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KANNALAND MUNICIPALITY  
Financial statements  
for the year ended 30 June 2016

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## General Information

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<b>Legal form of entity</b>	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No. 117 of 1998)
<b>Nature of business and principal activities</b>	Local Authority
<b>Mayoral committee</b>	
Executive Mayor	J. Donson
Deputy Executive Mayor	P. Antonie
Speaker	H. Ruiters
Councillors	A. Ewerts A. Rossouw L. Willemse W. Meshoa
<b>Executive Management</b>	M.M. Hoogbaard (Municipal Manager) N.B. Delo (Executive Manager: Financial Services) H. Barnard (Executive Manager: Corporate Services)
<b>Accounting Officer</b>	M.M. Hoogbaard
<b>Registered office</b>	32 Church Street LADISMITH 6655
<b>Business address</b>	32 Church Street LADISMITH 6655
<b>Postal address</b>	P.O. Box 30 LADISMITH 6655
<b>Bankers</b>	ABSA Bank, Oudtshoorn First National Bank, Ladismith Standard Bank, Ladismith
<b>Auditors</b>	Auditor-General South Africa

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

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The reports and statements set out below comprise the financial statements presented to the council and provincial legislature:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ASB	Accounting Standards Board
MPAC	Municipal Public Accounts Committee
UIFWE	Unauthorised, Irregular, Fruitless and Wasteful Expenditure

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of authority within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The external auditors are responsible for the audit of the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on pages 4 - 6.

The financial statements set out on pages 7 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed accordingly.

Furthermore, in my capacity as the accounting officer, I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act . Refer to note 31 for the disclosure of Councillor remuneration.

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**Acting Accounting Officer**  
**Mr N.B. Delo**



# Report of the Auditor General

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To the Provincial Legislature of KANNALAND MUNICIPALITY

## Report on the financial statements

I have audited the accompanying financial statements of the KANNALAND MUNICIPALITY which comprise the statement of financial position as at 30 June 2016, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 7 to 73.

## Responsibility of the Accounting Officer for the financial statements

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] , and in the manner required by the Companies Act of South Africa [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

## Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

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

The entity's policy is to prepare financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note ] [note to the financial statements].

## Opinion

# Report of the Auditor General

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Without qualifying my audit opinion, I draw attention to the following matter(s):

Additional text

Additional text

Additional text

Additional text

Additional text

# Report of the Auditor General

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## Other matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Additional text

Additional text

Additional text

Additional text

Additional text

Additional text

Additional text

Additional text

## Other reporting responsibilities

I have audited the performance information as set out on pages xx to xx.

In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

I conducted my engagement in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 646 of 25 May 2007 [and section 45 of the MSA].

In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

Additional text

Additional text

Additional text

Additional text

Additional text

Additional text

## Appreciation

The assistance rendered by the staff of KANNALAND MUNICIPALITY during the audit is sincerely appreciated.

**Auditor-General South Africa**

  

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# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2016.

### 1. Review of activities

#### Main business and operations

The Kannaland Municipality is a Category B municipality performing the functions as set out in the Constitution (Act 105 of 1996). The Kannaland Municipality also serves as an agent to the Provincial Government in providing housing to the community.

The Kannaland Municipality is located and operates principally in the Eden District Municipality and is responsible for basic service provision to the towns of Ladismith, Calitzdorp, Van Wyksdorp and Zoar as well as surrounding farming communities.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 3 532 268 (2015: surplus R 14 927 033).

### 2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated funds of R 220 859 357 and that the municipality's total assets exceed its liabilities by R 220 859 357

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	253 037	466 211
Loans to golf club	3	-	2 186
Other receivables		200 824	-
Receivables from non-exchange transactions	4	5 040 395	6 469 539
VAT receivable	5	11 073 340	6 783 415
Receivables from exchange transactions	6	13 183 479	18 256 190
Investment	12	-	5 211 564
Cash and cash equivalents	7	3 321 141	3 746 501
		<b>33 072 216</b>	<b>40 935 606</b>
<b>Non-Current Assets</b>			
Investment property	8	1 844 024	1 897 109
Property, plant and equipment	9	303 757 639	284 924 790
Intangible assets	11	86 503	131 417
Investment	12	16 539	18 566
		<b>305 704 705</b>	<b>286 971 882</b>
<b>Total Assets</b>		<b>338 776 921</b>	<b>327 907 488</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current portion of long term loan	13	1 499 984	686 105
Finance lease obligation	14	864 839	795 304
Payables from exchange transactions	16	61 886 089	46 850 029
Consumer deposits	17	703 141	669 035
Employee benefit obligation	19	5 613 001	5 295 184
Unspent conditional grants and receipts	21	17 236 781	10 849 809
Provisions	22	-	4 715 893
		<b>87 803 835</b>	<b>69 861 359</b>
<b>Non-Current Liabilities</b>			
Long term loan	13	1 862 148	7 848 343
Finance lease obligation	14	125 553	921 444
Operating lease liability	15	11 050	-
Employee benefit obligation	20	12 397 115	11 665 299
Provisions	22	15 717 863	19 366 853
		<b>30 113 729</b>	<b>39 801 939</b>
<b>Total Liabilities</b>		<b>117 917 564</b>	<b>109 663 298</b>
<b>Net Assets</b>		<b>220 859 357</b>	<b>218 244 190</b>
Accumulated surplus		220 859 357	218 244 190

