases	63 000	-	63 000	-	-	63 000	21 300 009	6 949 304	6 949 304	148.42	141.77
Contracted Services	15 024 417	(673 712)	14 350 705	-	-	14 350 705	52 366 981	-	(14 455 576)	0.00	0.00
Grants and Subsidies Paid	61 829 043	4 993 514	66 822 557	-	-	66 822 557	52 366 981	-	(14 455 576)	84.70	84.70
Research and Development Costs	-	-	-	-	-	-	-	-	-	0.00	0.00
General Expenses	-	-	-	-	-	-	-	-	-	0.00	0.00
Other Losses on Continued Operations	-	-	-	-	-	-	-	-	-	0.00	0.00
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	-	-	0.00	0.00
Total Expenditure	507 524 923	76 028 351	583 553 274	-	-	583 553 274	561 981 219	32 864 145	(21 572 055)	96.30	110.73
Surplus/(Deficit)	36 464 761	(69 973 363)	(33 508 602)	-	-	(33 508 602)	(53 398 193)	(32 964 145)	(19 889 591)	0.00	0.00
Transfers Recognised - Capital	-	-	-	-	-	-	12 388 234	12 388 234	12 388 234	0.00	0.00
Contributions Recognised - Capital and Contributed Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Surplus/(Deficit) after Capital Transfers and	36 464 761	(69 973 363)	(33 508 602)	-	-	(33 508 602)	(41 009 956)	(20 575 911)	(7 501 366)	0.00	0.00
Surplus / (Deficit) from Discontinued Operations	-	-	-	-	-	-	-	-	-	0.00	0.00
Share of Surplus/(Deficit) of Associate	-	-	-	-	-	-	-	-	-	0.00	0.00
Surplus/(Deficit) for the Year	36 464 761	(69 973 363)	(33 508 602)	-	-	(33 508 602)	(41 009 956)	(20 575 911)	(7 501 366)	-	-

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
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:											
Property Rates:											
Budget outcome achieved											
Fines:											
Item was over-budgeted											
Licences and Permits:											
Item was over-budgeted											
Government Grants and Subsidies Received:											
Budget outcome achieved											
Service Charges:											
Budget outcome achieved											
Rental of Facilities and Equipment:											
Item was under-estimated											
Interest Earned - External Investments:											
Item was under-estimated											
Interest Earned - Outstanding Debtors:											
Item was under-estimated											
Other Income:											
Item was under-estimated											
Gains on Disposal of Property, Plant and Equipment:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											
Employee Related Costs:											
Budget outcome achieved											
Remuneration of Councillors:											
Budget outcome achieved											
Collection Costs:											
Budget outcome achieved											
Depreciation and Amortisation:											
Budget outcome achieved											
Impairment Losses:											
Item was over-budgeted											
Repairs and Maintenance:											
Item was over-budgeted											
Finance Costs:											
Budget outcome achieved											
Bulk Purchases:											
Budget outcome achieved											
Contracted Services:											
Item was over-budgeted											
Grants and Subsidies Paid:											
Item was under-estimated											
General Expenses:											
Item was under-estimated											
Transfers Recognised - Capital:											
No budget amount was approved by Council on the related item for the 2012/2013 financial year											

30 June 2013

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
CAPITAL EXPENDITURE PER FUNCTION											
Executive and Council											
Finance and Administration											
Planning and Development											
Health											
Community and Social Services											
Housing											
Public Safety											
Sport and Recreation											
Environmental Protection											
Waste Management											
Roads and Transport											
Water											
Electricity											
Other											
Total Capital Expenditure	35 606 500	(5 773 475)	29 233 425	-	-	29 233 425	-	-	(29 233 425)	0.00	0.00
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:											
Finance and Administration:											
Budget outcome achieved											
Public Safety:											
Budget outcome achieved											
Waste Management:											
Budget outcome achieved											
Water:											
Budget outcome achieved											
Electricity:											
Budget outcome achieved											

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R

30 June 2013

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
CASH FLOW											
Cash Flows from (used in) Operating Activities											
Property Rates	-	-	-	-	-	-	111 068 925	111 068 925	111 068 925	0.00	0.00
Grants	-	-	-	-	-	-	97 815 914	97 815 914	97 815 914	0.00	0.00
Public Contributions and Donations	-	-	-	-	-	-	-	-	-	0.00	0.00
Service Charges	-	-	-	-	-	-	-	-	-	0.00	0.00
Dividends Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Royalties Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Interest Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Other Receipts	-	-	-	-	-	-	1 236 465	1 236 465	1 236 465	0.00	0.00
Employee Related Costs	-	-	-	-	-	-	24 882 828	24 882 828	24 882 828	0.00	0.00
Remuneration of Councilors	-	-	-	-	-	-	(183 815 400)	-	(183 815 400)	0.00	0.00
Interest Paid	-	-	-	-	-	-	(8 594 060)	-	(8 594 060)	0.00	0.00
Suppliers Paid	-	-	-	-	-	-	(18 859 348)	-	(18 859 348)	0.00	0.00
Other Payments	-	-	-	-	-	-	(181 759 087)	-	(181 759 087)	0.00	0.00
	-	-	-	-	-	-	(87 765 337)	-	(87 765 337)	0.00	0.00
Cash Flows from (used in) Investing Activities											
Purchase of Property, Plant and Equipment	-	-	-	-	-	-	(25 069 805)	-	(25 069 805)	0.00	0.00
Purchase of Intangible Assets	-	-	-	-	-	-	(57 199)	-	(57 199)	0.00	0.00
Purchase of Investment Property	-	-	-	-	-	-	-	-	-	0.00	0.00
Purchase of Heritage Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	180 045	180 045	180 045	0.00	0.00
Proceeds on Disposal of Intangible Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Proceeds on Disposal of Investment Property	-	-	-	-	-	-	-	-	-	0.00	0.00
Proceeds on Disposal of Heritage Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Profit on Sale of Land	-	-	-	-	-	-	-	-	-	0.00	0.00
Decrease / (increase) in Non-current Investments	-	-	-	-	-	-	-	-	-	0.00	0.00
Decrease / (increase) in Investments in Associates	-	-	-	-	-	-	-	-	-	0.00	0.00
Decrease / (increase) in Long-term Receivables	-	-	-	-	-	-	-	-	-	0.00	0.00
Cash Flows from (used in) Financing Activities											
New Loans raised	-	-	-	-	-	-	-	-	-	0.00	0.00
Loans repaid	-	-	-	-	-	-	(11 311 069)	-	(11 311 069)	0.00	0.00
Increase / (Decrease) in Short-term Loans	-	-	-	-	-	-	-	-	-	0.00	0.00
Cash and Cash Equivalents at End of the Year							(11 162 203)	506 069 100	(11 162 203)	0.00	0.00
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:											

30 June 2012

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	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	R
FINANCIAL POSITION											
Current Assets											
Inventories	-	-	-	-	-	-	3 214 092	-	3 214 092	0.00	0.00
Non-current Assets Held-for-Sale	-	-	-	-	-	-	175 822 886	-	175 822 886	0.00	0.00
Receivables from Exchange Transactions	-	-	-	-	-	-	34 929 132	-	34 929 132	0.00	0.00
Receivables from Non-exchange Transactions	-	-	-	-	-	-	28 611 033	-	28 611 033	0.00	0.00
VAT Receivable	-	-	-	-	-	-	2 393 584	-	2 393 584	0.00	0.00
Cash and Cash Equivalents	-	-	-	-	-	-	17 395 847	-	17 395 847	0.00	0.00
Operating Lease Receivables	-	-	-	-	-	-	87 753	-	87 753	0.00	0.00
Current Portion of Finance Lease Receivables	-	-	-	-	-	-	-	-	-	0.00	0.00
Current Portion of Long term Receivables	-	-	-	-	-	-	38 865	-	38 865	0.00	0.00
Non-Current Assets											
Property, Plant and Equipment	38 151 900	(9 600 000)	28 551 900	-	-	28 551 900	2 586 157 029	-	2 557 605 129	9 057.74	6 778.58
Intangible Assets	-	-	-	-	-	-	150 446	-	150 446	0.00	0.00
Investment Property	-	-	-	-	-	-	66 167 010	-	66 167 010	0.00	0.00
Heritage Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Biological Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Non-current Investments	-	-	-	-	-	-	-	-	-	0.00	0.00
Investments in Associates	-	-	-	-	-	-	-	-	-	0.00	0.00
Finance Lease Receivables	-	-	-	-	-	-	-	-	-	0.00	0.00
Long-term Receivables	-	-	-	-	-	-	385 900	-	385 900	0.00	0.00
Total Assets	38 151 900	(9 600 000)	28 551 900			28 551 900	2 915 353 576		2 886 801 676	10 210.72	7 541.44
Current Liabilities											
Consumer Deposits	-	-	-	-	-	-	7 606 800	-	7 606 800	0.00	0.00
Provisions	-	-	-	-	-	-	18 332 915	-	18 332 915	0.00	0.00
Payables from Exchange Transactions	38 151 900	(9 600 000)	28 551 900	-	-	28 551 900	107 371 987	-	78 820 087	376.06	281.43
Payables from Non-exchange Transactions	-	-	-	-	-	-	5 024 287	-	5 024 287	0.00	0.00
Unspent Conditional Grants and Receipts	-	-	-	-	-	-	13 104 861	-	13 104 861	0.00	0.00
VAT Payable	-	-	-	-	-	-	-	-	-	0.00	0.00
Short-term Loans	-	-	-	-	-	-	-	-	-	0.00	0.00
Operating Lease Liabilities/Payables	-	-	-	-	-	-	1 116 719	-	1 116 719	0.00	0.00
Liabilities associated with Assets Held-for-Sale	-	-	-	-	-	-	27 605 937	-	27 605 937	0.00	0.00
Bank Overdraft	-	-	-	-	-	-	-	-	-	0.00	0.00
Current Portion of Long term Liabilities	-	-	-	-	-	-	-	-	-	0.00	0.00
Non-Current Liabilities											
Long-term Liabilities	-	-	-	-	-	-	71 191 313	-	71 191 313	0.00	0.00
Pension Benefit Liabilities	-	-	-	-	-	-	60 757 999	-	60 757 999	0.00	0.00
Non-current Provisions	-	-	-	-	-	-	16 188 316	-	16 188 316	0.00	0.00
Total Liabilities	38 151 900	(9 600 000)	28 551 900			28 551 900	328 301 135		299 749 235	1 149.84	860.51
Total Assets and Liabilities							2 587 052 442		2 587 052 442	0.00	0.00
Net Assets (Equity)											
Statutory Funds	-	-	-	-	-	-	-	-	-	0.00	0.00
Reserves	-	-	-	-	-	-	-	-	-	0.00	0.00
Accumulated Surplus / (Deficit)	-	-	-	-	-	-	2 587 052 441	-	2 587 052 441	0.00	0.00
Total Net Assets							2 587 052 441		2 587 052 441	0.00	0.00

Description	Original	Budget	Final	Shifting	Virement	Final	Actual	Unauthorised	Variance	Actual Outcome	Actual Outcome
	Total Budget R	Adjustments R	Adjustments Budget R	of Funds R	R	Budget R	Outcome R	Expenditure R	R	as % of Final Budget R	as % of Original Budget R
Financial Position: Explanation of Variances between Approved Budget and Actual											
Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the Various Items disclosed in the Statement of Financial Position are explained below:											
Proper procedures to budget for Financial Position have not been developed and implemented. Furthermore, the system utilised does not carry budget for Financial Position and no budgetary control can be performed.											
Inventory:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Receivables from Exchange Transactions:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Receivables from Non-exchange Transactions:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Cash and Cash Equivalents:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Operating Lease Receivables:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Current Portion of Long-term Receivables:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Property, Plant and Equipment:											
Council approved a budget of R 28m for the PPE addition in 2011/2012 financial year; the PPE actual include the opening balance											
Intangible Assets:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Investment Property:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Long-term Receivables:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Consumer Deposits:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Provisions:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Payables from Exchange Transactions:											
The budget amount of R 28m is grant funding to the Capital expenditure budget and No other budget amount was allocated for the other payables from exchange transactions											
Payables from Non-exchange Transactions:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Unspent Conditional Grants and Receipts:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
VAT Payable:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Bank Overdraft:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Current Portion of Long-term Liabilities:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Long-term Liabilities:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Retirement Benefit Liabilities:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Non-current Provisions:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Accumulated Surplus / (Deficit):											
No budget amount was approved by Council on the related item for the 2011/2012 financial year											

30 June 2012

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
FINANCIAL PERFORMANCE											
Revenue from Non-exchange Transactions											
Property Rates	109 414 524	(4 132 736)	105 281 788	-	-	105 281 788	103 602 651	-	(1 679 137)	98.41	94.69
Property Rates - Penalties imposed and collection charges	2 378 253	493 855	2 871 908	-	-	2 871 908	2 879 888	-	7 980	100.28	0.00
Fines	13 584 594	2 730 755	16 315 349	-	-	16 315 349	7 304 080	-	(9 011 269)	44.77	53.77
Licences and Permits				-	-			-	0.00	0.00	0.00
Income for Agency Services	70 156 000	4 794 591	74 950 591	-	(1 150 100)	73 800 491	70 679 935	-	(3 120 556)	95.77	100.75
Government Grants and Subsidies Received				-	-			-	0.00	0.00	0.00
Public Contributions and Donations				-	-			-	0.00	0.00	0.00
Revenue from Exchange Transactions											
Service Charges	262 612 283	7 391 843	270 004 126	-	-	270 004 126	285 081 772	-	(4 922 354)	98.18	100.94
Rental of Facilities and Equipment	540 093	(84 951)	455 142	-	-	455 142	722 796	-	267 654	158.81	133.83
Interest Earned - External Investments	554 658	17 388	572 056	-	-	572 056	946 448	-	374 392	165.45	170.63
Interest Earned - Outstanding Debtors	7 668 639	(2 675 112)	5 013 527	-	-	5 013 527	6 646 186	-	1 632 659	132.57	96.44
Dividends Received				-	-			-	0.00	0.00	0.00
Royalties Received				-	-			-	0.00	0.00	0.00
Other Income	28 355 444	(20 216 736)	8 138 708	-	1 150 100	9 288 808	8 168 477	-	(1 120 331)	87.94	28.81
Other Gains on Continued Operations				-	-			-	0.00	0.00	0.00
Gains on Disposal of Property, Plant and Equipment				-	4 072	4 072	(5 260)	-	(9 332)	0.00	0.00
Profit on Sale of Land	26 000 000	(25 395 929)	4 072	-	(4 072)	-	-	-	-	0.00	0.00
Total Revenue	521 284 498	(37 677 231)	483 607 267	-	-	483 607 267	466 026 973	-	(17 580 294)	96.36	89.40
Expenditure											
Employee Related Costs	168 467 389	5 735 898	172 203 287	-	640 415	172 843 702	182 822 233	9 978 531	9 978 531	105.77	109.82
Remuneration of Councillors	9 458 039	(1 216 210)	7 951 799	-	380 000	8 331 799	7 953 651	-	(348 138)	95.82	87.08
Collection Costs				-	-			622 156	622 156	0.00	0.00
Depreciation and Amortisation				-	-			77 007 101	77 007 101	0.00	0.00
Impairment Losses	25 379 290	-	25 379 290	-	-	25 379 290	29 743 773	4 364 483	4 364 483	117.20	117.20
Repairs and Maintenance	32 458 928	(14 288 829)	19 182 000	-	(5 000)	19 177 000	15 381 353	-	(3 795 607)	80.21	45.96
Finance Costs	24 012 487	(8 228 887)	15 783 600	-	5 896	15 791 306	20 859 098	5 067 792	5 067 792	132.09	86.87
Bulk Purchases	140 512 521	(931 881)	139 580 640	-	-	139 580 640	152 662 795	13 102 155	13 102 155	109.39	106.66
Contracted Services	56 818	(49 019)	7 799	-	-	7 799	7 799	-	(0)	100.00	13.73
Grants and Subsidies Paid	14 981 848	782 781	15 764 629	-	-	15 764 629	18 186 524	2 421 895	2 421 895	115.36	121.39
Research and Development Costs				-	-			-	-	0.00	0.00
General Expenses	54 049 775	6 393 007	60 438 782	-	(1 022 632)	59 416 150	48 374 429	-	(11 041 721)	81.42	89.50
Other Losses on Continued Operations				-	-			-	-	0.00	0.00
Loss on Disposal of Property, Plant and Equipment				-	-			-	-	0.00	0.00
Total Expenditure	468 066 975	(11 803 139)	456 263 836	-	(1 521)	456 232 315	553 670 962	112 564 113	97 378 647	121.34	118.28
Surplus/(Deficit)											
Transfers Recognised - Capital	53 187 523	(25 874 092)	27 313 431	-	1 521	27 314 952	(87 643 989)	(112 564 113)	(114 958 941)	0.00	0.00
Contributions Recognised - Capital and Contributed Assets				-	-			82 775	82 775	0.00	0.00
Surplus/(Deficit) after Capital Transfers and	53 187 523	(25 874 092)	27 313 431	-	1 521	27 314 952	(87 561 214)	(112 481 338)	(114 876 166)	0.00	0.00
Surplus / (Deficit) from Discontinued Operations	-	-	-	-	-	-	-	-	-	0.00	0.00
Share of Surplus/(Deficit) of Associate	-	-	-	-	-	-	-	-	-	0.00	0.00
Surplus/(Deficit) for the Year	53 187 523	(25 874 092)	27 313 431	-	1 521	27 314 952	(87 561 214)	(112 481 338)	(114 876 166)	-	-

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	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	R
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:											
Property Rates: budget outcome achieved											
Fines: budget outcome achieved											
Licences and Permits: item over estimated											
Government Grants and Subsidies Received: budget outcome achieved											
Service Charges: budget outcome achieved											
Rental of Facilities and Equipment: item under-estimated											
Interest Earned - External Investments: item under-estimated											
Interest Earned - Outstanding Debtors: item under-estimated											
Other Income: item under-estimated											
Employee Related Costs: budget outcome achieved											
Remuneration of Councillors: budget outcome achieved											
Collection Costs: No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Depreciation and Amortisation: No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Impairment Losses: item under-estimated											
Repairs and Maintenance: item over-estimated											
Finance Costs: item over-estimated											
Risk Purchases: budget outcome achieved											
Contracted Services: budget outcome achieved											
Grants and Subsidies Paid: item under-estimated											
General Expenses: budget outcome achieved											
Loss on Disposal of Property, Plant and Equipment: No budget amount was approved by Council on the related item for the 2011/2012 financial year											
Transfers Recognised - Capital: No budget amount was approved by Council on the related item for the 2011/2012 financial year											

30 June 2012

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	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	R
CAPITAL EXPENDITURE PER FUNCTION											
Executive and Council											
Finance and Administration		203 821	203 821	-	-	203 821	203 821	-	-	100.00	0.00
Planning and Development		270 986	270 986	-	-	270 986	270 986	-	-	100.00	0.00
Health											
Community and Social Services	3 000 000	(3 000 000)		-	-			-	-	0.00	0.00
Housing											
Public Safety	500 000	(500 000)		-	-			-	-	0.00	0.00
Sport and Recreation											
Environmental Protection											
Waste Management	3 500 000	13 942 200	13 942 200	-	-	13 942 200	13 942 200	-	-	100.00	0.00
Roads and Transport	11 234 200	(3 500 000)		-	-			-	-	0.00	0.00
Water	2 300 000	16 955 448	4 278 752	-	-	4 278 752	4 278 752	-	-	100.00	38.05
Electricity		1 046 397	3 346 397	-	-	3 346 397	3 346 397	-	-	100.00	145.50
Other	17 607 700	(17 607 700)		-	-			-	-	0.00	0.00
Total Capital Expenditure	38 151 900	(16 109 744)	22 042 156	-	-	22 042 156	22 042 156	-	-	100.00	57.77
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:											
Finance and Administration:											
Budget outcome achieved											
Planning and Development:											
Budget outcome achieved											
Community and Social Services:											
Budget outcome achieved											
Sport and Recreation:											
Budget outcome achieved											
Waste Management:											
Budget outcome achieved											
Roads and Transport:											
Budget outcome achieved											
Water:											
Budget outcome achieved											
Electricity:											
Budget outcome achieved											
Other:											
No budget amount was approved by Council on the related item for the 2011/2012 financial year.											

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome	Actual Outcome
										as % of Final Budget	as % of Original Budget
30 June 2012											
Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
CASH FLOW											
Cash Flows from/(used in) Operating Activities											
Property Rates	-	-	-	-	-	-	95 877 951	95 877 951	95 877 951	0.00	0.00
Grants	-	-	-	-	-	-	70 633 703	70 633 703	70 633 703	0.00	0.00
Public Contributions and Donations	-	-	-	-	-	-	-	-	-	0.00	0.00
Service Charges	-	-	-	-	-	-	-	-	-	0.00	0.00
Dividends Received	-	-	-	-	-	-	252 306 969	252 306 969	252 306 969	0.00	0.00
Royalties Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Interest Received	-	-	-	-	-	-	-	-	-	0.00	0.00
Other Receipts	-	-	-	-	-	-	946 448	946 448	946 448	0.00	0.00
Employee Related Costs	-	-	-	-	-	-	26 929 981	26 929 981	26 929 981	0.00	0.00
Remuneration of Councillors	-	-	-	-	-	-	(144 888 648)	(144 888 648)	(144 888 648)	0.00	0.00
Interest Paid	-	-	-	-	-	-	(7 983 661)	(7 983 661)	(7 983 661)	0.00	0.00
Suppliers Paid	-	-	-	-	-	-	(20 859 098)	(20 859 098)	(20 859 098)	0.00	0.00
Other Payments	-	-	-	-	-	-	(108 963 411)	(108 963 411)	(108 963 411)	0.00	0.00
	-	-	-	-	-	-	(96 298 862)	(96 298 862)	(96 298 862)	0.00	0.00
Cash Flows from/(used in) Investing Activities											
Purchase of Property, Plant and Equipment	-	-	-	-	-	-	(37 774 577)	(37 774 577)	(37 774 577)	0.00	0.00
Purchase of Intangible Assets	-	-	-	-	-	-	(53 778)	(53 778)	(53 778)	0.00	0.00
Purchase of Investment Property	-	-	-	-	-	-	-	-	-	0.00	0.00
Purchase of Heritage Assets	-	-	-	-	-	-	(5 260)	(5 260)	(5 260)	0.00	0.00
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	-	-	0.00	0.00
Proceeds on Disposal of Intangible Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Proceeds on Disposal of Investment Property	-	-	-	-	-	-	-	-	-	0.00	0.00
Proceeds on Disposal of Heritage Assets	-	-	-	-	-	-	-	-	-	0.00	0.00
Profit on Sale of Land											
Decrease / (increase) in Non-current Investments	-	-	-	-	-	-	-	-	-	0.00	0.00
Decrease / (increase) in Investments in Associates	-	-	-	-	-	-	-	-	-	0.00	0.00
Decrease / (increase) in Long-term Receivables	-	-	-	-	-	-	-	-	-	0.00	0.00
	-	-	-	-	-	-	292 490	292 490	292 490	0.00	0.00
Cash Flows from/(used in) Financing Activities											
New Loans raised	-	-	-	-	-	-	-	-	-	0.00	0.00
Loans repaid	-	-	-	-	-	-	(28 868 499)	(28 868 499)	(28 868 499)	0.00	0.00
Increase / (Decrease) in Short-term Loans	-	-	-	-	-	-	-	-	-	0.00	0.00
Cash and Cash Equivalents at End of the Year							1 291 748	446 987 543	1 291 748	0.00	0.00

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of Funds	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of	
										Final Budget	Original Budget
	R	R	R	R	R	R	R	R	R	R	R

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:

Proper procedures to budget for Cash Flow have not been developed and implemented. Furthermore, the system utilised does not carry budget for Cash Flow and no budgetary control can be performed.

RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE:

Description	2012/13		2011/12	
	R		R	
Net surplus/(deficit) per the statement of financial performance	(41 609 958)		(87 551 214)	
Revenue from Non-exchange Transactions				
Property Rates				
Penalties imposed and collection charges				
Fines				
Licences and Permits				
Revenue for Agency Services				
Government Grants and Subsidies Received				
Public Contributions and Donations				
Revenue from Exchange Transactions				
Service Charges				
Rental of Facilities and Equipment				
Interest Earned - External Investments				
Interest Earned - Outstanding Debtors				
Dividends Received				
Royalties Received				
Other Revenue				
Other Gains on Continued Operations				
Gains on Disposal of Property, Plant and Equipment				
Profit on Sale of Land				
Expenditure				
Employee Related Costs				
Remuneration of Councilors				
Collection Costs				
Depreciation and Amortisation				
Impairment Losses				
Repairs and Maintenance				
Finance Costs				
Bulk Purchases				
Contracted Services				
Grants and Subsidies Paid				
Research and Development Costs				
General Expenses				
Other Losses on Continued Operations				
Loss on Disposal of Property, Plant and Equipment				
Net surplus/deficit per approved budget	(33 508 602)		53 187 523	

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2013
R

2012
R

1. GENERAL INFORMATION

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

2. INVENTORIES

Consumable Stores - at cost	3 297 997	3 457 649
Water - at cost	225 803	225 803
Total inventories	3 523 800	3 683 452
Less: Provision for obsolete stock	(10 755)	(469 360)
Total inventory	3 513 045	3 214 092

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

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

3. NON-CURRENT ASSETS HELD-FOR-SALE

Property Held-for-Sale - at cost	175 822 886	175 822 886
Net Non-current Assets Held-for-Sale	175 822 886	175 822 886

ASSETS HELD FOR SALE	
Motor Vehicles	119 952.72
Office Equipment	34 486.59
Plant & Equipment	3 892.69
Furniture & Fittings	7 709.57
Land Held For Sale	142 962 850.00
Buildings Held For Sale	32 700 000.00
Total	175 822 885.57

3.1 Property Held-for-Sale

The municipality intends to dispose of some of its vehicles, plant & equipment, land and buildings through public auction within the next 12 months. The impairment losses/depreciation was recognised on reclassification of the property as held-for-sale at 30 June 2013.

4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Net Balances R
As at 30 June 2013	
Service Debtors:	81 464 548
Electricity	32 219 511
Refuse	12 123 423
Sewerage	12 354 356
Water	24 767 258
Other Receivables	13 116 635
EMF	1 099 640
Loan Instalments	-
Other Debtors	12 016 995
Total Receivables from Exchange Transactions	94 581 183
Provision for impairment	(46 690 429)
Net balance	47 890 754

	Net Balances R
As at 30 June 2012	
Service Debtors:	75 382 599
Electricity	32 924 864
Refuse	9 956 806
Sewerage	11 046 394
Water	21 454 445
Other Receivables	6 311 486
EMF	1 289 177
Loan Instalments	-
Other Debtors	5 022 291
Total Receivables from Exchange Transactions	81 694 067
Provision for impairment	(46 764 935)
Net balance	34 929 132

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2013
R

2012
R

4.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2013

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	15 589 405	2 752 729	1 086 284	12 791 093	32 219 511
	15 589 405	2 752 729	1 086 284	12 791 093	32 219 511
Refuse:					
Gross Balances	1 458 400	611 818	455 409	9 597 797	12 123 423
	1 458 400	611 818	455 409	9 597 797	12 123 423
Sewerage:					
Gross Balances	1 822 861	700 413	506 889	9 324 193	12 354 356
	1 822 861	700 413	506 889	9 324 193	12 354 356
Water:					
Gross Balances	2 074 635	1 074 513	852 306	20 765 604	24 767 258
	2 074 635	1 074 513	852 306	20 765 604	24 767 258
Other Receivables:					
EMF				1 099 640	1 100 035
Other				12 016 599	12 016 599
	-	-	-	13 116 239	13 116 634
Total gross receivables from exchange	20 945 301	5 139 473	2 900 887	65 595 126	94 581 183
Provision for impairment					(45 690 429)
Total net receivables from exchange					47 890 754

As at 30 June Receivables of R73 635 486 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	5 139 473	2 900 887	65 595 126	73 635 486
Less: Provision for impairment				
Net Balances	5 139 473	2 900 887	65 595 126	73 635 486

As at 30 June 2012

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	37 723 050	(1 343 775)	(2 259 647)	(1 194 764)	32 924 864
Net Balances	37 723 050	(1 343 775)	(2 259 647)	(1 194 764)	32 924 864
Refuse:					
Gross Balances	367 548	744 559	622 708	8 222 081	9 956 896
Net Balances	367 548	744 559	622 708	8 222 081	9 956 896
Sewerage:					
Gross Balances	(9 735 299)	2 597 003	2 491 957	15 692 732	11 046 393
Net Balances	(9 735 299)	2 597 003	2 491 957	15 692 732	11 046 393
Water:					
Gross Balances	(6 800 986)	2 526 597	2 367 554	23 361 280	21 454 445
Net Balances	(6 800 986)	2 526 597	2 367 554	23 361 280	21 454 445

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

			2013 R	2012 R
Other Receivables:				
EMF			1 289 177	1 289 177
Other			5 022 291	5 022 291
Net Balances			6 311 468	6 311 468
Total gross receivables from exchange	21 554 314	4 524 384	3 222 571	52 392 798
Provision for impairment				(46 764 935)
Total net receivables from exchange				34 829 132

As at 30 June Receivables of R65 882 816 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	4 524 384	3 222 571	52 392 798	60 139 753
Less: Provision for impairment				
Net Balances	4 524 384	3 222 571	52 392 798	60 139 753

4.2 Summary of Receivables from Exchange Transactions by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2013				
<u>Current:</u>				
0 - 30 days	12 221 230	7 812 997	324 113	587 288
<u>Past Due:</u>				
31 - 60 Days	810 973	3 869 710	213 264	246 525
61 - 90 Days	1 971 097	555 035	98 799	275 967
+ 90 Days	46 020 862	3 666 299	1 479 262	14 428 772
Sub-total	61 024 162	15 904 041	2 115 438	15 537 542
Less: Provision for impairment	(34 952 252)	(2 310 377)	(239 967)	(9 187 632)
Total Trade Receivables by Customer Classification	26 071 910	13 593 663	1 875 471	6 349 710

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2012				
<u>Current:</u>				
0 - 30 days	17 416 012	3 406 593	261 518	450 190
<u>Past Due:</u>				
31 - 60 Days	3 456 253	612 048	151 829	304 264
61 - 90 Days	2 343 392	470 817	146 752	261 611
+ 90 Days	43 177 412	3 012 465	1 415 017	10 530 967
Sub-total	66 393 069	7 501 923	1 995 115	11 547 022
Less: Provision for impairment	(33 802 222)	(2 895 882)	(282 561)	(9 784 270)
Total Trade Receivables by Customer Classification	32 590 847	4 606 040	1 712 554	1 762 752

	2013 R	2012 R
4.3 Reconciliation of the Provision for Impairment		
Balance at beginning of year	(63 513 196)	(38 911 505)
All Consumer Debtors - Exchange transactions	(46 764 935)	7 517 687
Assessment Rates Debtors - Non - Exchange transactions	(16 748 261)	(46 429 202)
Impairment Losses recognised	(1 304 721)	(24 601 691)
All Consumer Debtors	74 506	(54 282 632)
Assessment Rates Debtors	(1 379 227)	29 680 941
Balance at end of year	(64 817 916)	(63 513 196)

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2013
R

2012
R

The transactions for *Provision for impairment* have been restated to correctly classify amounts held for Assessment Rates Debtors, now included in Trade Receivables from Non-exchange Transactions, in terms of GRAP 104. Refer to Note 38.2 on "Change in Accounting Policy" for details of the restatement.

Change in Accounting Estimate in relation to Provision for Impairment - Housing Loans has been affected (Refer to Note 40.1).

In determining the recoverability of a Receivable, the municipality considers any change in the credit quality of the Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

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.

4.4 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.
 The municipality did not pledge any of its Receivables as security for borrowing purposes.

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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
	Gross Balances R	Provision for Impairment R
As at 30 June 2013		Net Balances R
Assessment Rates Debtors	36 920 035	(18 127 487)
Other Receivables	5 385 063	5 385 063
Total Receivables from Non-exchange Transactions	42 305 098	(18 127 487)
	Gross Balances R	Provision for Impairment R
As at 30 June 2012		Net Balances R
Assessment Rates Debtors	34 660 339	(16 748 261)
Other Receivables	10 698 955	10 698 955
Total Receivables from Non-exchange Transactions	45 359 294	(16 748 261)

5.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2013

	Current 0 - 30 days	Past Due 31 - 60 Days	61 - 90 Days	+ 90 Days	Total
Assessment Rates:					
Gross Balances	4 023 675	912 689	517 995	31 465 676	36 920 035
Less: Provision for Impairment					(18 127 487)
Net Balances	4 023 675	912 689	517 995	31 465 676	18 792 548
Other Receivables					
Gross Balances	-	-	-	-	5 385 063
Less: Provision for Impairment	-	-	-	-	-
Net Balances	-	-	-	-	5 385 063

As at 30 June Receivables of R32 896 360 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due 31 - 60 Days	61 - 90 Days	+ 90 Days	Total
All Receivables:				
Assessment Rates	912 689	517 995	31 465 676	32 896 360
Other Receivables				
Less: Provision for Impairment				
Gross balances	912 689	517 995	31 465 676	32 896 360

As at 30 June 2012

	Current 0 - 30 days	Past Due 31 - 60 Days	61 - 90 Days	+ 90 Days	Total
Assessment Rates:					
Gross Balances	1 588 195	947 620	640 896	31 483 628	34 660 339
Less: Provision for Impairment					(16 748 261)
Net Balances	1 588 195	947 620	640 896	31 483 628	17 912 078
Other receivables					
Gross Balances	-	-	-	-	10 698 955
Less: Provision for Impairment	-	-	-	-	-
Net Balances	-	-	-	-	10 698 955

As at 30 June Receivables of R33 072 144 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due 31 - 60 Days	61 - 90 Days	+ 90 Days	Total
All Receivables:				
Gross Balances	947 620	640 896	31 483 628	33 072 144
Less: Provision for Impairment				
Gross balances	947 620	640 896	31 483 628	33 072 144

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013		2012	
	R		R	
5.2 Summary of Assessment Rates Debtors by Customer Classification				
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2013				
<u>Current:</u>				
0 - 30 days	29 145	-	-	256
<u>Past Due:</u>				
31 - 60 Days	3 316 877	614 190	8 917	135 028
61 - 90 Days	754 487	102 439	1 143	53 345
+ 90 Days	18 406 149	1 911 159	1 315 633	10 271 266
Sub-total	22 506 657	2 627 789	1 325 693	10 459 896
Less: Provision for impairment	(11 804 229)	(1 655 507)	(2 785)	(4 664 966)
Total Rates Debtors by Customer Classification	10 702 428	972 282	1 322 908	5 794 930
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2012				
<u>Current:</u>				
0 - 30 days	3 440 698	132 684	2 022	105 502
<u>Past Due:</u>				
31 - 60 Days	811 946	50 919	1 883	70 602
61 - 90 Days	502 151	32 163	1 822	62 598
+ 90 Days	16 200 703	183 177	3 652 805	9 406 662
Sub-total	20 955 498	398 944	3 656 533	9 647 364
Less: Provision for impairment	(10 820 146)	(189 331)	(3 059)	(5 735 725)
Total Rates Debtors by Customer Classification	10 135 352	209 612	3 655 474	3 911 639

The transactions for *Provision for impairment* have been restated to correctly classify amounts held for Assessment Rates Debtors, previously included in Receivables from Exchange Transactions, in terms of GRAP 104. Refer to Note 37 on "Change in Accounting Policy" for details of the restatement.