\* See Note 52

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	24	60 503 152	58 439 477
Interest received - outstanding debtors		5 125 393	4 648 670
Income from agency services		762 689	733 693
Licenses and permits		320 498	266 899
Actuarial gains		251 933	11 778
Rental income		253 263	271 113
Other income		621 355	522 403
Interest revenue	27	265 538	966 316
Dividends received	27	2 634	-
<b>Total revenue from exchange transactions</b>		<b>68 106 455</b>	<b>65 860 349</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	28	13 998 053	13 134 570
Other taxation revenue		5 305 331	4 256 385
<b>Transfer revenue</b>			
Government grants & subsidies	29	77 538 522	61 333 080
Public contributions and donations		389 979	62 500
Fines		5 354 327	695 750
<b>Total revenue from non-exchange transactions</b>		<b>102 586 212</b>	<b>79 482 285</b>
<b>Total revenue</b>	23	<b>170 692 667</b>	<b>145 342 634</b>
<b>Expenditure</b>			
Employee related costs	30	(50 740 973)	(43 725 010)
Remuneration of councillors	31	(2 884 270)	(2 663 243)
Depreciation and amortisation	32	(11 821 838)	(10 926 111)
Impairment loss	33	(17 317)	(2 505 555)
Finance costs	34	(4 881 672)	(4 113 995)
Lease rentals on operating lease		(132 600)	(28 274)
Debt Impairment	35	(18 224 265)	(7 122 595)
Repairs and maintenance		(4 657 077)	(1 431 640)
Bulk purchases	36	(28 165 203)	(25 596 223)
Contracted services	37	(18 951 312)	(10 201 503)
General Expenses	38	(24 419 040)	(22 912 699)
<b>Total expenditure</b>		<b>(164 895 567)</b>	<b>(131 226 848)</b>
<b>Operating surplus</b>		<b>5 797 100</b>	<b>14 115 786</b>
Gain on disposal of assets		426 780	811 247
<b>Surplus for the year</b>		<b>6 223 880</b>	<b>14 927 033</b>

\* See Note 52

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

<b>Figures in Rand</b>	<b>Accumulated surplus</b>	<b>Total net assets</b>
Opening balance as previously reported	201 669 573	201 669 573
Correction of errors (Refer to note 52)	1 647 584	1 647 584
<b>Balance at 01 July 2014 as restated*</b>	<b>203 317 157</b>	<b>203 317 157</b>
Surplus for the year	14 927 033	14 927 033
Total changes	14 927 033	14 927 033
Opening balance as previously reported	215 679 505	215 679 505
Adjustments		
Prior year adjustments	1 647 584	1 647 584
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>217 327 089</b>	<b>217 327 089</b>
Surplus for the year	3 532 268	3 532 268
Total changes	3 532 268	3 532 268
<b>Balance at 30 June 2016</b>	<b>220 859 357</b>	<b>220 859 357</b>

\* See Note 52

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Rates and taxes		13 998 053	8 968 096
Sale of goods and services		60 854 522	46 798 947
Grants and public contributions		78 134 203	72 721 569
Interest received		5 757 175	5 614 986
Dividends received		2 634	-
Other receipts		2 323 712	2 483 918
		<u>161 070 299</u>	<u>136 587 516</u>
<b>Payments</b>			
Employees and councillors		(53 933 568)	(44 744 835)
Finance costs		(4 881 672)	(3 752 812)
Suppliers		(63 418 129)	(57 203 691)
		<u>(122 233 369)</u>	<u>(105 701 338)</u>
<b>Net cash flows from operating activities</b>	40	<b><u>38 836 930</u></b>	<b><u>30 886 178</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(39 477 447)	(28 024 453)
Proceeds from sale of property, plant and equipment	9	995 117	675 803
Purchase of other intangible assets	11	-	(20 117)
Purchase of financial assets		5 213 591	(625 357)
		<u>(33 268 739)</u>	<u>(27 994 124)</u>
<b>Cash flows from financing activities</b>			
Movement in long-term liabilities		(5 211 564)	(605 555)
Movement in loans to golf club		2 186	-
Repayment of finance lease obligation		(818 279)	(9 930)
Increase in consumer deposits		34 106	40 008
		<u>(5 993 551)</u>	<u>(575 477)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(425 360)</b>	<b>2 316 577</b>
Cash and cash equivalents at the beginning of the year		3 746 501	1 429 924
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>3 321 141</u></b>	<b><u>3 746 501</u></b>

\* See Note 52

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	59 347 000	5 142 000	<b>64 489 000</b>	60 503 152	<b>(3 985 848)</b>	1.1
Interest received (trading)	2 294 150	-	<b>2 294 150</b>	5 125 393	<b>2 831 243</b>	1.2
Agency services	688 640	-	<b>688 640</b>	762 689	<b>74 049</b>	
Licences and permits	742 920	(350 000)	<b>392 920</b>	320 498	<b>(72 422)</b>	
Actuarial gains	-	-	-	251 933	<b>251 933</b>	
Rental income	531 560	-	<b>531 560</b>	253 263	<b>(278 297)</b>	
Other income	10 066 500	(2 652 650)	<b>7 413 850</b>	621 355	<b>(6 792 495)</b>	1.3
Interest received - investment	400 000	(120 000)	<b>280 000</b>	265 538	<b>(14 462)</b>	
Dividends received	-	-	-	2 634	<b>2 634</b>	
<b>Total revenue from exchange transactions</b>	<b>74 070 770</b>	<b>2 019 350</b>	<b>76 090 120</b>	<b>68 106 455</b>	<b>(7 983 665)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	14 031 760	-	<b>14 031 760</b>	13 998 053	<b>(33 707)</b>	
Other taxation revenue	-	-	-	5 305 331	<b>5 305 331</b>	2.2
<b>Transfer revenue</b>						
Government grants & subsidies	64 564 002	16 573 524	<b>81 137 526</b>	77 744 245	<b>(3 393 281)</b>	1.4
Public contributions and donations	-	-	-	389 979	<b>389 979</b>	
Fines, Penalties and Forfeits	3 626 720	(30 000)	<b>3 596 720</b>	5 354 327	<b>1 757 607</b>	1.5
<b>Total revenue from non-exchange transactions</b>	<b>82 222 482</b>	<b>16 543 524</b>	<b>98 766 006</b>	<b>102 791 935</b>	<b>4 025 929</b>	
<b>Total revenue</b>	<b>156 293 252</b>	<b>18 562 874</b>	<b>174 856 126</b>	<b>170 898 390</b>	<b>(3 957 736)</b>	
<b>Expenditure</b>						
Personnel	(46 702 360)	(257 275)	<b>(46 959 635)</b>	(52 449 830)	<b>(5 490 195)</b>	1.6
Remuneration of councillors	(2 891 442)	(9)	<b>(2 891 451)</b>	(2 884 270)	<b>7 181</b>	
Depreciation and amortisation	(9 723 120)	-	<b>(9 723 120)</b>	(11 815 995)	<b>(2 092 875)</b>	
Impairment loss/ Reversal of impairments	-	-	-	(17 317)	<b>(17 317)</b>	1.9
Finance costs	(1 031 920)	(1 228 293)	<b>(2 260 213)</b>	(4 881 672)	<b>(2 621 459)</b>	1.7
Lease rentals on operating lease	-	-	-	(132 600)	<b>(132 600)</b>	
Bad debts written off	(1 666 000)	-	<b>(1 666 000)</b>	(18 224 265)	<b>(16 558 265)</b>	1.8
Repairs and maintenance	(3 349 270)	(576 022)	<b>(3 925 292)</b>	(4 657 077)	<b>(731 785)</b>	1.9
Bulk purchases	(26 492 730)	-	<b>(26 492 730)</b>	(28 165 203)	<b>(1 672 473)</b>	1.10
Contracted Services	(1 750 030)	-	<b>(1 750 030)</b>	(18 951 312)	<b>(17 201 282)</b>	1.11
General Expenses	(31 746 580)	(7 265 240)	<b>(39 011 820)</b>	(23 370 580)	<b>15 641 240</b>	1.12
<b>Total expenditure</b>	<b>(125 353 452)</b>	<b>(9 326 839)</b>	<b>(134 680 291)</b>	<b>(165 550 121)</b>	<b>(30 869 830)</b>	
<b>Operating surplus</b>	<b>30 939 800</b>	<b>9 236 035</b>	<b>40 175 835</b>	<b>5 348 269</b>	<b>(34 827 566)</b>	
Gain on disposal of assets and liabilities	-	4 054 250	<b>4 054 250</b>	426 780	<b>(3 627 470)</b>	1.13

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Surplus for the year	30 939 800	13 290 285	44 230 085	5 775 049	(38 455 036)	