The Provision for impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

The Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

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

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

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
6. VAT RECEIVABLE		
Vat Receivable	4 501 730	2 393 584
Vat Receivable	<u>4 501 730</u>	<u>2 393 584</u>
Vat is payable on the cash basis. Only once payment is received from debtors, VAT is paid over to SARS.		
No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies.		
7. CASH AND CASH EQUIVALENTS		
Current Investments	18 540 246	17 401 277
Bank Overdraft	(468 703)	(1 116 719)
Cash and Cash Equivalents	(6 180)	(5 430)
Total Bank, Cash and Cash Equivalents	<u>18 065 363</u>	<u>16 279 128</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, net of outstanding Bank Overdrafts.		
7.1 Current Investment Deposits		
Call Deposits	18 540 246	17 401 277
Total Current Investment Deposits	<u>18 540 246</u>	<u>17 401 277</u>
Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 3,00 % to 5,00 % (2011: 4,90% to 5,50%) per annum.		
Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5,54 % to 5,68 % (2011: 5,40 % to 6,53 %) per annum.		
Deposits attributable to Unspent Conditional Grants	16 433 718	15 385 751
Deposits attributable to General Investments	2 106 528	2 015 526
Total Deposits attributable to Commitments of the Municipality	<u>18 540 246</u>	<u>17 401 277</u>
Deposits of R16 433 718 (2012: R15 385 751) are ring-fenced and attributable to Unspent Conditional Grants.		
Summary of Deposits per Institution		
ABSA	748 214	723 431
FNB	4 863 662	4 706 287
Nedbank	202 707	193 327
RMB	12 725 663	11 778 232
	<u>18 540 246</u>	<u>17 401 277</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
7.2 Bank Accounts		
Bank Overdraft	(468 703)	(1 116 719)
Total Bank Accounts	<u>(468 703)</u>	<u>(1 116 719)</u>
First National Bank - Jeffreys Bay		
Cash book balance at beginning of year	1 116 719	(33 728 108)
Cash book balance at end of year	<u>(468 703)</u>	<u>(1 116 719)</u>
 <i>Account Number 525 400 207 91 (Primary Bank Account):</i>		
Bank statement balance at beginning of year	<u>(3 082 829)</u>	<u>(2 772 829)</u>
Bank statement balance at end of year	<u>(1 257 280)</u>	<u>(3 082 828)</u>
 <i>Account Number 525 400 335 04:</i>		
Bank statement balance at beginning of year	<u>3 388 408</u>	<u>841 345</u>
Bank statement balance at end of year	<u>1 082 428</u>	<u>3 388 408</u>
 Cash Floats and Advances	<u>-6 180</u>	<u>-5 430</u>
Total Bank and Cash	18 534 066	17 395 847
Total Overdraft	(468 703)	(1 116 719)
Total Bank and Cash	<u>18 065 363</u>	<u>16 279 128</u>
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.

8. 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	87 753	62 840
Operating Lease Revenue recorded	38 504	25 113
Total Operating Lease Receivables	<u>126 258</u>	<u>87 953</u>

8.1 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.

8.2 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	350 049	370 519
2 to 5 years	1 208 910	1 282 623
More than 5 years	1 077 469	1 353 805
Total Operating Lease Arrangements	<u>2 636 428</u>	<u>3 006 947</u>

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 R38 504 (2012: increase of R25 113) in current year income.

9. CURRENT PORTION OF LONG-TERM RECEIVABLES

Other Loans	9 000	38 865
Total Current Portion of Long-term Receivables	<u>9 000</u>	<u>38 865</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

10 PROPERTY, PLANT AND EQUIPMENT
30 June 2013

Reconciliation of Carrying Value

Description	Land	Buildings	Land and Buildings	Infra-structure	Community	Other	Leased Infra-structure	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2012	383 783 150	60 586 364	444 369 504	2 013 916 178	77 493 000	36 807 036	14 569 310	2 586 167 029
Cost	383 783 150	90 026 369	473 809 519	2 515 664 736	77 493 000	58 363 146	38 153 432	3 163 483 833
- Completed Assets								
- Under Construction	383 783 150	90 026 369	473 809 519	2 468 476 312	77 493 000	58 363 146	38 153 432	3 118 295 409
				47 188 425				47 188 425
Revaluation								
Accumulated Impairment Losses								
Accumulated Depreciation:		(29 440 015)	(29 440 015)	(501 746 558)	-	(22 556 110)	(23 584 122)	(577 326 804)
- Cost		(29 440 015)	(29 440 015)	(501 746 558)		(22 556 110)	(23 584 122)	(577 326 804)
- Revaluation								
Acquisitions				28 631 441.00		544 785		29 176 225.91
Borrowing Costs Capitalised								
Capital under Construction - Additions:								
- Cost								
- Additions								
- Transfer in								
- Borrowing Costs Capitalised								
Increases in Revaluation								
Reversals of Impairment Losses								
Depreciation:								
- Based on Cost		(4 107 234)		(64 657 406)		(5 764 563)	(5 554 504)	(80 083 708)
- Based on Revaluation								
Decreases in Revaluation								
Impairment Losses								
Capital under Construction - Completed								
Other Movements								
- Cost								
- Revaluation								
- Accumulated Impairment Losses								
- Accumulated Depreciation:								
- Based on Cost								
- Based on Revaluation								
Carrying values at 30 June 2013	383 783 150	56 479 121	440 262 271	1 977 892 213	77 493 000	36 567 257	9 014 896	2 535 249 548
Cost	383 783 150	90 026 369	473 809 519	2 544 296 177	77 493 000	58 907 930	38 153 432	3 192 660 056
- Completed Assets								
- Under Construction	383 783 150	90 026 369	473 809 519	2 468 476 312	77 493 000	58 907 930	38 153 432	3 136 840 793
				75 819 866				75 819 866
Revaluation								
Accumulated Impairment Losses								
Accumulated Depreciation:		(33 547 248)	(33 547 248)	(566 403 964)	-	(28 320 673)	(29 138 626)	(657 410 511)
- Cost		(33 547 248)	(33 547 248)	(566 403 964)		(28 320 673)	(29 138 626)	(657 410 511)
- Revaluation								

30 June 2012

Reconciliation of Carrying Value

Description	Land	Buildings	Land and Buildings	Infra-structure	Community	Other	Leased infra-structure	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2011	383 783 150	64 405 019	448 188 169	2 052 806 405	77 493 000	39 938 247	20 263 635	2 638 689 456
Cost:	383 783 150	90 026 369	473 809 519	2 493 463 247	77 493 000	56 720 676	38 153 432	3 139 640 074
- Completed Assets	383 783 150	90 026 369	473 809 519	2 468 476 312	77 493 000	56 720 676	38 153 432	3 114 653 139
- Under Construction	-	-	-	24 986 935	-	-	-	24 986 935
Correction of error (Note 42)	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation:	-	(25 621 350)	(25 621 350)	(440 656 842)	-	(16 782 630)	(17 889 797)	(500 950 619)
- Cost	-	(25 621 350)	(25 621 350)	(440 656 842)	-	(16 782 630)	(17 889 797)	(500 950 619)
- Revaluation	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	22 201 489	-	1 642 270	-	23 843 759
Borrowing Costs Capitalised	-	-	-	-	-	-	-	-
Capital under Construction - Additions:	-	-	-	-	-	-	-	-
- Cost	-	-	-	-	-	-	-	-
- Additions	-	-	-	-	-	-	-	-
- Transfer in	-	-	-	-	-	-	-	-
- Borrowing Costs Capitalised	-	-	-	-	-	-	-	-
Increases in Revaluation	-	-	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-	-	-
Depreciation:	-	(3 818 665)	-	(61 089 716)	-	(5 773 481)	(5 694 325)	(76 376 186)
- Based on Cost	-	(3 818 665)	-	(61 089 716)	-	(5 773 481)	(5 694 325)	(76 376 186)
- Based on Revaluation	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation	-	-	-	-	-	-	-	-
- Based on Cost	-	-	-	-	-	-	-	-
- Based on Revaluation	-	-	-	-	-	-	-	-
Carrying values at 30 June 2012	383 783 150	60 586 354	444 366 505	2 013 918 178	77 493 000	35 807 036	14 569 310	2 586 157 029
Cost:	383 783 150	90 026 369	473 809 519	2 515 664 736	77 493 000	58 363 146	38 153 432	3 153 483 933
- Completed Assets	383 783 150	90 026 369	473 809 519	2 468 476 312	77 493 000	56 363 146	38 153 432	3 116 295 409
- Under Construction	-	-	-	47 188 425	-	-	-	47 188 425
Revaluation	-	-	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-	-	-
Accumulated Depreciation:	-	(29 440 015)	(29 440 014)	(501 746 558)	-	(22 556 110)	(23 584 122)	(577 326 804)
- Cost	-	(29 440 015)	(29 440 014)	(501 746 558)	-	(22 556 110)	(23 584 122)	(577 326 804)
- Revaluation	-	-	-	-	-	-	-	-

PROPERTY, PLANT AND EQUIPMENT (Continued)

Total Property, Plant and Equipment held by the municipality at 30 June 2013 amounted to R2,865,220,727 billion (2012: R 2,912,560,518 billion), consisting only of plant and Equipment less Intangible Assets and Investment Property. Refer to note 10 and 11 for intangible Assets and Investment Property.

Two Assets held for security Bank Loan for Covidraff of R5 million of R5 million of Erf 721 = R2.5m plus Erf 722 = R2.5m.

The leased Property, Plant and Equipment is secured as set out in Note 21.

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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
11 INTANGIBLE ASSETS		
At Cost less Accumulated Amortisation and Accumulated Impairment Losses	121 587	150 446
The movement in Intangible Assets is reconciled as follows:		
	Computer Software	Total
Carrying values at 01 July 2012	150 446	150 446
Cost	603 458	603 458
Accumulated Amortisation	(453 012)	(453 012)
Acquisitions:	57 198	57 198
Purchased	57 198	57 198
Work-in-Progress	-	-
Amortisation:	(86 057)	(86 057)
Purchased	(86 057)	(86 057)
Carrying values at 30 June 2013	121 587	121 587
Cost	660 656	660 656
Accumulated Amortisation	(539 069)	(539 069)
	Computer Software	Total
Carrying values at 01 July 2011	114 083	114 083
Cost	549 680	549 680
Accumulated Amortisation	(435 597)	(435 597)
Acquisitions:	53 778	53 778
Amortisation:	(17 415)	(17 415)
Purchased	(17 415)	(17 415)
Carrying values at 30 June 2012	150 446	150 446
Cost	603 458	603 458
Accumulated Amortisation	(453 012)	(453 012)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 33).

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

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

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

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

	2013 R	2012 R
12 INVESTMENT PROPERTY		
At Cost less Accumulated Depreciation	65 613 070	66 167 010
The movement in Investment Property is reconciled as follows:		
Carrying values at 1 July 2012	66 167 010	66 167 010
Cost	70 875 500	70 875 500
Accumulated Depreciation	(4 708 490)	(4 708 490)
Depreciation during the Year	(553 940)	-
Carrying values at 30 June 2013	65 613 070	66 167 010
Cost	70 875 500	70 875 500
Accumulated Depreciation	(5 262 430)	(4 708 490)

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

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

There are no contractual obligations on Investment Property.

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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
13 HERITAGE ASSETS		
The municipality has taken advantage of the transitional provisions in Directive 4 from the Accounting Standards Board with the implementation of GRAP 103. The municipality is currently in a process of identifying all Heritage Assets and have it valued in terms of GRAP 103 and it is expected that this process will be completed for inclusion in the 2014/15 Annual Financial Statements. It is possible that certain Heritage Assets are currently being recognised as Property, Plant and Equipment.		
14 LONG-TERM RECEIVABLES		
	Gross Balances R	Provision for Impairment R
As at 30 June 2013		Net Balances R
Other Loans	502 636	(166 107)
	502 636	(166 107)
Less: Current Portion transferred to Current Receivables:- Other Loans		-
Total Long-term Receivables		336 529
	Gross Balances R	Provision for Impairment R
As at 30 June 2012		Net Balances R
Other Loans	544 266	(158 366)
	544 266	(158 366)
Less: Current Portion transferred to Current Receivables:-		-
Total Long-term Receivables		385 900
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.		
14.1 Ageing of Long-term Receivables	2013 R	2012 R
<u>Current:</u>		
0 - 30 days	-	-
<u>Past Due:</u>		
31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	-	-
+ 120 Days	502 636	544 266
Total	502 636	544 266
As at 30 June Long-term Receivables of R502 636 (2012: R544 266) were past due but not impaired. No terms for payment have been re-negotiated. The age analysis of these Long-term Receivables is as follows:		
14.2 Reconciliation of the Provision for Impairment		
Balance at beginning of year	158 366	158 366
Impairment Losses recognised	166 107	158 366
Impairment Losses reversed	(158 366)	(158 366)
Amounts written off as uncollectable	-	-
Amounts recovered	-	-
Balance at end of year	166 107	158 366
15 CONSUMER DEPOSITS		
Electricity and Water	8 693 418	7 606 800
Total Consumer Deposits	8 693 418	7 606 800
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.		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	R	R
16 PROVISIONS		
Performance Bonuses	0	0
Current Portion of Non-Current Provisions (See Note 22):	19 468 077	18 332 915
Environmental clean-up	911 200	846 930
Long-term Service	1 721 000	1 408 000
Rehabilitation of Land-fill Sites	4 693 798	4 693 798
Post Retirement Benefits	1 878 000	1 530 000
Ex - gratia	74 000	75 000
Staff leave	10 190 079	9 779 187
Total Provisions	19 468 077	18 332 915

The movement in provisions are reconciled as follows:

Current Portion of Non-Current Provisions:

	Long-term Service	Post-retirement
	R	R
30 June 2013		
Balance at beginning of year	1 408 000	1 605 000
Transfer from non-current	1 721 000	1 952 000
Expenditure incurred	(1 408 000)	(1 605 000)
Balance at end of year	1 721 000	1 952 000

	Long-term Service	Post-retirement
	R	R
30 June 2012		
Balance at beginning of year	503 363	1 593 716
Transfer from non-current	1 408 000	1 605 000
Expenditure incurred	(503 363)	(1 593 716)
Balance at end of year	1 408 000	1 605 000

	Landfill Sites	Other Provisions
	R	R
30 June 2013		
Balance at beginning of year	4 693 798	846 930
Contributions to provision		64 370
Balance at end of year	4 693 798	911 300

	Landfill Sites	Other Provisions
	R	R
30 June 2012		
Balance at beginning of year	4 693 798	
Contributions to provision		846 930
Balance at end of year	4 693 798	846 930

Provision for environmental Clean-ups

Illegal dumping of builders' and other rubble is taken place throughout the Kouga area to the municipality's property. Contrary to S18A of Environmental Conservation Act, 73 (No 73 of 1989), the municipality has not cleared the illegal dumping and other rubble.

The municipality has accounted for a provision for the cost of clearing of builders' and other rubble as required by GRAP 19.20 - Provisions, contingent liabilities and contingent assets.

The net present value of the clean - ups cost has been determined as at 30 June 2013. The provision is the best estimate of the net present value of future clean - up costs. The payment dates of the cost to clean up the builders' and other rubble are uncertain, but are currently expected to be in the following years.

Provision for staff leave

The municipality has accounted for a provision for the leave days due to employees as required by GRAP 19.20 - Provisions, contingent liabilities and contingent assets.

The net present value of the amount of the leave balance due has been determined as at 30 June 2013. The provision is the best estimate of the net present value of future clean - up costs.

The payment dates of the cost to clean up the builders' and other rubble are uncertain, but are currently expected to be in the following years.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	R	R
	2013	2012
	R	R
17 PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade Creditors	103 399 191	105 391 249
Retentions	289 538	(5 034)
Other Creditors	3 016 499	1 985 772
Total Payables	106 705 228	107 371 987

Payables from Exchange transactions have been restated to correctly classify amounts due for Creditors not accrued for previously.

Furthermore, *Payables from Exchange Transactions* have been restated to correctly classify amounts held for Retentions erroneously written-off in the previous financial year.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. 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.

18 PAYABLES FROM NON-EXCHANGE TRANSACTIONS		
Payments Received in Advance	36 300	-
Sundry Deposits	4 818 646	4 985 512
Other Accounts Payable	76 793	38 776
Total Payables	4 730 739	5 024 287

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

19 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
19.1 Conditional Grants from Government	9 952 857	13 104 861
National Government Grants	1 640 333	4 987 502
Provincial Government Grants	7 372 159	7 351 459
Other Spheres of Government	940 365	765 900
Total Conditional Grants and Receipts	9 952 857	13 104 861

Unspent Conditional Grants and Receipts have been restated to correctly classify amounts held for Own and Public Contributions, previously included in Creditors. Refer to Note 41.1.5 on "Correction of Error" for details of the restatement.

Furthermore, *Unspent Conditional Grants and Receipts* have been restated to correctly classify amounts held for Own and Public Contributions with no conditions attached to them. Refer to Note 39.4 on "Correction of Error" for details of the restatement.

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

See Note 26 for the reconciliation of Grants from Government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
20 OPERATING LEASE LIABILITIES		
<i>Leasing Arrangements</i>		
The Municipality as Lessee:		
Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 5 years, with an		
Amounts payable under Operating Leases		
At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases		
Buildings:	27 655	191 761
Up to 1 year	27 655	191 761
2 to 5 years	-	-
More than 5 years	-	-
Other Equipment:		
Up to 1 year	-	-
2 to 5 years	-	-
More than 5 years	-	-
Total Operating Lease Arrangements	<u>27 655</u>	<u>191 761</u>
The following payments have been recognised as an expense in the Statement of Financial Performance:		
Minimum lease payments		
Minimum lease payments- Office Buildings	350 288	476 971
Minimum lease payments- Cellular Contracts	1 258 595	1 266 823
Total Operating Lease Expenses	<u>1 606 863</u>	<u>1 743 794</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
21 LONG-TERM LIABILITIES		
Annuity Loans	81 630 713	81 243 486
Finance Lease Liabilities	11 797 353	17 553 764
Sub-total	93 428 065	98 797 250
Less: Current Portion transferred to Current Liabilities:-		
Annuity Loans	33 547 820	27 605 937
Finance Lease Liabilities	26 076 407	21 642 583
	7 471 413	5 963 354
Total Long-term Liabilities (Neither past due, nor impaired)	59 880 245	71 191 313

Annuity Loans are repaid over periods varying from 2 to 11 (2012: 3 to 12) years and at interest rates varying from 9,25% to 16,50% (2012: 9,25% to 16,50%) per annum. Annuity Loans are not secured.

The Annuity Loan is repaid over a period of 7 (2012: 8) years and at an interest rate of 5,00% (2012: 5,00%) per annum. The Annuity Loan is not secured.

Finance Leases Liabilities relates to Vehicle and IT Equipment with lease term of 5 (2012: 5) years. The effective interest rate on finance leases is between 13,21% and 48,13% (2012: 13,21% to 48,13%). Capitalised leased liabilities are secured over the items of vehicles and equipment leased. The carrying values of the finance leased assets are R9 014 806 (2012: R14 569 310).

Other Loans are repaid over a period of 3 (2012: 4) years and at interest rates varying from 15,25% to 16,50% (2012: 15,25% to 16,50%) per annum. Other Loans are secured over fixed deposits held by the municipality.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

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.

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

21.1 Obligations under Finance Lease Liabilities

The Municipality as Lessee:

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 5 years (2012: 5 years). The effective interest rate on Finance Leases is between 14,73% and 21,53% (2012: 13,21% and 48,13%).