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

<b>Budget on Accrual Basis</b>						
	<b>Approved budget</b>	<b>Adjustments</b>	<b>Final Budget</b>	<b>Actual amounts on comparable basis</b>	<b>Difference between final budget and actual</b>	<b>Reference</b>
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	1 469 000	-	<b>1 469 000</b>	253 037	<b>(1 215 963)</b>	2.2
Investment	5 315 000	-	<b>5 315 000</b>	-	<b>(5 315 000)</b>	
Other receivables	-	-	-	200 824	<b>200 824</b>	
Receivables from non-exchange transactions	9 719 000	-	<b>9 719 000</b>	5 040 395	<b>(4 678 605)</b>	2.2
VAT receivable	-	-	-	11 073 340	<b>11 073 340</b>	2.1
Receivables from exchange transactions	13 056 000	-	<b>13 056 000</b>	13 183 479	<b>127 479</b>	2.3
Cash and cash equivalents	1 430 000	-	<b>1 430 000</b>	3 321 141	<b>1 891 141</b>	2.3
	<b>30 989 000</b>	-	<b>30 989 000</b>	<b>33 072 216</b>	<b>2 083 216</b>	
<b>Non-Current Assets</b>						
Investment property	6 875 000	-	<b>6 875 000</b>	1 844 024	<b>(5 030 976)</b>	2.2
Property, plant and equipment	244 981 000	-	<b>244 981 000</b>	303 221 664	<b>58 240 664</b>	2.4
Intangible assets	315 000	-	<b>315 000</b>	86 503	<b>(228 497)</b>	
Investment	-	-	-	16 539	<b>16 539</b>	2.5
	<b>252 171 000</b>	-	<b>252 171 000</b>	<b>305 168 730</b>	<b>52 997 730</b>	
<b>Total Assets</b>	<b>283 160 000</b>	-	<b>283 160 000</b>	<b>338 240 946</b>	<b>55 080 946</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	685 000	351 000	<b>1 036 000</b>	1 499 984	<b>463 984</b>	
Finance lease obligation	-	-	-	864 839	<b>864 839</b>	
Payables from exchange transactions	40 607 000	-	<b>40 607 000</b>	61 886 089	<b>21 279 089</b>	2.3
Consumer deposits	-	-	-	703 141	<b>703 141</b>	
Employee benefit obligation	-	-	-	5 613 001	<b>5 613 001</b>	2.1
Unspent conditional grants and receipts	-	-	-	17 462 942	<b>17 462 942</b>	2.1
	<b>41 292 000</b>	<b>351 000</b>	<b>41 643 000</b>	<b>88 029 996</b>	<b>46 386 996</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	7 853 000	8 700 000	<b>16 553 000</b>	1 862 148	<b>(14 690 852)</b>	2.6
Finance lease obligation	-	-	-	125 553	<b>125 553</b>	
Operating lease liability	-	-	-	11 050	<b>11 050</b>	
Employee benefit obligation	-	-	-	12 397 115	<b>12 397 115</b>	2.1
Provisions	24 492 000	-	<b>24 492 000</b>	15 717 863	<b>(8 774 137)</b>	2.7
	<b>32 345 000</b>	<b>8 700 000</b>	<b>41 045 000</b>	<b>30 113 729</b>	<b>(10 931 271)</b>	
<b>Total Liabilities</b>	<b>73 637 000</b>	<b>9 051 000</b>	<b>82 688 000</b>	<b>118 143 725</b>	<b>35 455 725</b>	
<b>Net Assets</b>	<b>209 523 000</b>	<b>(9 051 000)</b>	<b>200 472 000</b>	<b>220 097 221</b>	<b>19 625 221</b>	
<b>Reserves</b>						
Accumulated surplus	209 523 000	(9 051 000)	<b>200 472 000</b>	220 097 221	<b>19 625 221</b>	

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates	11 225 000	-	<b>11 225 000</b>	13 998 053	<b>2 773 053</b>	3.1
Service charges	46 236 000	-	<b>46 236 000</b>	60 854 522	<b>14 618 522</b>	3.1
Grants and public contributions	64 564 000	16 573 000	<b>81 137 000</b>	78 134 203	<b>(3 002 797)</b>	1.4
Interest income	2 235 000	339 000	<b>2 574 000</b>	5 757 175	<b>3 183 175</b>	1.2
Other receipts	12 222 000	-	<b>12 222 000</b>	2 323 712	<b>(9 898 288)</b>	3.1
	<b>136 482 000</b>	<b>16 912 000</b>	<b>153 394 000</b>	<b>161 067 665</b>	<b>7 673 665</b>	
<b>Payments</b>						
Suppliers and employees	(112 532 000)	-	<b>(112 532 000)</b>	(118 636 477)	<b>(6 104 477)</b>	3.3
Finance costs	(1 031 000)	(1 228 000)	<b>(2 259 000)</b>	(3 321 178)	<b>(1 062 178)</b>	1.10
	<b>(113 563 000)</b>	<b>(1 228 000)</b>	<b>(114 791 000)</b>	<b>(121 957 655)</b>	<b>(7 166 655)</b>	
<b>Net cash flows from operating activities</b>	<b>22 919 000</b>	<b>15 684 000</b>	<b>38 603 000</b>	<b>39 110 010</b>	<b>507 010</b>	
<b>Cash flows from investing activities</b>						
Proceeds from disposal of property, plant and equipment	-	4 054 000	<b>4 054 000</b>	1 060 926	<b>(2 993 074)</b>	3.3
Purchase of property, plant and equipment	-	-	-	(39 477 446)	<b>(39 477 446)</b>	2.1
Purchase of financial assets	-	-	-	(378 745)	<b>(378 745)</b>	
<b>Net cash flows from investing activities</b>	<b>-</b>	<b>4 054 000</b>	<b>4 054 000</b>	<b>(38 795 265)</b>	<b>(42 849 265)</b>	
<b>Cash flows from financing activities</b>						
Long term borrowings	-	8 700 000	<b>8 700 000</b>	-	<b>(8 700 000)</b>	2.1
Repayment of other financial liabilities	(685 000)	(1 036 000)	<b>(1 721 000)</b>	(818 279)	<b>902 721</b>	
Consumer deposits	-	-	-	34 106	<b>34 106</b>	
Loan to golf club	-	-	-	2 186	<b>2 186</b>	
<b>Net cash flows from financing activities</b>	<b>(685 000)</b>	<b>7 664 000</b>	<b>6 979 000</b>	<b>(781 987)</b>	<b>(7 760 987)</b>	
Net increase/(decrease) in cash and cash equivalents	22 234 000	27 402 000	<b>49 636 000</b>	(467 242)	<b>(50 103 242)</b>	
Cash and cash equivalents at the beginning of the year	(7 352 000)	7 931 000	<b>579 000</b>	3 746 501	<b>3 167 501</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>14 882 000</b>	<b>35 333 000</b>	<b>50 215 000</b>	<b>3 279 259</b>	<b>(46 935 741)</b>	



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

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### Budget on Accrual Basis

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#### Statement of financial performance (Approved budget compared to final budget)

The changes between the approved and final budget are a result of reallocations within the budget.

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#### Statement of financial performance (Final budget compared to Actual Amounts)

- 1.1. Actual billings were lower than budgeted due to the overbudget of sewerage charges.
- 1.2. Interest received from outstanding debtors exceeded budget due to actual recovery of debtors being higher than expected.
- 1.3. Expected income from financing did not realise.
- 1.4. Additional grant funding received from provincial treasury for Calitzdorp Housing.
- 1.5. Underbudgeting due to new system implemented for traffic fines in October 2015.
- 1.6. Salary costs relating to grant funded projects were budgeted for under operating grant expenditure but reported under employee costs for the purposes of the financial statements
- 1.7. The budget only included provision for interest on the DBSA loan while actual finance costs include interest on the Eskom Account. The outstanding Eskom liability was not settled in the time frames expected.
  
- 1.8. Overbudgeting of bad debts written off.
- 1.9. Additional repairs and maintenance underbudgeted for.
- 1.10. Consumption was much more due to Ladismith Cheese burn.
- 1.11. Operating grant expenditure allocated under contracted services but not budgeted under contracted services.
- 1.12. Overbudgeting is a result for the variance.
- 1.13. Not all proceeds received on disposal of assets on auction. Debtor raised for monies outstanding.

#### Statement of financial position

- 2.1. The line items were not provided for in the adjustment budget.
- 2.2. Overbudgeting resulted in the variance.
- 2.3. Under provision in the budget resulted in the variance.
- 2.4. The variance was due to under provision in the budget as well as the change in estimate of a rehabilitation asset which had not been provided for.
- 2.5. The variance is the result of under provision in the budget as well as difference in classification.
- 2.6. The variance is the result of an incorrect split between the short- and long-term amounts in the budget, as well as an overprovision in the budget amounts.
- 2.7. The variance is the result of an unexpected decrease in the landfill site provision which was not budgeted for.

#### Statement of changes in cash flows

- 3.1. Underbudgeting resulted in the variance.
- 3.2. No provision was made in the budget for other receipts.
- 3.3. The variance is a result of over and or underbudgeting.
- 3.4. The variance is the result of under provision of the budget amount in cash flow statement.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Accounting principles and policies applied in the financial statements

#### 1.1 Basis of preparation

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

The annual financial statements have been prepared in accordance with the effective standards of GRAP, including any interpretations and directives issued by the ASB, as required by Section 122(3) of the MFMA, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. There are no changes in the accounting policies from the prior year

#### 1.2 Presentation currency

Amounts reflected in the annual financial statements are in South African Rand, which is both the functional and reporting currency of the municipality. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

#### 1.3 Going concern assumption

The annual financial statements for the financial year ended 30 June 2016 have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations (in the next 12 months) and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

#### 1.4 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Refer to note 52 for details.

#### 1.5 Presentation of budget information

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts is disclosed as a separate additional financial statement, namely Statement of Comparison of Budget and Actual Amounts.

The municipality's budget is prepared on the accrual basis. This budget is for the financial year that runs from 1 July 2015 to 30 June 2016. Accordingly, the municipality's budget is prepared on the same basis and for the same financial period as the financial statements of the municipality.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts. Variances greater than R1 000 000 between budgeted and actual amounts are considered material.

Explanations for material differences between the final budget amounts and actual amounts are included in the Statement of Comparison of Budget and Actual Amounts. Variances greater than R1 000 000 between budgeted and actual amounts are considered material.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Leases

#### Municipality as Lessee

Property, plant and equipment or intangible assets, except intangible assets such as licensing agreements, subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct cost incurred and if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.

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

Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

### 1.7 Unpaid conditional government grants and receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent government grants, and subsidies that have not yet been received in cash.

### 1.8 Provisions and contingent liabilities or assets

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

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

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

### 1.9 Employee benefits

#### Post-retirement medical benefits

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

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.9 Employee benefits (continued)

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

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

#### Long Service Awards

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

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

#### Provision for Staff Leave

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

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave to a maximum of 48 days will be paid out to the specific employee at the end of that employee's employment term.

#### Staff Bonuses Accrued

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

#### Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

#### Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are postemployment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Defined benefit plans are postemployment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

### 1.10 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.10 Borrowing costs (continued)

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.11 Property, plant and equipment

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 period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The Municipality opted to take advantage of the transitional 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 useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Years
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# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Property, plant and equipment (continued)

#### Infrastructure

• Stormwater & Roads	3 - 65
• Electricity	10 - 57
• Water	6 - 59
• Refuse	15 - 34
• Sewerage	10 - 110
• Fencing	25

#### Community

• Recreation Grounds	15 - 69
• Civic Building	30
• Swimming Pools	9 - 72
• Libraries	30
• Parks & Gardens	30
• Cemetery	30

#### Finance lease assets

• Office equipment	1 - 14
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#### Land and Buildings