The municipality has options to purchase the Property, Plant and Equipment for a nominal amount at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease	
	2013	2012	2013	2012
	R	R	R	R
Amounts payable under finance leases:				
Within one year	2 304 748	3 429 328	2 304 748	3 429 328
In the second to fifth years, inclusive	9 482 605	14 124 436	9 482 605	14 124 436
Over five years	-	-	-	-
	11 797 353	17 553 764	11 797 353	17 553 764
Less: Future Finance Obligations	7 471 413	5 963 354	7 471 413	5 963 354
Present Value of Minimum Lease Obligations	4 325 940	11 590 410	4 325 940	11 590 410
Amounts due for settlement within 12 months (Current Portion)			7 471 413	5 963 354
Finance Lease Obligations due for settlement after 12 months (Non-current Portion)			11 797 353	17 553 764

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

- Office Equipment
- Vehicles

Included in these classes are the following significant leases:

- (i) Konica Minolta 1050 Digital Copier

- Installments are payable monthly in advance	R 651 712	R 773 778
- Average period outstanding	12 months	24 months
- Average effective interest rate	11,36%	11,36%
- Average capital redemption per month over the period leased	R 54 309,33	R 32 240,75

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
(ii) Various photocopier and fax machines		
- Installments are payable monthly in advance	R 417 851.00	R 485 877.08
- Average period outstanding	24 months	36 months
- Average effective interest rate	10.87%	10.87%
- Average capital redemption per month over the period leased	R 17 402.13	R 13 774.36
(iii) Vehicles		
- Installments are payable monthly in arrears	R 92 887	R 110 285
- Average period outstanding	18 months	30 months
- Average effective interest rate, based on prime	13.50%	13.50%
- Average capital redemption per month over the period leased	R 5 160.39	R 3 676.17
	2013	2012
	R	R
22 RETIREMENT BENEFIT LIABILITIES		
22.1 Post-retirement Health Care Benefits Liability		
Balance at beginning of Year	61 641 000	62 267 000
Contributions to Provision	7 791 000	-
Reduction due to Re-measurement	-	(626 000)
Balance at end of Year	69 432 000	61 641 000
Transfer to Current Provisions	(1 878 000)	(1 530 000)
Total Post-retirement Health Care Benefits Liability	67 554 000	60 111 000
The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.		
The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2013 by ZAQEN Actuaries Pty (Ltd), 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)	396	436
In-service Non-members (Employees)	-	-
Continuation Members (Retirees, widowers and orphans)	54	56
Total Members	450	492
The liability in respect of past service has been estimated as follows:		
In-service Members	44 351 000	36 040 000
Continuation Members	25 081 000	25 601 000
Total Liability	69 432 000	61 641 000
The municipality makes monthly contributions for health care arrangements to the following Medical Aid		
- Bonitas		
- Hosmed		
- Keyhealth		
- LA Health		
- Samwumed		
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	7.89%	7.92%
Health Care Cost inflation Rate	7.14%	7.24%
Net Effective Discount Rate	0.70%	0.63%
Expected Retirement Age - Females	58	60
Expected Retirement Age - Males	63	65
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	61 641 000	55 073 000
Current service costs	4 164 000	3 845 000
Interest cost	4 882 000	4 815 000
Benefits paid	(1 565 000)	(1 466 000)
Actuarial losses / (gains)	310 000	(626 000)
Losses / (gains) on curtailments	-	-
Total Recognised Benefit Liability	69 432 000	61 641 000
The ex-gratia and the post retirement medical benefit is included in the total post retirement medical aid benefit		
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	69 432 000	61 641 000
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	4 164 000	3 845 000
Interest cost	4 882 000	4 815 000
Actuarial losses / (gains)	310 000	(626 000)
Total Post-retirement Benefit included in Employee Related Costs (Note 32)	9 356 000	8 034 000
The ex-gratia and the post retirement medical benefit is included in the total post retirement medical aid benefit		
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
Increase:		
Effect on the aggregate of the current service cost and the interest cost	1 929 000	1 960 000
Effect on the defined benefit obligation	11 878 000	11 644 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	(1 545 000)	(1 527 000)
Effect on the defined benefit obligation	(9 559 000)	(9 236 000)
22.2 Ex-Gratia Pension Benefit Liability		
Ex-Gratia Pension Benefit Liability	510 000	722 000
Less: Transfer to Current Provisions	(74 000)	(75 000)
Net Ex-Gratia Pension Benefit Liability	436 000	647 000

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 condition 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 unfunded defined benefit obligation were carried out as at 30 June 2013 by a Fellow Member of the Actuarial Society of South Africa in the employment of ZAQEN Actuaries (Pty) Ltd. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

Pensioners	9	11
Total	9	11

The interest cost for the ensuing year is estimated to be R 54 000 (2012: R 54 000).

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

i) Rate of interest

Discount rate	7.40%	7.82%
Post retirement interest rate	5.66%	5.74%
Net Effective Discount Rate	1.65%	2.08%
Expected Retirement Age - Females	58	60
Expected Retirement Age - Males	63	65

The assumed pension type used by the actuaries in their valuation was the Joint Life reducing on Principle member death. The reduction factor was 20%.

ii) Mortality rates

Post-Retirement PA(90) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 58 for women and 63 for men where data was available

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

Present value of fund obligations	510 000	722 000
	510 000	722 000
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	510 000	722 000
Net Liability	510 000	722 000
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	722 000	635 000
Current service cost	-	-
Interest cost	54 000	55 000
Actuarial (gain)/loss on the obligation	(186 000)	103 000
	(70 000)	(71 000)
Balance at end of year	510 000	722 000
The amount recognised in the Statement of Financial Performance are as follows:		
Current service cost	-	-
Interest cost	-	-
Vested past service cost	54 000	55 000
Total included in staff costs (refer to note 31)	54 000	55 000

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
23 NON-CURRENT PROVISIONS		
Provision for Long Service Awards	9 099 000	6 923 000
Provision for Rehabilitation of Land-fill Sites	9 265 316	9 265 316
Provision for Augmentation fees	52 200	-
Total Non-current Provisions	18 416 516	16 188 316
The movement in Non-current Provisions are reconciled as follows:		
	Long-service Awards R	Land-fill Sites R
30 June 2013		
Balance at beginning of year	8 331 000	13 959 114
Contributions to provision	2 489 000	-
	10 820 000	13 959 114
Transfer to current provisions	(1 721 000)	(4 693 798)
Balance at end of year	9 099 000	9 265 316
	Long-service Awards R	Land-fill Sites R
30 June 2012		
Balance at beginning of year	5 581 637	13 959 114
Contributions to provision	2 227 363	-
Increase due to discounting	522 000	-
	8 331 000	13 959 114
Transfer to current provisions	(1 408 000)	(4 693 798)
Balance at end of year	6 923 000	9 265 316
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	7.40%	7.92%
Cost Inflation Rate	5.66%	5.74%
Net Effective Discount Rate	0.89%	1.58%
Expected Return on Plan Assets	0.00%	0.00%
Expected Rate of Salary Increase	6.66%	6.24%
Expected Return on Reimbursement Rights	0.00%	1.41%
Expected Retirement Age - Females	58	60
Expected Retirement Age - Males	63	65
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	8 331 000	6 085 000
Current service costs	985 000	859 000
Interest cost	654 000	522 000
Benefits paid	(617 033)	(1 135 000)
Losses / (gains) on curtailments	1 467 533	2 000 000
Total Recognised Benefit Liability	10 820 000	8 331 000

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	10 820 000	8 331 000
Total Benefit Liability	10 820 000	8 331 000
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	985 000	859 000
Interest cost	654 600	522 000
Actuarial losses / (gains)	2 000 000	2 000 000
Total Post-retirement Benefit included in Employee Related Costs (Note 32)	3 639 000	3 381 000

23.1 Rehabilitation of Land-fill 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 2011 by a technical specialist, Mr C Liebenberg, (Pr Eng, PrCPM) the divisional director of the Environmental & Waste Management Division of Kwezi V3 Engineers. The provision is the best estimate of the net present value of future rehabilitation costs of the land-fill sites to restore the sites at the end of their useful lives. The payment dates of the total closure and rehabilitation are uncertain, but are currently expected to be between 2012 and 2028.

Major assumptions concerning future events

The cost estimate for construction works to be performed for the closure and rehabilitation of an existing disposal site include the following assumptions made by the technical specialist:

- (a) The consolidation of "old" waste in the cell and filling of voids with builders rubble or other waste permissible for disposal at the site.
- (b) Damping the entire site in such a way to prevent the formation of pools due to rain, to ensure free surface runoff of rain water.
- (c) Capping the site in accordance with the capping design requirements as stipulated in the Minimum Requirements for Closure for the various classes of disposal sites.
- (d) Rehabilitating the site in accordance with the end-use plan e.g. grassing, sport field etc.

Long service bonus

A long-service bonus is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited to his/her vacation leave accrual. The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2013 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2013 by a Fellow Member of the Actuarial Society of South Africa in the employment of ZAQEN Actuaries (Pty) Ltd. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other long service benefits are provided by the municipality.

24 ACCUMULATED SURPLUS

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

Accumulated Surplus / (Deficit) due to the results of Operations	2 546 042 483	2 587 052 441
Total Accumulated Surplus	2 546 042 483	2 587 052 441

25 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2013 R000's	July 2012 R000's		
Commercial and Residential	33 758 070 110	33 659 149 980	20 320 910	17 274 967
			93 221 726	86 326 585
Total Property Rates	33 758 070 110	33 659 149 980	113 542 636	103 602 651

Property rates are levied on the value of land and improvement, which valuation is performed every four years. The last valuation came into effect 01 July 2009 and a one year extension was approved with the new valuation roll coming into effect 01 July 2014. Interim valuation are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
	2013 R	2012 R
26 GOVERNMENT GRANTS AND SUBSIDIES		
National Equitable Share	47 299 297	38 073 000
Other Subsidies	4 143 600	1 559 008
Operational Grants	51 442 897	39 632 008
Conditional Grants	43 221 014	31 130 702
National Government: EPWP	1 615 684	1 322 000
National Government: FMG	1 500 000	1 450 000
National Government: MIG	27 902 000	23 002 000
National Government: MSIG	366 688	287 721
National Government: DWAF	-	540 236
National Government: DME	6 709 884	3 737 668
National Government: SPORT	2 083 141	227 603
National Government: DEDEA	-	300 000
Provincial: Treasury	2 294 004	-
Local Government: CDM	-	-
Other Government: SKILLS	729 613	263 476
Total Government Grants and Subsidies	94 663 910	70 762 710
Operational Grants:		
26.1 National: Equitable Share	47 299 297	38 073 000
Conditional Grants:		
26.2 National: Equitable Share		
Balance unspent at beginning of year	-	-
Current year receipts	47 299 297	38 073 000
Conditions met - transferred to Revenue: Operating Expenses	(812 000)	-
Conditions met - transferred to Revenue: Capital Expenses	(46 487 267)	(38 073 000)
Conditions still to be met - transferred to Liabilities (see Note 19)	-	-
In terms of the Constitution, this grant is used to subsidise the provision of basic services to community members. In terms of the allocation made by National Treasury the funds are also utilised to enable the municipality to execute its functions as the local authority. R812,000.00 equitable share funds have been withheld.		
26.3 National Government: EPWP		
Balance unspent at beginning of year	-	-
Current year receipts	1 615 684	1 322 000
Conditions met - transferred to Revenue: Operating Expenses	(1 615 684)	(1 322 000)
Conditions still to be met - transferred to Liabilities (see Note 19)	0	-
The Expanded Public Works Programme Grant was allocated to the municipality for environmental projects. No funds have been withheld.		
26.4 National: FMG Grant		
Balance unspent at beginning of year	-	-
Current year receipts	1 500 000	1 450 000
Conditions met - transferred to Revenue: Operating Expenses	(1 500 000)	(1 450 000)
Conditions still to be met - transferred to Liabilities (see Note 19)	-	-
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.		
26.5 National: MIG Funds		
Balance unspent at beginning of year	-	-
Current year receipts	27 902 000	23 002 000
Conditions met - transferred to Revenue: Operating Expenses	(1 395 100)	(1 150 100)
Conditions met - transferred to Revenue: Capital Expenses	(26 506 900)	(21 851 900)
Conditions still to be met - transferred to Liabilities (see Note 19)	-	-
The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld.		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
26.6 National: MSIG Funds		
Balance unspent at beginning of year	495 825	-
Current year receipts	800 000	502 279
Conditions met - transferred to Revenue: Capital Expenses	(386 685)	(6 454)
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>909 137</u>	<u>495 825</u>

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. No funds have been withheld.

26.7 National: Department Water Affairs (DWA)		
Balance unspent at beginning of year	550 000	550 000
Current year receipts	-	540 236
Conditions met - transferred to Revenue: Operating Expenses	-	(540 236)
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>550 000</u>	<u>550 000</u>

26.8 National: Department Energy		
Balance unspent at beginning of year	2 946 184	183 850
Current year receipts	4 048 300	6 500 000
Conditions met - transferred to Revenue: Capital Expenses	(6 995 484)	(3 737 666)
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>-</u>	<u>2 946 184</u>

Expenses were incurred to promote rural development and upgrade electricity infrastructure.

26.9 Library subsidy		
Balance unspent at beginning of year	-	-
Current year receipts	2 083 141	227 603
Conditions met - transferred to Revenue: Operating Expenses	(2 083 141)	(227 603)
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>-</u>	<u>-</u>

This grant was received for the operating expenditure of libraries in the KOUGA Local Municipality. No funds have been withheld.

26.10 Department of economic development		
Balance unspent at beginning of year	181 195	181 195
Current year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>181 195</u>	<u>181 195</u>

No funds have been withheld.

26.11 Provincial: Housing		
Balance unspent at beginning of year	7 351 449	7 351 449
Current year receipts	20 700	-
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>7 372 149</u>	<u>7 351 449</u>

No funds have been withheld.

26.12 National: Treasury - Disaster		
Current year receipts	3 014 300	-
Conditions met - transferred to Revenue: Capital Expenses	(2 293 374)	-
Conditions still to be met - transferred to Liabilities (see Note 16)	<u>720 926</u>	<u>-</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
26.13 Local Government: CDM		
Balance unspent at beginning of year		
Current year receipts	1 630 524	1 682 555
Conditions met - transferred to Revenue: Operating Expenses	<u>(1 630 524)</u>	<u>(1 682 555)</u>
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>-</u>	<u>0</u>

No funds have been withheld.

26.14 Other Government: Skills Development

Balance unspent at beginning of year	546 461	-
Current year receipts	729 613	809 937
Conditions met - transferred to Revenue: Operating Expenses	<u>(1 275 074)</u>	<u>(263 476)</u>
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>-</u>	<u>546 461</u>

No funds have been withheld.

26.15 Other Government: VUNA

Balance unspent at beginning of year	35 000	-
Current year receipts		<u>35 000</u>
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>35 000</u>	<u>35 000</u>

No funds have been withheld.

26.16 Other Government: Other

Balance unspent at beginning of year	240 236	240 236
Conditions still to be met - transferred to Liabilities (see Note 19)	<u>240 236</u>	<u>240 236</u>

The municipality receives grants from other spheres of government for urban greening in the municipal area.

26.17 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2011/12), government grant funding is expected to increase over the forthcoming three financial years.

27 SERVICE CHARGES

Sale of Electricity	193 494 235	180 543 159
Sale of Water	23 546 272	21 890 645
Refuse Removal	36 453 576	34 529 826
Sewerage and Sanitation Charges	28 860 710	27 162 791
Other Service Charges	1 367 875	955 351
Total Service Charges	<u>283 722 668</u>	<u>265 081 772</u>

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
28 RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Amenities	(72 436)	9 090
Rental Revenue from Buildings	166 353	171 172
Rental Revenue from Halls	116 604	158 296
Rental Revenue from Land	61 626	56 366
Rental Revenue from Other Facilities	403 707	327 961
Total Rental of Facilities and Equipment	675 855	722 796
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
29 INTEREST EARNED		
External Investments:		
Bank Account	-	96
Other Deposits	1 236 465	946 352
	1 236 465	946 448
Outstanding Debtors:		
Long-term Debtors	-	107
Outstanding Billing Debtors	6 458 023	6 646 079
	6 458 023	6 646 186
Total Interest Earned	7 694 487	7 592 634
Interest Earned on Financial Assets, analysed by category of asset, is as follows:		
Available-for-Sale Financial Assets	(1 236 465)	(946 352)
Held-to-Maturity Investments	2 472 930	1 892 800
Loans and Receivables	6 458 023	6 646 186
	7 694 487	7 592 634
30 OTHER REVENUE		
Building Plan Fees	856 060	1 218 588
Caravan Park Fees	1 738 850	1 460 845
Cemetery Fees	141 821	136 264
Conversion Fees	1 736 793	1 386 757
Prints	7 105	6 124
Tender Documents	42 064	17 911
Town Planting Fees	498 260	160 177
Sundry Income	7 215 671	3 779 812
Total Other Revenue	12 239 625	8 168 477

Other Revenue have been restated to correctly classify revenue previously erroneously classified.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
31 EMPLOYEE RELATED COSTS		
Employee Related Costs - Salaries and Wages	126 013 804	121 743 475
Basic Salaries and Wages	115 642 259	108 272 656
Long Service Bonuses	617 033	2 785 810
Leave Encashed	-	-
Contribution to Leave Fund	955 924	1 411 154
Service Bonuses	8 798 588	8 273 856
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	44 737 095	38 674 758
Group Life	3 065 770	2 930 333
Medical	19 391 445	14 633 262
Pension	18 845 663	17 670 584
Gratuity	-	-
Industrial Council Levy	104 599	96 317
Skills Development Levy	1 624 073	1 462 260
UIF	1 685 544	1 862 001
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	14 140 460	14 416 426
Allowances	14 105 622	14 296 668
Pensioners Allowances	34 868	122 760
Housing Benefits and Allowances	464 992	486 805
Overtime Payments	7 942 949	7 826 000
Performance Bonuses	-	(339 231)
Total Employee Related Costs	193 299 330	182 622 233
No advances were made to employees. Loans to employees are set out in Note 14.		
Remuneration of Section 57 Employees:		
Remuneration of the Municipal Manager:		
Annual Remuneration	792 780	354 069
Performance Bonus	-	-
Travel Allowance	144 600	48 345
Subsistence Allowance	5 670	9 798
Company Contributions to UIF, Skills Levy & Labour Relations Levy	11 620	5 330
Settlement	-	859 401
Group Life Insurance	-	3 081
Total	954 070	1 280 025
Remuneration of the Chief Financial Officer:		
Annual Remuneration	763 552	437 484
Performance Bonus	-	-
Travel Allowance	-	36 000
Cell phone allowance	-	13 254
Subsistence Allowance	3 894	308
Company Contributions to UIF, Skills Levy & Labour Relations Levy	11 021	749
Settlement	-	708 766
Group Life Insurance	-	27 896
Total	778 467	1 224 427
Remuneration of the Director: Social Services:		
Annual Remuneration	763 552	-
Performance Bonus	-	-
Travel Allowance	-	-
Subsistence Allowance	465	-
Company Contributions to UIF, Skills Levy & Labour Relations Levy	11 021	-
Settlement	-	-
Total	775 038	-
Remuneration of the Director: Admin, Monitoring & Evaluation:		
Annual Remuneration	683 552	249 718
Performance Bonus	-	-
Travel Allowance	80 000	-
Subsistence Allowance	18 092	39 019
Acting allowance	-	157 130
Company Contributions to UIF, Skills Levy & Labour Relations Levy	11 481	6 508
Total	793 125	452 375
Remuneration of the Director: Tourism and Creative industries:		
Annual Remuneration	681 552	415 704
Performance Bonus	-	-
Travel Allowance	82 000	57 780
Subsistence Allowance	2 900	8 663
Company Contributions to UIF, Skills Levy & Labour Relations Levy	10 789	749
Acting allowance	-	37 449
Settlement	-	105 625
Group life, Bargain council	-	4 995
Total	777 241	630 864
Remuneration of the Director: Infrastructure, Planning & Development:		
Annual Remuneration	675 552	295 656
Performance Bonus	-	-
Travel Allowance	88 000	20 000
Subsistence Allowance	47 499	-
Company Contributions to UIF, Skills Levy & Labour Relations Levy	11 635	499
Backpay	-	816 698
Settlement	-	122 812
Group life	-	5 028
Total	822 686	1 060 693

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
32 REMUNERATION OF COUNCILLORS		
Mayor	484 162	655 928
Speaker	387 329	538 921
Chief Whip	-	-
Executive Committee Members	1 815 609	2 447 864
Councillors	3 199 519	4 341 148
	<u>5 886 619</u>	<u>7 983 661</u>
Company Contributions to UIF, Medical and Pension Funds	82 496	-
WCA	1 565	-
Labour Relations Levy	1 448	-
Skills Development Levy	89 484	-
Other Allowances (Cellular Phones, Housing, Transport, etc)	2 614 945	-
Travelling Allowance	2 614 945	-
	<u>8 594 060</u>	<u>7 983 661</u>
Total Councillors' Remuneration	8 594 060	7 983 661
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.		
Councillors may utilise official Council transportation when engaged in official duties.		
The Mayor has use of a Council owned vehicle for official duties.		
33 DEPRECIATION AND AMORTISATION		
Depreciation: Property, Plant and Equipment	80 083 707	76 376 186
Amortisation: Intangible Assets	86 057	76 875
Depreciation: Investment Property	553 940	553 940
	<u>80 723 704</u>	<u>77 007 101</u>
Total Depreciation and Amortisation	80 723 704	77 007 101
34 IMPAIRMENT LOSSES		
<i>34.1 Impairment Losses on Fixed Assets</i>		
<i>34.2 Impairment Losses on Financial Assets</i>		
Impairment Losses Recognised:	5 400 817	29 743 773
Long-term Receivables	166 106	158 366
Receivables from Exchange Transactions	1 885 609	10 657 037
Receivables from Non-exchange Transactions	3 349 102	18 928 371
Investments	-	-
Loans carried at Amortised Cost	-	-
	<u>5 400 817</u>	<u>29 743 773</u>
35 BULK PURCHASES		
Electricity	146 128 688	129 914 887
Water	16 161 171	22 767 807
	<u>162 289 859</u>	<u>152 682 795</u>
Total Bulk Purchases	162 289 859	152 682 795
Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from Lepelle Northern Water and "Uitloop Water Beleggings".		
36 FINANCE COSTS		
Creditors Overdue	8 369 461	9 911 235
Loans and Payables at amortised cost	10 489 887	10 947 863
	<u>18 859 348</u>	<u>20 859 098</u>
Total Interest Expense	18 859 348	20 859 098
Total Interest Paid on External Borrowings	18 859 348	20 859 098
37 CONTRACTED SERVICES		
Other Contracted Services	-	7 799
	<u>7 799</u>	<u>7 799</u>
Total Contracted Services	7 799	7 799

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
38 GRANTS AND SUBSIDIES PAID		
Other	21 300 009	18 186 524
Total Grants and Subsidies	<u>21 300 009</u>	<u>18 186 524</u>
 Free Basic Services are in respect of assistance to and providing basic service levels to indigent households.		
39 GENERAL EXPENSES		
Included in General Expenses are the following:		
Advertising	208 709	454 892
Bank Charges	824 028	782 382
Chemicals & Poison	2 265 865	1 317 807
Clean Up Operation	54 000	846 930
Cleaning Material	460 987	494 781
Congress & Delegates Expenses	455 162	551 911
Connection Fees	497 472	541 952
Disaster Expenditure	2 534 869	140 426
Entertainment	176 181	128 345
Expenditure Incurred From Finance Management Grant	322 504	1 893 272
External Audit Fees	2 521 247	2 614 505
Fuel (Small Plant)	450 972	251 986
Hire Of Facilities & Equipment	4 437 437	5 890 296
Idp Review	-	242 007
Insurance	2 700 945	2 855 928
Inventory Items	(226 278)	1 018 811
Laboratory Tests/Analysis	465 513	549 549
Lease Charges	318 783	53 709
Legal Cost	2 350 878	2 787 579
Licences	486 703	488 572
Life Saving Services	131	43 163
Mayoral Special Programmes	151 859	183 824
Network Connection	876 823	1 004 104
Postage & Telegrams	1 161 984	1 201 436
Stock Shortages/Surpluses	2 254	7 335
Telephone Cost	3 227 201	2 953 103
Tourism Strategy	240 000	-
Training	342 257	28 882
Transport Cost	7 628 189	7 893 029
Uniforms & Protective Clothing	463 041	431 515
Ward Committee Management	-	14 000
Website Hosting	7 200	9 900
General Expenses	16 780 235	10 628 500
Total General Expenses	<u>52 366 981</u>	<u>48 374 429</u>

General Expenses have been restated to correctly classify expenditure Refer to Note 41 on "Correction of Error" for details of the restatement.

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

No other extra-ordinary expenses were incurred.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
40 CHANGE IN ACCOUNTING POLICY		

GRAP 23 - Revenue from Non-exchange Transactions

The Accounting Standard for Revenue from non-exchange transactions has been recognised in the Annual Financial Statements of the municipality as at 30 June 2013 in terms of GRAP 23. The full net liabilities have been recognised retrospectively in the Annual Financial Statements.

The comparative amounts have been restated. The effect of the change in Accounting Policy is as follows:

40.1 Reclassification of Unspent conditional Grants and Receipts

The prior year figures of Unspent conditional Grants and Receipts and Accumulated Surplus have been restated to correctly disclose the monies held by the municipality in terms of GRAP 23.

The effect of the Change in Accounting Policy is as follows:

	Unspent Conditional Grants and Receipts	Unspent Conditional Grants and Receipts
Balances published as at 30 June 2011	12 998 058	12 998 058
Restated Balances as at 30 June 2011	<u>12 998 058</u>	<u>12 998 058</u>
Transactions incurred for the Year 2011/12:		
Grant Receipts	106 803	173 543
Grant Expenditure		
Restated Balances as at 30 June 2012	<u>13 104 861</u>	<u>13 171 601</u>

40.2 Reclassification of Post Employment Benefits

The prior year figures of Post employment Benefits and Accumulated Surplus have been restated from the Corridor Method to recognising the full actuarial gain or loss immediately in terms of IAS 19.

The effect of the Change in Accounting Policy is as follows:

	Post Retirement Benefit	Post Retirement Benefit
Balances published as at	81 878 000	81 878 000
Actuarial Gain/Loss	(19 611 000)	(19 611 000)
Restated Balances as at 30 June 2012	<u>62 267 000</u>	<u>62 267 000</u>
Transactions incurred for the Year 2011/12:		
Actuarial Gain/Loss	(626 000)	(626 000)
Restated Balances as at 30 June 2012	<u>61 641 000</u>	<u>61 641 000</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
41 CORRECTION OF ERROR		
The comparative information has changed because of changes in accounting policies, adoption of new accounting policies and errors incurred in the prior year. For the detail of each change, please refer to the notes that relate to changes in accounting policies (note 36) and errors (note 38).		
Statement of Financial Position		
	Amounts	Ref note
41.1 Accumulated Surplus		
Balance previously reported as at 30 June 2012	2 714 249 300	
Movement in Long term liabilities	430 740	38.1.1
Movement in Provision for post retirement benefits	20 237 000	38.1.2
Movement in Payables from exchange transactions	(2 178 275)	38.1.3
Movement in Payables from exchange to non-exchange transactions	(5 024 287)	38.1.4
Movement in Unspent grants and subsidies	5 131 435	38.1.5
Movement in Long term receivables	(156 680)	38.1.6
Movement in Receivables from exchange transactions	(9 924 799)	38.1.7
Movement in Receivables from non-exchange transactions	10 392 841	38.1.8
Movement in Vat payable	3 813 329	38.1.9
Movement in Cash and cash equivalents	(1 731 144)	38.1.10
Movement in Property, Plant and Equipment	(326 403 488)	38.1.11
Movement in Non-current held-for-sale	175 822 886	38.1.12
Movement in Vat Receivable	2 393 584	38.1.13
Restated balance as at 30 June 2012	2 587 062 442	
		Amounts
41.1.1 Long term liabilities		
Balance previously reported		99 227 990
Correction of error - Wesbank account has been paid up		(430 740)
Restated balance		98 797 250
41.1.2 Provision for Post Retirement benefits		
Balance previously reported		80 994 999
Change in accounting policy (refer to note 37.2)		(20 237 000)
Restated balance		60 757 999
41.1.3 Payables from exchange transactions		
Balance previously reported		105 193 713
Correction of error		8 594 918
Reclassify from vat payable		(1 284 774)
Reclassify to payables from non-exchange transactions		(5 131 868)
Restated balance		107 371 987
41.1.4 Payables from non-exchange transactions		
Balance previously reported		-
Reclassify from payables from exchange transactions		5 131 868
Reclassify from receivables from non-exchange transactions		37 523
Reclassify to receivables from non-exchange transactions		349 939
Correction of error		(495 043)
Restated balance		5 024 287
41.1.5 Unspent Conditional Grants and Receipts		
Balance previously reported		18 236 296
Change in accounting policy (refer note 37.1)		(5 131 435)
Restated balance		13 104 861
41.1.6 Long-term Receivables		
Balance previously reported		542 578
Correction of error		(156 678)
Restated balance		385 900
41.1.7 Receivables from exchange transactions		
Balance previously reported		44 853 931
Reclassify to receivables from non-exchange transactions		(107 580)
Reclassify to receivables from non-exchange transactions		49 058 643
Reclassify from receivables from non-exchange to exchange transactions		3 012 467
Reclassify to vat payable (and written to zero)		(8 986 424)
Correction of error		(52 901 806)
Restated balance		34 828 132
41.1.8 Receivables from non-exchange transactions		
Balance previously reported		18 218 192
		17 698 803
Reclassify from receivables from exchange transactions		(49 058 643)
Movement		66 757 447
Reclassify to receivables from exchange transactions		(3 012 467)
Reclassify to payables from non-exchange transactions		37 523
Reclassify from receivables from exchange transactions		107 580
Reclassify from receivables from non-exchange transactions		349 939
Correction of error		(4 788 537)
Restated balance		28 611 032

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
41.1.9 VAT payable		
Balance previously reported		3 813 329
Reclassify to payables from exchange transactions		2 107 209
Reclassify from payables from exchange transactions		(1 284 774)
Correction of error		(4 635 764)
Restated balance		<u>0</u>
41.1.10 Cash and cash equivalents		
Balance previously reported		608 995
Reclassify from short-term investment deposits		(5 430)
Correction of error		(1 725 714)
Restated balance		<u>(1 122 149)</u>
41.1.11 Property, Plant and Equipment		
Balance previously reported		2 912 560 517
Reclassify to Non-current Assets Held-for-Sale		(175 822 886)
Correction of error		(150 580 602)
Restated balance		<u>2 586 156 029</u>
41.1.12 Non-current Assets Held-for-Sale		
Balance previously reported		-
Reclassify from Property, Plant and Equipment		175 822 886
Restated balance		<u>175 822 886</u>
41.1.13 Vat receivable		
Balance previously reported		-
Correction of error		2 393 584
		<u>2 393 584</u>
41.2 Statement of Financial Performance		
Revenue		
41.2.1 Property Rates		
Balance previously reported		103 524 896
Reclassify to grants & subsidies paid		132 178
Reclassify to general expenses		(54 423)
Restated balance		<u>103 602 651</u>
41.2.2 Service Charges		
Balance previously reported		267 154 921
Reclassify to other income		(2 073 150)
Restated balance		<u>265 081 772</u>
41.2.3 Interest Earned - External investments		
Balance previously reported		937 488
Correction of error		8 960
Restated balance		<u>946 448</u>
41.2.4 Licenses and Permits		
Balance previously reported		7 302 280
Correction of error		1 800
Restated balance		<u>7 304 080</u>
41.2.5 Government Grants and Subsidies		
Balance previously reported		70 806 256
Reclassify to other income		(50 000)
Correction of error		6 454
Restated balance		<u>70 762 710</u>
41.2.6 Other Income		
Balance previously reported		6 207 106
Correction of error		(161 778)
Reclassify from grants & subsidies		50 000
Reclassify from service charges		2 073 150
Restated balance		<u>8 168 477</u>
EXPENDITURE		
41.2.7 Employee Related Costs		
Balance previously reported		181 761 695
Correction of error		(626 000)
Reclassify from general expenses		1 686 538
Restated balance		<u>182 822 233</u>
41.2.8 Remuneration of Councillors		
Balance previously reported		7 949 415
Reclassify to general expenses		(46 057)
Reclassify from general expenses		80 303
Restated balance		<u>7 983 661</u>
41.2.9 Bad debts and impairment losses		
Balance previously reported		38 515 184
Correction of error		(6 771 410)
Restated balance		<u>29 743 774</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
41.2.10 Collection costs		
Balance previously reported		(14 494)
Correction of error		636 650
Restated balance		<u>622 156</u>
41.2.11 Contracted services		
Balance previously reported		33 437
Reclassify to general expenses		(25 638)
Restated balance		<u>7 799</u>
41.2.12 Repairs and Maintenance		
Balance previously reported		15 545 765
Reclassify from general expenses		175 525
Correction of error		(339 897)
Restated balance		<u>15 381 393</u>
41.2.13 Interest and Penalties paid		
Balance previously reported		17 889 914
Correction of error		2 966 184
Restated balance		<u>20 856 098</u>
41.2.14 Bulk Purchases		
Balance previously reported		143 922 017
Correction of error		8 760 778
Restated balance		<u>152 682 795</u>
41.2.15 Grants and Subsidies Paid		
Balance previously reported		18 054 346
Reclassify from property rates income		132 178
Restated balance		<u>18 186 524</u>
41.2.16 General Expenses		
Balance previously reported		50 477 119
Reclassify to repairs & maintenance		(175 525)
Reclassify from contracted services		25 638
Reclassify to salaries		(1 686 538)
Reclassify to councillors remuneration		(80 303)
Reclassify from councillors remuneration		46 057
Reclassify to property rates income		(54 423)
Correction of error		(177 565)
Restated balance		<u>48 374 429</u>
Surplus/Deficit for the year ended 30 June 2012		
Balance previously reported		84 964 941
<u>Movements in revenue</u>		
Property Rates		(77 755)
Service Charges		2 073 150
Interest Earned - External investments		(8 960)
Licenses and Permits		(1 800)
Government Grants and Subsidies		43 546
Other Income		(1 961 371)
<u>Movements in expenditure</u>		
Employee Related Costs		1 060 538
Remuneration of Councillors		34 246
Bad debts and impairment losses		(6 771 410)
Collection costs		636 650
Contracted services		(25 638)
Repairs and Maintenance		(164 372)
Interest and Penalties paid		2 969 184
Bulk Purchases		8 760 778
Grants and Subsidies Paid		132 178
General Expenses		(2 102 690)
Restated balance		<u>87 561 214</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
42 CHANGE IN ACCOUNTING ESTIMATES		
The municipality did not receive any new information or notice of new developments during the financial year that need to be disclosed in terms of GRAP3.		
43 CASH GENERATED BY OPERATIONS		
Surplus / (Deficit) for the Year	(41 009 958)	(67 561 214)
Adjustment for:		
Correction of Prior Year Errors	-	(124 600 587)
Depreciation and Amortisation	80 723 704	77 007 101
Impairment Losses on Property, Plant and Equipment	-	-
Losses / (Gains) on Disposal of Property, Plant and Equipment	(180 045)	5 260
Contribution to Retirement Benefit Liabilities	7 781 000	-
Expenditure incurred from Retirement Benefit Liabilities	(1 605 000)	(1 593 716)
Contribution to Provisions - Current	-	-
Contribution to Provisions - Non-current	2 489 000	2 227 363
Expenditure incurred from Provisions - Current	(1 408 000)	(842 594)
Contribution to Impairment Provision	11 779 112	28 585 407
Bad Debts Written-off	(3 929 980)	(4 983 717)
Operating surplus before working capital changes	54 649 822	(110 756 696)
Decrease/(Increase) in Inventories	159 852	1 368 136
Decrease/(Increase) in Non-Current Assets Held-for-Sale	-	-
Decrease/(Increase) in Receivables from Exchange Transactions	(3 945 087)	(15 759 813)
Decrease/(Increase) in Receivables from Non-exchange Transactions	(1 621 391)	(8 334 602)
Decrease/(Increase) in VAT Receivable	(2 108 146)	(2 393 584)
Decrease/(Increase) in Operating Lease Assets	(38 504)	(25 113)
Decrease/(Increase) in Current Portion of Long-term Receivables	29 865	(38 865)
Increase/(Decrease) in Consumer Deposits	1 086 618	264 653
Increase/(Decrease) in Payables from Exchange Transactions	(666 760)	60 449 968
Increase/(Decrease) in Payables from Non-exchange Transactions	(283 549)	(1 356 963)
Increase/(Decrease) in Conditional Grants and Receipts	(3 152 004)	129 007
Increase/(Decrease) in VAT Payable	(4 615 111)	4 615 111
Increase/(Decrease) in Operating Lease Liabilities	-	36 197
Cash generated by / (utilised in) Operations	39 485 397	(71 802 564)
44 NON-CASH INVESTING AND FINANCING TRANSACTIONS		
The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2012/13		