• Buildings	5 - 140
• Land (provision for rehabilitation asset)	0 - 16

#### Other

• IT equipment	1 - 12
• Emergency equipment	2 - 6
• Furniture & Office equipment	1 - 18
• Motor vehicles	1 - 18
• Office equipment	1 - 14
• Plant and equipment	1 - 18
• Other	6

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment 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 from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.12 Intangible assets

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.12 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Years
Computer software	3 - 19

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.13 Investment property

#### Initial recognition

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

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

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

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

An investment property shall be derecognised (eliminated from the statement of financial position):

- (a) on disposal (including disposal through a non-exchange transaction) or
- (b) when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The disposal of an investment property may be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in the Standard of GRAP on Revenue from Exchange Transactions for recognising revenue from the sale of goods and considers the related guidance in the Appendix to the Standard of GRAP on Revenue from Exchange Transactions. The Standard of GRAP on Leases applies to a disposal effected by entering into a finance lease and to a sale and leaseback

#### Subsequent Measurement - Cost Model

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Investment property (continued)

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

#### Depreciation and Impairment - Cost Model

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

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Item	Years
Buildings	5 - 140

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### 1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.15 Inventories

#### Initial recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories shall be 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 entity, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.15 Inventories (continued)

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.

#### Subsequent measurement

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

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

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

### 1.16 Financial instruments

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

#### Initial recognition

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

#### Subsequent measurement

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

#### Receivables

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

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

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

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Financial instruments (continued)

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

Receivables, as reflected on the face of the Statement of Financial Position or in the notes thereto, includes:

- Loan to golf club
- VAT receivables
- Receivables from exchange transactions

### Investments

Investments consist of fixed deposit accounts and classified as functional assets at amortised cost.

### Payables and annuity loans

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

Payables and annuity loans, as reflected on the face of the Statement of Financial Position or in the notes thereto, includes:

- Long term loan
- Current portion of long term loan
- Finance lease obligation
- Operating lease accrual
- Payables from exchange transactions
- Consumer deposits

### Cash and cash equivalents

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

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

### De-recognition of financial instruments

#### Financial assets

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

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

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

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

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Financial instruments (continued)

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

#### Financial liabilities

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

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

#### Offsetting of financial instruments

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

### 1.17 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, is a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

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

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

Interest revenue is recognised using the effective interest rate method.

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

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

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

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

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

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

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

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

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

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

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

### 1.18 Related parties

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party; or vice versa,
- or an entity that is subject to common control; or joint control.

The following are regarded as related parties of the Municipality:

A person or a close member of that person's family is related to the Municipality if that person:

- has control or joint control over the Municipality.
- has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
- is a member of the management of the Municipality or its controlling entity.

An entity is related to the Municipality if any of the following conditions apply:

- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
- both entities are joint ventures of the same third party.
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in above.
- a person identified in above has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.18 Related parties (continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- are married or live together in a relationship similar to a marriage; or
- are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- all members of the governing body of the Municipality;
- a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included above.

Management personnel include:

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

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm’s length and not on normal commercial terms are disclosed.

### 1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the MFMA. Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the MFMA (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 Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.21 Fruitless and wasteful expenditure

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

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.22 Significant judgements and sources of estimation uncertainty

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

#### Componentisation of infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

#### Pre-paid electricity estimation

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year-end that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using between 5 and 10 days' worth of unused electricity.

#### Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### Provision for landfill sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value of the expected future cash flows to rehabilitate the landfill site at year end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset is charged to the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

#### Post-retirement medical obligations

The cost of post-retirement medical obligations is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 18 of the Annual Financial Statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

#### Impairment of receivables

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

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.22 Significant judgements and sources of estimation uncertainty (continued)

#### Property, plant and equipment

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

Management referred to the following when making assumptions regarding useful lives and residual values of "Property, Plant and Equipment."

The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.

Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.

The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

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

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register; or
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

#### Intangible assets

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

Management referred to the following when making assumptions regarding useful lives of intangible assets:

Intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

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

#### Investment property

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

### 1.23 Taxes – Value Added Tax

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

### 1.24 Capital commitments

Capital commitments disclosed in the annual financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

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

### 1.26 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Where reliable measurement not being possible on initial recognition, the heritage assets are not recognised.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Derecognition

The municipality derecognises heritage asset 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 a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).



# **KANNALAND MUNICIPALITY**

Financial Statements for the year ended 30 June 2016

## **Notes to the Financial Statements**

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# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>2. Inventories</b>		
Water	26 373	66 679
Stores, materials and fuels	226 664	399 532
	<u>253 037</u>	<u>466 211</u>
Inventories recognised as an expense during the year	<u>(1 116 200)</u>	<u>(1 274 279)</u>
No inventory was carried at fair value less cost to sell.		
<b>Inventory pledged as security</b>		
No inventories have been pledged at security.		
<b>3. Loans to golf club</b>		
<b>Loan to golf club</b>		
At beginning of the year	2 186	2 186
Repayments	(2 186)	-
	<u>-</u>	<u>2 186</u>
<b>4. Receivables from non-exchange transactions</b>		
Fines: Gross balance	8 078 673	3 223 978
Fines: Provision for impairments	(7 512 978)	(3 064 748)
Fines: Net balance receivable	<u>565 695</u>	<u>159 230</u>
Rates	5 160 146	5 721 123
Staff advances	(702 927)	438 659
Deposits	17 481	17 481
Receivables handed over	-	133 046
	<u>5 040 395</u>	<u>6 469 539</u>

### Traffic fines impairment

The provision for the impairment of fines is based on the non-repayment ratio for the current year.