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
45 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term Liabilities (See Note 21)	93 428 065	98 797 250
Used to finance Property, Plant and Equipment - at cost	(93 428 065)	(98 797 250)
Cash invested for Repayment of Long-term Liabilities	-	-

46 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

46.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening balance	310 910 523	198 341 150
Unauthorised Expenditure current year	32 865 585	112 569 373
Approved by Council or condoned	-	-
To be recovered – contingent asset (see Note 54)	-	-
Transfer to receivables for recovery (see Note 5)	-	-
Unauthorised Expenditure awaiting authorisation	343 776 108	310 910 523

Incident	Disciplinary Steps / Criminal Proceedings
2012/2013 (2011/2012)	
Employee Related Costs R 12 067 803 (2012: R 9,576,531)	Currently None - subject to possible future investigation
Remuneration of Councillors R 103 140 (2012: R nil)	Currently None - subject to possible future investigation
Collection Costs R nil (2012: R 622 156)	Currently None - subject to possible future investigation
Depreciation and Amortisation R 9 581 575 (2012: R 77,007 101)	Currently None - subject to possible future investigation
Impairment Losses R nil (2012: R 364 483)	Currently None - subject to possible future investigation
Finance Costs R 1 401,053 (2012: R 5,067,792)	Currently None - subject to possible future investigation
Bulk Purchases R 2 762 710 (2012: R 13,102 156)	Currently None - subject to possible future investigation
Grants and Subsidies Paid R 6 949 304 (2012: R 2,421,895)	Currently None - subject to possible future investigation
Loss on Disposal of PPE R nil (2012: R 6,266)	Currently None - subject to possible future investigation
2010/2011	
Employee Related Costs R 16 824,065	Currently None - subject to possible future investigation
Contracting services R 120,102	Currently None - subject to possible future investigation
Depreciation and Amortisation R 78,888 030	Currently None - subject to possible future investigation
Finance Costs R 7,554 424	Currently None - subject to possible future investigation
Bulk Purchases R 15 036,241	Currently None - subject to possible future investigation
Grants and Subsidies Paid R 2,513,116	Currently None - subject to possible future investigation
Losses on disposal of Property, Plant and Equipment R 2 281 603	Currently None - subject to possible future investigation
2009/2010	
The 2009/2010 approved budget was over spent by R 75,143 569	Currently None - subject to possible future investigation

46.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	19 455 826	10 154 374
Fruitless and Wasteful Expenditure current year	9 211 061	9 301 452
Fruitless and Wasteful Expenditure awaiting condonement	28 666 887	19 455 826

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
2008/2010:		
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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	R	R
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:		
Interest on late payment of trade creditors	4 740 237	Currently None - subject to possible future investigation
Penalty on the late payment on SARS account	2 201 814	Currently None - subject to possible future investigation
Settlement paid out for previous MM's contract (Dr. E.M. Runkwane)	859 401	Currently None - subject to possible future investigation
Legal cost: due to unfair dismissal of Mr Fred Dennis	1 500 000	Currently None - subject to possible future investigation
2012/2013:		
Interest on late payment of trade creditors	9 038 284	Currently None - subject to possible future investigation
Interest and penalties on the late payment of vat account (SARS)	172 777	Currently None - subject to possible future investigation
Interest and penalties on the late payment of employees taxes (SARS)	342 506	Currently None - subject to possible future investigation

46.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	47 922 780	31 955 599
Irregular Expenditure current year	106 318	15 967 181
Irregular Expenditure awaiting condonement	<u>48 029 098</u>	<u>47 922 780</u>

Incident	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
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
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
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
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
Receipts were misappropriated from the caravan park. (Section 125(2)(d)(ii) of the MFMA).	40 000
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
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
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
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
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
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
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
2010/2011:	
Overpayment of acting allowances to officials	1 144 226
Supply chain compliance not followed	3 718 462
2011/2012:	
Supply chain compliance not followed	10 129 648
Supply chain compliance not followed	5 837 533
2012/2013:	
Supply chain compliance not followed	106 318
Supply chain compliance not followed	19 913 596

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
47 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
47.1 Contributions to organised local government - SALGA		
Opening Balance	-	-
Council Subscriptions	2 272 148	762 698
Amount Paid - current year	-	(762 698)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	2 272 148	-
47.2 Audit Fees		
44.4 Opening Balance	7 601 114	3 079 819
Current year Audit Fee	3 488 078	6 088 427
Amount Paid - current year	(3 925 868)	(1 567 132)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	7 163 324	7 601 114
47.3 VAT		
44.5 The net of VAT input payables and VAT output receivables are shown in Note 5.		
47.4 PAYE, Skills Development Levy and UIF		
Opening Balance	6 058 989	-
Current year Payroll Deductions	19 670 775	19 441 501
Amount Paid - current year	(18 508 680)	(13 382 512)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	7 221 084	6 058 989
47.5 Pension and Medical Aid Deductions		
Opening Balance	11 928 255	-
Current year Payroll Deductions and Council Contributions	43 603 856	40 753 931
Amount Paid - current year	(51 939 507)	(28 825 676)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	3 592 604	11 928 255
47.6 Councillor's arrear Consumer Accounts		
The following Councillors had arrear accounts outstanding for more than 90 days as at:		
30 June 2013		Outstanding more than 90 days
Councillor Ntshiza		1 175
Councillor Kettleidas		2 741
Councillor Baxter		444
Councillor Kolli		415
Total Councillor Arrear Consumer Accounts		4 774
		Outstanding
30 June 2012		more than 90 days
MELENI TN		1 026
OLIPHANT P.J.&XD		8 239
MAHLATHINI ME		6 048
BAXTER F		1 172
Total Councillor Arrear Consumer Accounts		7 220

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2013 R	2012 R
47.7 Non-Compliance with the Municipal Finance Management Act			
Description	Chapter	Section	Sub-section
Preparation and adoption of annual reports	12	121	(1)
Oversight reports on annual reports	12	129	(1)

47.8 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
Community Services	Year 2012/13	Various occasions (7)	Various reasons like preferred supplier, sole supplier and urgency	481,357.16
7 Procuring Uniform, Permit books, Licence Cards, Fire Fighting Equipment				
LED Tourism	Year 2012/13	Various occasions (1)	Urgency	72,332.50
1 Urgency visit - minister of energy				
Corporate Support Services	Year 2012/13	Various occasions (33)	Various reasons like emergency, preferred supplier, etc	2,474,678.85
35 Procuring Services ie Legal Lease, Sanitary Dispensers & Maint. High Sites				
Technical Services	Year 2012/13	Various occasions (63)	Various reasons like emergency, preferred supplier, etc	7,935,737.57
63 Procuring Chemicals, Asphalt, Road Repairs, Sewer & Water Pumps, Flood - Repairs				
Financial Services	Year 2012/13	Various occasions (67)	Sole agents, sole supplier and urgency	4,887,476.29
67 Procuring Services Vehicle Repair, Mailing, Cash in Transit, Training, Stock Items				

2013
R 2012
R

47.9 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 2013	Unaccounted Electricity Losses	6 851 379	0.798E	5 473 567
30 June 2012	Unaccounted Electricity Losses	14 346 241	0.6900	9 898 906

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other

	2013 R	2012 R
Volumes in kWh/year:		
System Input Volume	227 102 350	171 141 093
Billed Consumption	(202 082 783)	(148 623 566)
Distribution Loss	(18 168 166)	(14 171 287)
Unaccounted loss	6 851 379	5 346 241
Unaccounted loss percentage	3.02%	4.88%

47.10 Water:

		Lost Units	Tariff	Value
30 June 2013	Unaccounted Water Losses	2 477 182	3.6900	9 140 802
30 June 2012	Unaccounted Water Losses	2 506 681	3.2600	8 171 780

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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

		2013 R	2012 R
48	FINANCIAL INSTRUMENTS		
	48.1 Classification		
	FINANCIAL ASSETS:		
	In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:		
	Financial Assets		
	Classification		
	Non-Current Assets		
	Long-term Receivables (including short term portion)	Amortised cost	336 529
			385 900
	Current Assets		
	Receivables from Exchange Transactions	Amortised cost	47 890 755
	Receivables from Non-exchange Transactions	Amortised cost	24 177 611
	Current Investments	Amortised cost	18 540 246
	SUMMARY OF FINANCIAL ASSETS		
	Financial Assets at Amortised Cost:		
	Long-term Receivables	336 529	385 900
	Receivables from Exchange Transactions	47 890 755	34 929 132
	Receivables from Non-exchange Transactions	24 177 611	28 611 033
	Cash and Cash Equivalents	18 540 246	17 401 277
		<u>90 945 141</u>	<u>81 327 342</u>
	Total Financial Assets	<u>90 945 141</u>	<u>81 327 342</u>
	FINANCIAL LIABILITIES:		
	In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:		
	Financial Liabilities		
	Classification		
	Non-Current Liabilities		
	Long-term Liabilities	Amortised cost	59 880 244
	Non-current Provisions	Amortised cost	71 191 312
	Current Liabilities		
	Consumer Deposits	Amortised cost	8 693 418
	Provisions	Amortised cost	7 606 800
	Payables from Exchange Transactions	Amortised cost	106 705 228
	Payables from Non-exchange Transactions	Amortised cost	4 730 739
	Unspent Conditional Grants and Receipts	Amortised cost	9 952 857
	Current Portion of Long-term Liabilities	Amortised cost	33 547 820
	Bank Overdraft	Amortised cost	474 883
	SUMMARY OF FINANCIAL LIABILITIES		
	Financial Liabilities at Amortised Cost:		
	Long-term Liabilities	Amortised cost	59 880 244
	Non-current Provisions	Amortised cost	71 191 312
	Consumer Deposits	Amortised cost	8 693 418
	Provisions	Amortised cost	7 606 800
	Payables from Exchange Transactions	Amortised cost	106 705 228
	Payables from Non-exchange Transactions	Amortised cost	4 730 739
	Unspent Conditional Grants and Receipts	Amortised cost	9 952 857
	Current Portion of Long-term Liabilities	Amortised cost	33 547 820
	Bank Overdraft	Amortised cost	474 883
		<u>223 985 189</u>	<u>233 027 334</u>
	Total Financial Liabilities	<u>223 985 189</u>	<u>233 027 334</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
48.2 Capital Risk Management		

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and funds, reserves and accumulated surplus. The municipality's overall strategy remains unchanged from 2012.

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

48.3 Gearing Ratio

	2013 R	2012 R
The gearing ratio at the year-end was as follows:		
Debt	214 032 332	
Cash and Cash Equivalents	328 859 782	328 306 565
	18 540 246	17 401 277
Net Debt	<u>311 319 536</u>	<u>345 707 842</u>
Equity	2 546 042 462	2 587 052 441
Net debt to equity ratio	<u>12.23%</u>	<u>13.36%</u>

Debt is defined as Long and Short-term Liabilities.

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

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

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

Further quantitative disclosures are included throughout these Annual Financial Statements.

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:

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.

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2013 2012
R R

Liquidity Risk

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

MARKET RISK MANAGEMENT

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

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

The municipality manages its interest rate risk by:

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

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

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

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

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

Interest Rate Sensitivity Analysis

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

Account heading	2013	2012	change in 50 basis	change in 50
	R	R	R	R
Current Investments	18 540 246	17 401 277	92 701	87 006
Bank Overdraft	468 703	1 116 719	2 344	5 584

CREDIT RISK MANAGEMENT

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

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

Investments/Bank, Cash and Cash Equivalents

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

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 R	2012 R
Trade and Other Receivables		
Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.		
Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and within a large geographical area within the jurisdiction of the municipality. Periodic credit evaluations are performed on the financial condition of key debtors.		
In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Interest is levied on overdue accounts.		
The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:		
• The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property; • A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount; • The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA; • The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually; • Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.		
There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.		
The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.		
Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.		
Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.		
The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.		
LIQUIDITY RISK MANAGEMENT		
The municipality manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. The municipality has secured credit facilities in the form of an overdraft facility with its banker in order to cater for any unexpected temporary shortfall in operating funds. The maximum exposure to liquidity risk is the trade creditors and long term borrowings.		
The following table details the municipality's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both estimated interest and principal cash flows.		
	R	R
Bank overdraft		
< 3 months	-	-
> 3 months	474 883	1 122 149
Consumer Deposits		
< 3 months	-	-
> 3 months	8 693 418	7 606 800
Payables from Exchange Transactions		
< 3 months	106 705 228	107 371 967
> 3 months	-	-
Payables from Non-exchange Transactions		
< 3 months	-	-
> 3 months	4 730 739	5 024 287
Unspent Conditional Grants and Receipts		
< 3 months	-	-
> 3 months	9 952 857	13 104 861
Current Portion of Long-term Liabilities		
< 3 months	-	-
> 3 months	33 547 620	27 605 937
Annuity Loans		
< 3 months	-	-
> 3 months	59 880 244	71 191 312
	<u>223 985 189</u>	<u>233 027 334</u>

KOUGA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

2013
R

2012
R

49 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise. No related party transactions were identified.

49.1 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note 14 to the Annual Financial Statements.

49.2 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Appendix G, Statement of Remuneration of Management, to the Annual Financial Statements.

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

Managers	Names	Family Member	Department	Relationship	Remuneration
Expenditure	L. Jenneker	M. Jenneker	Comm. Services	Daughter	119 028
Asset & Fleet	S. Baartman	N. Baartman	Expenditure	Daughter	123 984
Asset & Fleet	S. Baartman	E. Welcome	income	Daughter	119 028
Electrical	A. Marais	B. Marais	Technical Services	Son	148 380
Councillors					
Mayor	B. Koerat	F. Muller	Comm. Services	Daughter	185 436
Mayor	B. Koerat	C. Kettledas	Budget & Treasury	Daughter	209 916
Ward 2	E. Hill	M. Hill	Expenditure	Wife	121 452
Ward 6	P. Oliphant	D. Oliphant	Comm. Services	Wife	150 660
Ward 9	L. Ntshiza	J. Ntshiza	Comm. Services	Wife	121 452
Ward 14	T. Meleni	S. Meleni	Comm. Services	Wife	105 960
Proportional	D. Kettledas	C. Witbooi	Human Resources	Cousin	121 452

The municipality did not buy goods from any companies which can be considered to be Related Parties.

50 CONTINGENT LIABILITIES

(i) Council is involved in a dispute with different individuals as at 30 June 2013:

Claims against the municipality	29 585 661	19 915 702
Possible legal fees	1 364 282	1 628 745

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

20 000 000 20 000 000

50 949 943 41 544 447

The categorization and job evaluation wage curves collective agreement implementable 1 July 2010 has never been adopted by Kouga Municipality due to not finalizing job descriptions and evaluations. The adoption of this agreement might result in back pay from 1 July 2010 to certain employees if found to be in incorrect task grade. The possible back pay cannot be quantified due to the complex evaluation process and lack of job descriptions.

51 IN-KIND DONATIONS AND ASSISTANCE

During the year the Department of Local Government and traditional affairs paid R1.9 million on behalf of the municipality to the Office of the Auditor General to assist with the audit fees.

52 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2013.

53 GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

(i) During May 2013 the Council adopted the 2014/14 to 2015/16 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 weekly and 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 ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

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

[illegible][illegible]

APPENDIX C
KOUGA LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 June 2013

Description	Historical Cost						Cost / Revaluation				Accumulated Depreciation		Carrying Value	
	Opening Balance	Additions	Transfers	Disposals	Under Construction		Closing Balance	Opening Balance	Closing Balance	Opening Balance	Closing Balance	R	R	
					Balance b/f	Added								
	R		R		R	R	R	R	R	R	R	R	R	
Executive and Council	756 383 045				756 793 875		756 793 875			70 952 421 84	85 660 116 61		650 993 457 92	
Finance and Administration	8 089 722				8 089 722		8 089 722			4 459 276 66	4 992 055 21		3 007 668 80	
Engineering and Development	69 985 000				69 985 000		69 985 000						69 985 000 00	
Community and Social Services	2 920				2 920		2 920						2 920 00	
Transport	1 873 266				1 807 251		1 807 251			168 543 70	214 075 13		1 593 176 12	
Public Safety	7 538 000				7 538 000		7 538 000						7 528 000 00	
Sport and Recreation	938 000 000				938 000 000		938 000 000			28 458 860 06	30 139 015 80		310 777 421 64	
Waste Management	1 691 681 560				1 691 681 560		1 691 681 560			429 173 555 26	469 283 522 44		1 225 618 025 00	
Roads and Transport	306 858 995				311 235 320		311 235 320			25 493 170 84	34 397 640 43		276 635 872 26	
Water	158 869 255				157 264 972		157 264 972			18 330 972 84	24 603 779 00		167 661 082 84	
Electricity	8 393 308 730				8 393 308 730		8 393 308 730			577 326 800 33	657 410 510 63		2 711 022 434	
Total PPE														
Investment assets	70 875 500				70 875 500		70 875 500			4 708 490	5 262 480 00		65 613 070	
Intangible assets	603 458				660 657		660 657			453 012	539 069 14		121 580	
Total Assets	3 410 785 658	29 238 425			3 440 016 113	47 188 423	3 487 194 536	75 819 864		582 488 302 55	663 212 009 71		2 776 807 091	

APPENDIX D
KOUGA MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

2012 Actual Income R	2012 Budgeted Income R	2012 Actual Expenditure R	2012 Budgeted Expenditure R	2012 Surplus/ (Deficit) R	Description	Vote Number	2013 Actual Income R	2013 Budgeted Income R	2013 Actual Expenditure R	2013 Budgeted Expenditure R	2013 Surplus/ (Deficit) R
151 659 243	154 671 466	102 084 229	71 334 952	49 575 014	Finance and Administration		174 241 699	171 769 084	82 573 210	79 029 443	91 668 489
105 509 075	106 607 377	2 971 116	3 260 000	102 537 960	Finance: Assessment Rates	030	115 743 439	116 931 368	1 296 495	2 270 000	114 446 944
946 448	572 056	12 563 519	1 270 906	(12 563 519)	Finance: Asset & Fleet Management	226	-	-	12 493 651	7 187 034	(12 493 651)
39 908 406	43 282 072	3 239 567	4 408 209	(2 398 563)	Finance: Budget & Financial Reporting	221	1 236 465	604 093	3 619 480	3 832 531	(2 383 015)
287 526	256 132	12 980 750	3 686 174	36 668 639	Finance: CFO	220	51 332 301	49 779 045	1 424 759	3 184 464	49 907 543
5 010 989	3 948 741	43 208 475	32 044 180	(12 693 224)	Finance: Expenditure	222	377 101	270 477	11 585 820	3 440 489	(11 208 720)
17 911	-	1 271 453	1 322 232	(38 197 486)	Finance: Revenue	223	4 719 489	4 166 761	24 055 853	32 954 976	(19 336 384)
74 133	2 597	252 963	253 830	(1 253 542)	Finance: SCM	228	42 064	11 976	1 361 558	1 398 845	(1 319 494)
-	-	1 668 525	1 242 015	(252 963)	Finance: Secretariate	225	-	-	-	-	-
-	-	962 030	921 936	(1 594 392)	Finance: Stores	227	741 096	2 743	1 317 133	1 349 385	(576 038)
1 246	2 401	3 443 768	3 481 505	(962 030)	Mechanical Workshop	550	-	-	1 085 353	1 110 204	(1 085 353)
(96 491)	-	14 566 597	14 747 162	(3 443 768)	Human Resources	333	-	-	3 614 730	3 700 517	(3 614 730)
1 941 829	1 224 154	1 510 455	1 419 851	(14 566 597)	Corporate Services	121	25 113	2 631	18 971 548	16 869 557	(18 946 434)
-	-	11 504 211	10 457 673	(1 706 947)	Corporate Services: Director	120	24 651	-	1 746 829	1 731 441	(1 722 179)
-	-	174 097	88 548	(9 562 361)	Planning and Development		1 497 215	1 292 720	10 893 924	13 889 307	(9 396 709)
423 314	232 680	1 817 305	797 264	(174 097)	Economic Development: Agriculture	171	-	-	311 309	410 189	(311 309)
50 000	-	380 608	564 065	(391 108)	Economic Development: Business	172	47 798	245 711	418 820	541 895	(418 820)
-	-	2 081 059	1 986 114	(1 393 991)	Economic Development: General	170	-	-	737 268	1 796 367	(689 469)
-	-	687 751	842 016	(380 608)	Economic Development: Tourism	173	-	-	701 827	929 275	(701 827)
-	-	944 258	953 918	(2 031 059)	IDP/LED	340	-	-	1 734 982	1 880 352	(1 734 982)
-	-	5 028 025	4 835 561	(687 751)	Social Development	790	-	-	850 785	992 330	(850 785)
-	-	-	-	(944 258)	Director Planning and Development	701	-	-	-	-	-
-	-	-	-	(3 559 510)	Planning & Development	700	1 440 417	1 047 009	6 138 933	7 338 899	(4 689 516)
-	-	-	-	-	Health		-	-	-	-	-
-	-	-	-	-	Clinic Andrieskraal	323	-	-	-	-	-
-	-	-	-	-	Clinic Kwanzamo	321	-	-	-	-	-
-	-	-	-	-	Clinic Pellsrus	322	-	-	-	-	-
-	-	-	-	-	Health (Primary)	320	-	-	-	-	-
2 522 114	2 058 794	10 297 082	11 780 082	(7 774 997)	Community and Social Services		5 198 729	6 414 143	11 296 050	14 410 471	(6 097 321)
720 861	162 450	470 533	600 865	250 029	Cemeteries	110	1 342 907	171 592	489 267	1 254 366	843 640
4 858	7 228	100 867	731 368	(96 009)	Kouga Cultural Centre	400	645	7 633	107 172	834 853	(106 527)
247 123	17 573	3 433 383	3 567 410	(3 186 260)	Libraries	500	2 103 386	4 184 842	3 590 727	4 215 290	(1 487 341)
29 152	5 263	125 125	124 281	(125 125)	Museum	580	(81 436)	81 436	132 408	195 630	(213 844)
-	-	2 243 786	2 095 534	(2 214 634)	Beach	040	-	-	2 672 107	2 453 322	(2 672 107)
-	-	404 605	478 899	(404 605)	Blue Flag	041	-	-	110 463	610 095	(110 463)
1 519 880	1 863 880	2 775 573	2 714 481	(1 255 692)	Caravan Parks	100	1 832 283	1 968 259	2 792 212	3 758 657	(959 828)
-	-	33 362	314 790	(33 362)	Community & Social Services: Director	791	-	-	830 176	764 266	(830 176)
240	360	709 549	1 152 444	(709 309)	Community Services	115	944	381	561 519	323 992	(560 575)

APPENDIX D
KOUGA MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

2012 Actual Income	2012 Budgeted Income	2012 Actual Expenditure	2012 Budgeted Expenditure	2012 Surplus/ (Deficit)	Description	Vote Number	2013 Actual Income	2013 Budgeted Income	2013 Actual Expenditure	2013 Budgeted Expenditure	2013 Surplus/ (Deficit)
R	R	R	R	R			R	R	R	R	R
-	-	3 601 652	3 601 652	(3 601 652)	Housing	325	-	-	3 690 862	4 183 395	(3 690 862)
-	-	3 601 652	3 601 652	(3 601 652)	Housing Services		-	-	3 690 862	4 183 395	(3 690 862)
10 924 364	19 274 746	23 953 554	24 295 900	(12 939 159)	Public Safety		9 378 696	20 351 906	26 111 802	29 252 430	(16 733 105)
1 057	2 114	8 172 412	8 487 508	(3 171 359)	Fire Services	230	-	-	10 700 818	11 771 038	(10 700 818)
-	-	396 455	581 771	(398 455)	Disaster Management	140	-	-	814 803	1 111 761	(814 803)
8 070 826	16 412 087	4 242 708	4 125 308	3 828 119	National Traffic	590	8 391 268	17 331 170	4 135 549	4 577 073	4 255 719
2 852 481	2 860 545	11 049 979	11 101 313	(8 197 498)	Protection Services	710	937 429	3 020 736	10 460 632	11 792 558	(9 473 203)
-	-	19 904 874	19 861 466	(19 904 874)	Sport and Recreation		124	124	21 216 327	22 482 510	(21 216 203)
-	-	19 440 929	19 359 061	(19 440 929)	Parks & Open Space	680	-	-	20 947 672	20 692 622	(20 692 622)
-	-	463 945	502 405	(463 945)	Sport & Recreation	800	124	124	523 705	1 544 838	(523 581)
12 837 510	13 562 170	7 613 536	11 703 387	5 223 974	Environmental Protection		13 078 116	10 243 483	9 574 770	12 248 385	3 503 346
1 646 162	159 729	2 209 089	2 554 101	(562 927)	Environmental Health	210	1 749 080	557 281	2 464 447	2 770 742	(715 367)
390 059	628 188	88 405	156 757	301 654	Nature Reserves	600	377 037	663 370	10 724	258 934	366 313
10 801 289	12 774 253	5 316 042	8 992 529	5 485 247	Environmental Management Fee	731	10 952 019	9 022 832	7 099 598	9 218 709	3 852 421
76 963 467	66 570 845	60 156 040	54 655 249	16 807 427	Waste Management		86 469 037	83 296 441	63 760 488	65 074 388	22 708 549
304 509	303 167	5 000 543	5 368 863	(4 696 035)	Sanitation	750	334 618	330 453	4 742 627	5 107 596	(4 408 009)
52 929 222	45 191 632	26 890 842	21 653 065	26 238 380	Sewerage	780	60 430 831	57 439 493	29 600 995	30 829 836	30 829 836
23 729 736	21 076 046	28 464 654	27 633 321	(4 734 919)	Refuse Removal	730	25 703 588	25 526 495	29 416 865	28 940 213	(3 713 277)
2 304 049	5 805 075	66 578 057	19 713 187	(64 274 008)	Roads and Transport		4 819 988	8 666 410	69 231 319	62 722 429	(64 411 331)
969 951	1 373 202	9 304 101	1 003 629	(8 334 149)	Water Ways	990	1 049 604	1 450 106	10 238 548	1 528 855	(9 188 944)
1 334 097	4 431 873	57 273 956	18 709 558	(55 939 859)	Public Works	720	3 770 384	7 216 304	58 992 771	61 193 574	(55 222 367)
38 048 909	43 676 720	46 230 892	42 281 549	(8 181 983)	Water		40 951 738	45 384 476	42 330 114	54 037 105	(1 378 376)
38 048 909	43 676 720	46 230 892	42 281 549	(8 181 983)	Water	980	40 951 738	45 384 476	42 330 114	54 037 105	(1 378 376)
167 949 883	174 865 572	152 341 414	147 853 077	15 608 470	Electricity		183 251 118	200 001 439	168 875 998	180 865 222	14 375 120
167 949 883	174 865 572	152 341 414	147 853 077	15 608 470	Electricity	190	183 251 118	200 001 439	168 875 998	180 865 222	14 375 120
958 379	1 859 725	25 676 673	14 082 515	(24 718 294)	Other		2 082 700	2 622 336	28 898 830	19 548 572	(26 816 130)
263 476	294 591	1 648 516	2 207 768	(1 385 040)	Skills Development	820	1 276 074	800 000	1 647 206	2 665 183	(371 131)
2 108	4 215	3 945 169	4 309 127	(3 943 061)	Finance: IT	224	-	-	4 009 463	4 254 061	(4 009 463)
274 422	9 397	2 036 692	2 198 023	(1 762 270)	Engineering	200	337 328	9 924	2 144 072	2 358 837	(1 806 747)
-	1 150 100	914 394	919 777	(914 394)	Mgt Administration Unit	560	-	1 395 100	1 003 524	1 401 752	(1 003 524)
-	-	(97 129)	266 500	97 129	Technical Services: Director	551	-	-	937 815	941 407	(937 815)
-	-	279 879	279 879	(279 879)	Technical Services: Secretariate	552	-	(49 300)	12 120 160	826 656	(12 070 660)
-	-	10 074 265	935 751	(10 074 265)	Strategic Services: Director	330	49 300	-	-	-	-
-	-	259 933	262 664	(259 933)	Strategic Services: Secretariate	331	-	-	-	-	-
418 373	441 422	6 614 841	2 683 036	(6 196 468)	Building & Property	070	420 000	466 612	7 036 590	7 100 676	(6 616 590)
466 109 748	463 607 267	553 670 962	456 292 315	(87 561 214)	Sub-Total		520 971 261	550 044 672	561 981 219	583 563 274	(41 009 958)
-	-	-	-	-	Revenue Foregone		-	-	-	-	-
466 109 748	463 607 267	553 670 962	456 292 315	(87 561 214)	Total		520 971 261	550 044 672	561 981 219	583 563 274	(41 009 958)

APPENDIX E1
KOUGA MUNICIPALITY
RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY STANDARD CLASSIFICATION FOR THE YEAR ENDED 30 JUNE 2013

Description	2012/13										Actual Outcome as % of Original Budget R
	Original Total Budget R	Budget Adjustments R	Final Adjustments R	Shifting of Funds R	Virement R	Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	
REVENUE - STANDARD											
Governance and Administration:											
Executive and Council	172 432 779	2 100	2 100	-	-	171 766 463	174 191 935	-	2 425 472	100.00	0.00
Budget and Treasury Office	2 678 719	(686 316)	(686 316)	-	-	2 624 967	2 132 464	-	(492 503)	81.24	101.02
Corporate Services		(53 752)	(53 752)	-	-			-			79.61
Community and Public Safety:											
Community and Social Services	4 185 983	2 228 160	6 414 143	-	-	6 414 143	5 198 729	-	(1 215 414)	81.05	124.19
Sport and Recreation		124	124	-	-	124	124	-	(0)	99.74	0.00
Public Safety	20 354 139	(2 233)	20 351 906	-	-	20 351 906	9 378 606	-	(10 973 210)	46.08	46.08
Housing		-	-	-	-	-	-	-	-	0.00	0.00
Health		-	-	-	-	-	-	-	-	0.00	0.00
Economic and Environmental Services:											
Planning and Development	1 282 720	-	1 282 720	-	-	1 282 720	1 497 215	-	204 495	115.82	115.82
Road Transport	5 373 110	3 293 300	8 666 410	-	-	8 666 410	4 819 988	-	(3 846 422)	55.62	89.71
Environmental Protection	9 854 878	388 605	10 243 483	-	-	10 243 483	13 078 116	-	2 834 633	127.57	132.71
Trading Services:											
Electricity	200 001 439	-	200 001 439	-	-	200 001 439	183 251 118	-	(16 750 321)	91.62	91.62
Water	45 384 476	-	45 384 476	-	-	45 384 476	40 951 738	-	(4 432 738)	90.23	90.23
Waste Water Management	56 904 946	885 000	57 789 946	-	-	57 789 946	60 769 449	-	2 985 503	105.19	106.78
Waste Management	25 526 495	-	25 526 495	-	-	25 526 495	25 703 588	-	177 093	100.89	100.89
Other:											
Tourism		-	-	-	-	-	-	-	-	0.00	0.00
Intergovernmental & Special Projects		-	-	-	-	-	-	-	-	0.00	0.00
Total Revenue - Standard	543 936 694	6 054 988	550 044 672	-	-	550 044 672	520 971 261	-	(29 073 411)	94.71	95.77
EXPENDITURE - STANDARD											
Governance and Administration:											
Executive and Council	25 988 840	(188 223)	25 799 617	-	-	25 799 617	23 527 526	-	(2 272 091)	91.19	90.53
Budget and Treasury Office	143 678 241	13 049 687	56 727 928	-	-	56 727 928	58 240 103	-	1 512 175	102.67	133.34
Corporate Services	37 846 471	3 903 616	41 850 087	-	-	41 850 087	53 231 937	-	11 381 850	127.20	140.28
Community and Public Safety:											
Community and Social Services	14 614 278	(203 807)	14 410 471	-	-	14 410 471	11 296 050	-	(3 114 421)	78.39	77.29
Sport and Recreation	22 142 656	348 854	22 492 510	-	-	22 492 510	21 216 327	-	(1 276 183)	94.33	95.82
Public Safety	27 520 129	1 732 301	29 252 430	-	-	29 252 430	26 111 802	-	(3 140 628)	89.26	94.88
Housing	4 030 281	153 114	4 183 395	-	-	4 183 395	3 690 862	-	(492 533)	88.23	91.58
Health		-	-	-	-	-	-	-	-	0.00	0.00
Economic and Environmental Services:											
Planning and Development	14 106 422	(217 115)	13 889 307	-	-	13 889 307	10 893 924	-	(2 995 383)	78.43	77.23
Road Transport	19 360 238	43 382 191	62 722 429	-	-	62 722 429	69 231 319	-	6 508 890	110.38	357.90
Environmental Protection	12 639 173	(390 788)	12 248 385	-	-	12 248 385	9 574 770	-	(2 673 615)	78.17	75.75
Trading Services:											
Electricity	180 303 834	581 388	180 885 222	-	-	180 885 222	168 875 998	-	(11 989 224)	93.37	93.66
Water	48 966 279	5 071 826	54 037 105	-	-	54 037 105	42 330 114	-	(11 706 991)	78.34	86.45
Waste Water Management	27 750 331	8 383 844	36 134 175	-	-	36 134 175	34 343 622	-	(1 790 553)	95.04	123.76
Waste Management	28 478 750	461 463	28 940 213	-	-	28 940 213	29 416 865	-	476 652	101.65	103.29
Other:											
Tourism		-	-	-	-	-	-	-	-	0.00	0.00
Intergovernmental & Special Projects		-	-	-	-	-	-	-	-	0.00	0.00
Total Expenditure - Standard	507 524 923	76 028 351	583 553 274	-	-	583 553 274	561 961 219	-	(21 572 055)	96.30	110.73
Surplus/(Deficit) for the year	36 464 761	(69 673 363)	(33 508 602)	-	-	(33 508 602)	(41 009 958)	-	(7 501 356)	0.00	0.00

**APPENDIX E2
KOUGA MUNICIPALITY
RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**

Description	Original Total Budget R	Budget Adjustments R	Final Adjustments Budget R	Shifting of Funds R	Virement R	Final Budget R	Actual Outcome R	Unauthorised Expenditure R	Variance R	Actual Outcome as % of Final Budget R	Actual Outcome as % of Original Budget R
REVENUE BY VOTE											
Vote 1 - EXECUTIVE & COUNCIL	172 437 231	2 100	2 100	-	-	2 100	2 100	-	-	100.00	0.00
Vote 2 - FINANCIAL SERVICES	61 363 968	(670 788)	171 766 463	-	-	171 766 463	174 191 936	-	2 425 472	101.41	101.02
Vote 3 - ADMINISTRATION, MONITORING AND EVALUATION	1 053 344	-	2 631	-	-	2 631	49 765	-	47 134	1 891.47	1 891.47
Vote 4 - SOCIAL SERVICES	309 132 510	2 614 856	63 978 624	-	-	63 978 624	54 408 213	-	(9 570 411)	85.04	88.66
Vote 5 - LED, TOURISM AND CREATIVE INDUSTRIES		(49 300)	1 004 044	-	-	1 004 044	1 373 818	-	369 774	136.83	130.42
Vote 6 - INFRASTRUCTURE, PLANNING & DEVELOPMENT		4 158 300	313 290 810	-	-	313 290 810	290 945 432	-	(22 345 378)	92.87	94.12
Vote 7 -		-	-	-	-	-	-	-	-	0.00	0.00
Vote 8 -		-	-	-	-	-	-	-	-	0.00	0.00
Total Revenue by Vote	543 989 694	6 054 988	550 044 672	-	-	550 044 672	520 971 261	-	(29 073 411)	94.71	95.77
EXPENDITURE BY VOTE											
Vote 1 - EXECUTIVE & COUNCIL	25 988 840	(189 223)	25 799 617	-	-	25 799 617	23 527 526	-	(2 272 091)	91.19	90.53
Vote 2 - FINANCIAL SERVICES	47 198 493	12 873 292	59 871 785	-	-	59 871 785	61 164 213	-	1 292 428	102.16	129.59
Vote 3 - ADMINISTRATION, MONITORING AND EVALUATION	23 160 974	(859 459)	22 301 515	-	-	22 301 515	24 333 107	-	2 031 592	109.11	105.06
Vote 4 - SOCIAL SERVICES	106 537 698	2 492 543	109 030 341	-	-	109 030 341	108 597 975	-	(432 366)	99.60	101.93
Vote 5 - LED, TOURISM AND CREATIVE INDUSTRIES	9 259 885	624 885	9 884 770	-	-	9 884 770	17 778 744	-	7 893 974	179.86	192.00
Vote 6 - INFRASTRUCTURE, PLANNING & DEVELOPMENT	295 379 033	61 286 213	356 665 246	-	-	356 665 246	326 579 655	-	(30 085 591)	91.56	110.56
Vote 7 -		-	-	-	-	-	-	-	-	0.00	0.00
Vote 8 -		-	-	-	-	-	-	-	-	0.00	0.00
Total Expenditure by Vote	507 524 923	76 028 351	583 553 274	-	-	583 553 274	561 981 219	-	(21 572 055)	96.30	110.73
Surplus/(Deficit) for the year	36 464 771	(69 973 363)	(33 508 602)	-	-	(33 508 602)	(41 009 958)	-	(7 501 356)	0.00	0.00

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

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies Delayed / Withheld				Reason for Delay / Withholding of Funds	Reason for Revenue Act (*) See below Yes / No	Reason for Non-compliance
		June	Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June		
Equitable Share	Nat Treasury	0	19 708 000	14 652 000	11 825 000	0	0	14 652 000	11 825 000	0	0	812 000	N/A	N/A	Yes	N/A
FMG	Nat Treasury	0	1 500 000	0	0	0	0	121 360	489 989	752 128	N/A	N/A	N/A	N/A	Yes	N/A
NDPS	Nat Treasury	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
MDG Projects	MDG	0	10 722 000	12 065 000	5 118 000	0	0	0	5 072 925	12 956 298	N/A	N/A	N/A	N/A	Yes	N/A
Subs Infrastructure Grant	MDG	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
OWAF C & M	OWAF	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
OWAF Projects	OWAF	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
OWAF Projects	OWAF	0	2 150 000	1 250 000	600 000	0	0	1 232 398	277 147	3 782 916	N/A	N/A	N/A	N/A	Yes	N/A
MSIG	DLG	0	800 000	0	0	0	0	85 850	228 078	391 408	N/A	N/A	N/A	N/A	Yes	N/A
EPWP Incentive Grant	Provinces	0	480 000	734 000	3 014 300	0	0	367 000	3 031 505	261 468	N/A	N/A	N/A	N/A	Yes	N/A
Chasabee Grant	Nat Treasury	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
Health - Clinics	Provinces	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
Sport & Recreation	Provinces	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
Local District Municipality	LDM	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	Yes	N/A
Total Grants and Subsidies Received		0	35 368 000	23 001 000	20 554 300	0	24 853 840	23 911 310	20 290 044	18 144 212	0	812 000	0	0		

(*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON KOUGA MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Kouga Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, cash flows statement, statement of comparison of budgets and actual amounts, for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for preparation and the fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2012 (Act No 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Provisions and Non – current provisions

6. Sufficient appropriate audit evidence was not available to support the provision and non – current provision for the rehabilitation of landfill sites disclosed in note 16 and 23 respectively, to the financial statements. Supporting documentation was not submitted for audit purposes. I was unable to confirm the provision and non – current provision by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provision and non -current provision for rehabilitation of landfill sites of

R4.7 million (2012: R4.7 million) as disclosed in note 16 and R9.3 million (2012: R9.3 million) as disclosed in note 23 to the financial statements.