The fines receivable was assessed for impairment based on expected future cash flows. A provision for doubtful debts of R 7 512 978 (2015: R3 064 748) was raised against the gross amount receivable.

### Reconciliation of traffic fines impairment

Opening balance	(3 064 748)	(2 801 639)
Contribution to impairment	(4 448 230)	(263 109)
	<u>(7 512 978)</u>	<u>(3 064 748)</u>

### Other debtors

Sundry debtors with similar credit risk characteristics are grouped together in financial assets and collectively assessed for debt impairment, however the "Other Debtors" are individually assessed.

No provision for doubtful debt made for debtors other than rates and traffic fine receivables.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

<b>Figures in Rand</b>	<b>2016</b>	<b>2015</b>
<b>4. Receivables from non-exchange transactions (continued)</b>		
<b>Rates receivable impairment</b>		
Other receivables from non-exchange transactions	16 931 379	18 759 000
Less: Allowance for impairment	(11 745 408)	(13 012 052)
	<b>5 185 971</b>	<b>5 746 948</b>
<b>Aging of rates receivable</b>		
Current (0 - 30 days)	1 096 127	732 523
31 - 60 days	434 566	345 176
61 - 90 days	262 301	301 712
91 - 120 days	205 055	275 955
121 - 365 days	14 933 330	17 103 634
	<b>16 931 379</b>	<b>18 759 000</b>
<b>Reconciliation of provision for impairment: Rates receivables from non-exchange transactions</b>		
Opening balance	13 012 052	12 190 029
Provision for impairment	(1 266 645)	822 023
	<b>11 745 407</b>	<b>13 012 052</b>
<p>The provision for doubtful debts on debtors (loans and receivables) exist due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial statements with similar credit risk characteristics and collectively assessed for impairment.</p> <p>The rates receivable were assessed for recoverability at year-end based on historical non-payment ratios and expected future cash flows for debtors with similar credit risk characteristics.</p> <p>Concentrations of credit risk with respect to trade receivables are limited due to the Municipality's large number of customers. The Municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the Municipality's trade receivables.</p>		
<b>5. VAT receivable</b>		
VAT	11 073 340	6 783 415
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	3 861 190	5 345 438
Water	14 281 518	19 099 849
Sewerage	13 456 516	14 093 239
Refuse	13 513 463	14 462 189
Housing rental	77 696	163 730
Sundries	1 229 238	2 229 285
	<b>46 419 621</b>	<b>55 393 730</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Less: Allowance for impairment</b>		
Electricity	(2 909 175)	(2 946 726)
Water	(10 711 086)	(12 940 197)
Sewerage	(9 334 874)	(9 789 156)
Refuse	(9 374 378)	(10 045 429)
Housing rental	(53 898)	(113 727)
Sundries	(852 731)	(1 302 305)
	<b>(33 236 142)</b>	<b>(37 137 540)</b>
<b>Net balance</b>		
Electricity	952 015	1 495 142
Water	3 570 432	6 159 652
Sewerage	4 121 642	4 304 083
Refuse	4 139 085	4 416 760
Housing rental	23 798	50 003
Other	376 507	1 830 550
	<b>13 183 479</b>	<b>18 256 190</b>

The provision for doubtful debts on debtors (loans and receivables) exist due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial statements with similar credit risk characteristics and collectively assessed for impairment.

The rates receivable were assessed for recoverability at year-end based on historical non-payment ratios and expected future cash flows for debtors with similar credit risk characteristics.

Concentrations of credit risk with respect to trade receivables are limited due to the Municipality's large number of customers. The Municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the Municipality's trade receivables.