Prior year comparative information

7. During 2011-12 sufficient appropriate audit evidence was not available for payables from exchange and non - exchange transactions as disclosed in note 17 and 18 to the financial statements and I was unable to confirm the balance by alternative means. This amount relates to sundry deposits (building deposits) and creditors suspense accounts. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions of R105.4 million and payables from non exchange transactions of R5.0 million as disclosed in note 17 and 18 to the financial statements. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
8. Sufficient appropriate audit evidence was not available for the correction of error relating to unspent grants and subsidies disclosed in note 41.1 to the financial statements and I was unable to confirm the correction of error by alternative means. This amount relates to the clearing of conditional grant liabilities. Consequently, I was unable to determine whether any adjustments were necessary to the opening balance of accumulated surplus of R2.6 billion as disclosed in note 41.1 to the financial statements. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 41 to the financial statements, the prior period corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2013, that existed as at 30 June 2012.

Material impairments/losses

11. As disclosed in note 34 to the financial statements, an amount of R 5.4 million (2012: R29.7 million) was written off as impairment losses due to the non payment of consumer debtor accounts.
12. As disclosed in note 47.9 to the financial statements, the municipality incurred material losses relating to electricity of R5.5 million (2012: R9.9 million) as a result of tampering of meters, faulty meters and illegal electricity connections.
13. As disclosed in note 47.10 to the financial statements, the municipality incurred material losses relating to water of R9.1 million (2012: R8.2 million) as result of faulty meters.

Financial sustainability

14. As disclosed in note 53 to the financial statements, the cash flow of the municipality is under strict cash management processes and is being closely monitored. The revenue is not always received in the form of actual cash receipts. This has resulted in significant cash flow constraints. This situation, along with other matters as set forth in the note, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities in the normal course of business.

Significant uncertainties

15. As disclosed in note 50 to the financial statements, the municipality is a defendant in a number of lawsuits. The results of these lawsuits cannot be determined at present as litigation is still in progress.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 3 to 14 of the annual report.
18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPi)*.
19. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

20. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

21. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 68% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of adequately and sufficiently skilled resources in place to ensure that performance is monitored and accurately reported on.

Consistency

Reported targets not consistent with planned targets

22. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 32% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of an established performance management system which entails reviews from management, internal audit and the audit committee of the annual performance report against the integrated development plan.

Reliability of selected development priorities in the annual performance report

Development Priority Two - Basic services and infrastructure

23. The National Treasury *FMPPi* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Provision of Basic Service Delivery. This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.

Compliance with laws and regulations

24. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management:

25. The performance management system of the municipality did not provide for the monitoring of performance and for the measuring and review of performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the Municipal Systems Act (MSA).
26. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
27. The annual performance report for the year under review does not include the performance of the municipality and of each external service provider as required by section 46 (1)(a) of the MSA.
28. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

29. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).
30. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
31. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
32. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1)(a).
33. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
34. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
35. The internal audit unit did not audit the performance measurements on a continuous basis and/or submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

Budgets

36. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

Annual financial statements and annual report

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
38. The 2011/12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
39. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
40. The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges and the report of the audit committee, as required by section 121(3)(e), 121(4)(c) and 121(3)(j) and 121(4)(g) of the MFMA respectively.

Audit committee

41. An audit committee was not in place for the full financial year with a full complement of members as required by section 166(1) of the MFMA.
42. The audit committee did not advise the council nor accounting officer on matters relating to internal financial control and internal audits; risk management; accounting policies; effective governance; performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
43. The audit committee did not advise the council nor accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
44. The audit committee did not advise the council nor accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
45. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
46. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
47. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.

Internal Audit

48. The internal audit unit did not function as required by section 165(2) of the MFMA, in that :
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
49. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

50. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
51. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, in accordance with the requirements of section 62(2) of the MFMA.

Human Resources

52. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 67(d).

Liability Management

53. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

54. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

55. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

INTERNAL CONTROL

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

Leadership

57. Management did not address all deficiencies during the year and leadership does not exercise consequence management for poor performance and transgressions. In addition here is a lack of monitoring and oversight by the leadership.

Financial and performance management

58. Management did not maintain a proper filing system for payables and did not effectively manage and monitor daily and monthly processing. In addition, they did not fully understand the requirements of the financial reporting framework and there is no formal documented system over information technology. Furthermore, management did not comply with all laws and regulations due to a lack of appropriate monitoring.

Governance

59. No risk assessments were performed during the year under review in order to manage risks within the control environment. In addition, the audit committee and internal audit did not function throughout the year.

Auditor-General

East London

29 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
6	Rehabilitation of landfill site provision	Sufficient appropriate audit evidence was not available to support the provision and non-current provision for the rehabilitation of landfill sites disclosed in note 16 and 23 respectively, to the financial statements. Supporting documentation was not submitted for audit purposes. I was unable to confirm the provision and non-current provision by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the provision and non-current provision for rehabilitation of landfill sites of R4.7 million (2012: R4.7 million) as disclosed in note 16 and R9.3 million (2012: R9.3 million) as disclosed in note 23 to the financial statements.	N/A	N/A	N/A
7	QUALIFICATION BASED ON: Prior year comparative information	During 2011-12 sufficient appropriate audit evidence was not available for payables from exchange and non-exchange transactions as disclosed in note 17 and 18 to the financial statements and I was unable to confirm the balance by alternative means. This amount relates to sundry deposits (building deposits) and creditors suspense accounts. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions of R105.4 million and payables from non-exchange transactions of R5.0 million as disclosed in note 17 and 18 to the financial statements. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures	MM	This matter will automatically be cleared in the 2013/14 financial year audit as it was not a current year issue and simply a carry forward.	N/A

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
8	Prior year comparative information	Sufficient appropriate audit evidence was not available for the correction of error relating to unspent grants and subsidies disclosed in note 41.1 in the financial statements and I was unable to confirm this correction of error by alternative means. This amount relates to the clearing of conditional grant liabilities. Consequently, I was unable to determine whether any adjustments were necessary to the opening balance of accumulated surplus of R2.6 billion as disclosed in note 41.1 to the financial statements. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.	MM	This matter will automatically be cleared in the 2013/14 financial year audit as it was not a current year issue and simply a carry forward.	N/A

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
	EMPHASIS OF MATTER:				
11	Material impairments/losses	As disclosed in note 34 to the financial statements, an amount of R 5.4 million (2012: R29.7 million) was written off as impairment losses due to the non payment of consumer debtor accounts.	N/A	N/A	N/A
12	Material impairments/losses	As disclosed in note 47.9 to the financial statements, the municipality incurred material losses relating to electricity of R5.5 million (2012: R6.9 million) as a result of tampering of meters, faulty meters and illegal electricity connections.	N/A	N/A	N/A
13	Material impairments/losses	As disclosed in note 47.10 to the financial statements, the municipality incurred material losses relating to water of R9.1 million (2012: R8.2 million) as result of faulty meters.	MM	Kouga Local Municipality obtained funding to implement water conservation and demand management projects from the Department of Water Affairs. Anatola Water was appointed as the implementing agent. They are currently in the process of servicing and repairing air valves and fittings on the bulk main water lines in Humansdorp and Jeffreys Bay to reduce losses. Other funding applications has also been submitted.	Ongoing
14	Financial sustainability	As disclosed in note 69 to the financial statements, the cash flow of the municipality is under strict cash management processes and is being closely monitored. The revenue is not always received in the form of actual cash receipts. This has resulted in significant cash flow constraints. This situation, along with other matters as set forth in the note, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities in the normal course of business.	N/A	N/A	N/A
15	Significant uncertainties	As disclosed in note 50 to the financial statements, the municipality is a defendant in a number of lawsuits. The results of these lawsuits cannot be determined at present as litigation is still in progress.	N/A	N/A	N/A

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
	REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS				
21 PAA requirements - presentation	Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 68% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of adequately and sufficiently skilled resources in place to ensure that performance is monitored and accurately reported on.	Management take note of paragraph 21 - 23 regarding performance management. This is the first year that the Office of the Auditor General has expressed a view on the presentation, consistency and reliability of the performance report. Various shortages have been identified in performance management and a electronic performance management system has been introduced to try and improve the audit outcomes.	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard.	Quarterly performance reporting
22 PAA requirements - consistency	The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 32% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of an established performance management system which entails reviews from management, internal audit and the audit committee of the annual performance report against the integrated development plan.	Management take note of paragraph 21 - 23 regarding performance management. This is the first year that the Office of the Auditor General has expressed a view on the presentation, consistency and reliability of the performance report. Various shortages have been identified in performance management and a electronic performance management system has been introduced to try and improve the audit outcomes.	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard.	Quarterly performance reporting
23 PAA requirements - reliability	The National Treasury EMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Provision of Basic Service Delivery. This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.	Management take note of paragraph 21 - 23 regarding performance management. This is the first year that the Office of the Auditor General has expressed a view on the presentation, consistency and reliability of the performance report. Various shortages have been identified in performance management and a electronic performance management system has been introduced to try and improve the audit outcomes.	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard.	Quarterly performance reporting

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
25	Compliance with laws and regulations Strategic planning and performance management	The performance management system of the municipality did not provide for the monitoring of performance and for the measuring and review of performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set as required by section 41 of the Municipal Systems Act (MSA).	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard. A Legal Calendar has been required for the Mayor so as to ensure that the Mayor can exercise his oversight responsibility with specifically performance reporting.	Quarterly performance reporting
26	Strategic planning and performance management	Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA. Management agrees with the finding raised. It should be noted that for the 2012/13 year there were no lower level SDBIP (Departmental SDBIP) prepared. The lower level SDBIP (Departmental SDBIP) was prepared for the first time for the 2013/14 year. The submission of Departmental SDBIP information is covered in the resolution of Council adopting the IDP Resolution number 13/05/FAME34 dated 3 June 2013 which provides as follows with regard to the Departmental SDBIP: "iii) That in terms of the provisions of National Treasury, Municipal Finance Management Act, 56 of 2003, Circular 13 dated 25 January 2005, Departmental Service Delivery and Budget Implementation Plans be developed by Section 56 Managers for submission to the relevant Portfolio Committees before the end of June 2013 so as to enable implementation with effect 1 July 2013." The Institutional SDBIP was not adjusted with the mid-year performance review for reason that insufficient reporting prevented the consideration of the mid-year performance report.	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard. A Legal Calendar has been required for the Mayor so as to ensure that the Mayor can exercise his oversight responsibility with specifically performance reporting.	Quarterly performance reporting
27	Strategic planning and performance management	The annual performance report for the year under review does not include the performance of the municipality and of each external service provider as required by section 46 (1)(a) of the MSA. Management agrees with the finding raised. This has been brought to the attention of the Directorates so as to ensure compliance with reporting on the performance of external service providers.	MM	Monthly performance reports on external service providers are being done by Directorates from December 2013	31-Dec-13

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
28	Internal controls	The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.	MM	A institutional risk assessment was performed in November 2013 and the register is being finalised by 31 January 2014. Refer to audit committee and internal audit actions above.	28-Feb-14
29	Audit committee	The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance regulation 14(4)(a)(iii).	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year. As a result of the above, the audit committee was not fully functioning. The first meeting was held on 25 June 2013.	30-Jun-14
30	Audit committee	The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance regulation 14(4)(a)(ii).	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
31	Audit committee	The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
32	Internal audit	The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act, but performance reporting was lacking and no reports could be submitted.	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDRIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard. A Legal Calendar has been required for the Mayor so as to ensure that the Mayor can exercise his oversight responsibility with specifically performance reporting.	Quarterly performance reporting

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
33	Internal audit	The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard. A Legal Calendar has been required for the Mayor so as to ensure that the Mayor can exercise his oversight responsibility with specifically performance reporting.	Quarterly performance reporting
34	Internal audit	The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard. A Legal Calendar has been required for the Mayor so as to ensure that the Mayor can exercise his oversight responsibility with specifically performance reporting.	Quarterly performance reporting

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
35	Internal audit	The internal audit unit did not audit the performance measurements on a continuous basis and/or submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).	MM	An electronic PMS System acquired through Cacadu District Municipality has been acquired which should make reporting more compliant with legislative requirements as it automatically generates SDBIP performance reports for submission to Council, the Audit Committee and the Municipal Public Accounts Committee. A new section has also been brought into the 2013/14 IDP highlighting reporting requirements and responsibilities in this regard. A Legal Calendar has been required for the Mayor so as to ensure that the Mayor can exercise his oversight responsibility with specifically performance reporting.	Quarterly performance reporting
36	Budget	Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 97(6) of the MFMA.	MM	Control measures will be developed when journals are posted to not exceed vote limits.	30-Jun-14
37	Annual Financial Statements	The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.	N/A	N/A	N/A
38	Annual Report	The 2011/12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.	MM	For the 2012/2013 financial year the annual report was submitted to audit on 31 August 2013 and will be submitted to Council before 31 January 2014.	31-Jan-14
39	Annual Report	A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.	MM	For the 2012/2013 financial year the annual report was submitted to audit on 31 August 2013 and will be submitted to Council before 31 January 2014.	31-Jan-14

AUDIT REPORT 2012/2013 ACTION PLAN

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
40	Annual Report	The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges and the report of the audit committee, as required by section 121(3)(e), 121(4)(c) and 121(3)(g) and 121(4)(g) of the MFMA respectively.	MM	The assessment by the accounting officer of any arrears on municipal taxes and service charges will be included in the final Annual Report to be tabled to Council for adoption.	31-Mar-14
41	Audit committee	An audit committee was not in place for the full financial year with a full complement of members as required by section 166(1) of the MFMA.	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
42	Audit committee	The audit committee did not advise the council nor accounting officer on matters relating to internal financial control and internal audit; risk management; accounting policies; effective governance; performance management and performance evaluation as required by section 166(2)(a) of the MFMA.	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
43	Audit committee	The audit committee did not advise the council nor accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
44	Audit committee	The audit committee did not advise the council nor accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
45	Audit committee	The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
46	Audit committee	The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.	MM	Finding to be included in the work schedule of the audit committee for completion by the end of the financial year.	30-Jun-14
47	Audit committee	The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.	N/A	N/A	N/A
48	Internal audit	The internal audit unit did not function as required by section 165(2) of the MFMA, in that: • it did not report to the audit committee on the implementation of the internal audit plan; • it did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.	N/A	N/A	N/A
49	Internal audit	The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vi) of the MFMA.	N/A	N/A	N/A
50	Expenditure management	Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.	MM	Financial recovery plan has been developed and implemented to enable future compliance.	Ongoing

Audit report paragraph reference	Issue	Management Response	Responsible Person	Action	Monitoring and review
51	Expenditure management	Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, in accordance with the requirements of section 62(2) of the MFMA.	MM	A policy and system should be designed in line with Circular 68 of the MFMA for implementation.	28-Feb-14
52	Human resources	The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 57(d).	N/A	N/A	N/A
53	Liability management	An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.	MM	The controls and systems have been changed to be a monthly exercise to eliminate errors since July 2013	Jul-13
54	Liability management	An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.	MM	The controls and systems have been changed to be a monthly exercise to eliminate errors since July 2013	Jul-13
55	Consequence management	Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.	MM	Full report to be tabled to Council before the end of the Annual Financial year.	30-Jun-14
57	INTERNAL CONTROL Leadership	Management did not address all deficiencies during the year and leadership does not exercise consequence management for poor performance and transgressions. In addition there is a lack of monitoring and oversight by the leadership.	N/A	N/A	N/A
58	Financial and performance management	Management did not maintain a proper filing system for payables and did not effectively manage and monitor daily and monthly processing. In addition they did not fully understand the requirements of the financial reporting framework and there is no formal documented system over information technology. Furthermore, management did not comply with all laws and regulations due to a lack of appropriate monitoring.	N/A	N/A	N/A
59	Governance	No risk assessments were performed during the year under review in order to manage risks within the control environment. In addition, the audit committee and internal audit did not function throughout the year.	MM	A institutional risk assessment was performed in November 2013 and the register is being finalised by 31 January 2014. Refer to audit committee and internal audit actions above.	28-Feb-14