### Ageing by service type

<b>Electricity</b>		
Current (0 -30 days)	1 624 935	4 002 598
31 - 60 days	126 459	96 806
61 - 90 days	84 914	80 108
91 - 120 days	68 318	41 783
121 - 365 days	1 956 563	1 124 143
	<b>3 861 189</b>	<b>5 345 438</b>
<b>Water</b>		
Current (0 -30 days)	2 043 956	2 031 531
31 - 60 days	477 059	1 730 160
61 - 90 days	494 087	633 343
91 - 120 days	568 807	490 098
121 - 365 days	10 697 609	14 214 717
	<b>14 281 518</b>	<b>19 099 849</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Sewerage</b>		
Current (0 -30 days)	535 674	416 845
31 - 60 days	292 591	291 181
61 - 90 days	264 808	278 232
91 - 120 days	253 425	272 704
121 - 365 days	12 110 019	12 834 277
	<b>13 456 517</b>	<b>14 093 239</b>
<b>Refuse</b>		
Current (0 -30 days)	413 335	419 024
31 - 60 days	281 768	299 169
61 - 90 days	257 730	289 452
91 - 120 days	253 475	280 493
121 - 365 days	12 307 155	13 174 051
	<b>13 513 463</b>	<b>14 462 189</b>
<b>Housing rental</b>		
Current (0 -30 days)	2 320	4 537
31 - 60 days	1 950	2 483
61 - 90 days	1 629	2 360
91 - 120 days	1 480	2 259
> 365 days	70 318	152 091
	<b>77 697</b>	<b>163 730</b>
<b>Sundries</b>		
Current (0 -30 days)	102 535	392 234
31 - 60 days	15 186	15 730
61 - 90 days	6 388	11 973
91 - 120 days	6 383	11 305
121 - 365 days	1 098 747	1 798 043
	<b>1 229 239</b>	<b>2 229 285</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	36 227 560	31 100 080
Contributions to allowance	(3 391 670)	6 037 460
	<b>32 835 890</b>	<b>37 137 540</b>
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Current account	1 532 461	578 106
Short-term deposits	1 784 380	3 165 095
Cash floats	4 300	3 300
	<b>3 321 141</b>	<b>3 746 501</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		
	30 June 2016	30 June 2015	30 June 2014
Standard Bank - cheque account -420543546	212 609	296 665	1 745 958
Standard Bank - cheque account - 420543554	19 515	1 598	114 428
Standard Bank - cheque account - 420543562	64 609	13 180	60 482
Standard Bank - call account - 52782730231	-	3 122 549	73 500
First National Bank - cheque account - 52782730231	-	4 215	11 890
First National Bank - money market -62132042988	-	10 564	10 445
First National Bank - cheque account - 62163554580	-	31 190	28 023
ABSA Bank - cheque account - 1120000019	-	269 788	(13 458)
ABSA Bank - call account - 9117177062	32 093	31 983	20 000
Standard Bank - call deposit - 288798546	1 752 287	-	-
<b>Total</b>	<b>2 081 113</b>	<b>3 781 732</b>	<b>2 051 268</b>

### 8. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	2 183 170	(339 146)	1 844 024	2 183 170	(286 061)	1 897 109

#### Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Impairments	Depreciation	Total
Investment property	1 897 109	-	-	(17 317)	(35 769)	1 844 023

#### Reconciliation of investment property - 2015

	Opening balance	Disposals	Depreciation	Total
Investment property	1 944 486	(11 610)	(35 767)	1 897 109

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

The fair value of investment properties is estimated to be R 6 709 000, based on the last general valuation which came into effect on 1 July 2015. The valuation was performed by Rode Valuations Knysna (registration number 2004/024223/07). Valuations are performed every 4 years.

Their assumptions were based on current market conditions.

Rode Valuations Knysna is not connected to the Municipality and have recent experience in location and category of the investment property which was valued.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	19 218 927	(7 321 943)	11 896 984	28 685 355	(6 311 504)	22 373 851
Buildings	4 131 918	(1 195 370)	2 936 548	4 150 917	(1 085 439)	3 065 478
Plant and machinery	10 949 112	(1 137 772)	9 811 340	3 175 465	(1 163 709)	2 003 459
Furniture and office equipment	2 210 917	(1 733 190)	477 727	2 254 090	(1 696 798)	557 293
Motor vehicles	3 504 732	(3 223 074)	281 658	4 207 873	(3 706 983)	500 890
IT equipment	1 797 999	(1 150 755)	647 244	1 902 339	(1 219 817)	685 513
Fencing	48 695	(4 813)	43 882	48 695	(2 767)	45 928
Infrastructure	372 325 502	(113 494 029)	258 831 473	342 761 583	(106 164 396)	236 705 578
Community	23 302 860	(5 042 064)	18 260 796	22 682 087	(4 282 703)	18 399 384
Other property, plant and equipment	1	-	1	1	-	1
Leased assets	2 675 496	(2 390 098)	285 398	2 583 572	(2 280 746)	302 826
Mayoral chain	284 000	-	284 000	284 000	-	284 000
Housing development fund	588	-	588	588	-	588
<b>Total</b>	<b>440 450 747</b>	<b>(136 693 108)</b>	<b>303 757 639</b>	<b>412 736 565</b>	<b>(127 914 862)</b>	<b>284 924 790</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	WIP	Disposals	Change in estimate	Other changes, movements	Depreciation	Total
Land	22 373 851	-	-	-	(9 466 428)	-	(1 010 439)	11 896 984
Buildings	3 065 478	-	-	(17 772)	-	-	(111 158)	2 936 548
Plant and machinery	2 003 459	7 110 650	978 317	-	-	-	(478 669)	9 613 757
Furniture and office equipment	557 294	28 179	-	(6 533)	-	-	(103 538)	475 402
Motor vehicles	500 890	-	-	(6 553)	-	-	(188 166)	306 171
IT equipment	685 513	126 861	-	(12 436)	-	-	(151 719)	648 219
Fencing	45 928	-	-	-	-	-	(2 046)	43 882
Infrastructure	236 705 578	19 166 263	11 356 204	(525 043)	-	-	(7 802 716)	258 900 286
Community	18 399 384	620 773	-	-	-	-	(759 362)	18 260 795
Other property, plant and equipment	1	-	-	-	-	-	-	1
Leased assets	302 827	91 922	-	-	-	-	(124 603)	270 146
Mayoral chain	284 000	-	-	-	-	-	-	284 000
Housing development fund	588	-	-	-	-	-	-	588
	<b>284 924 791</b>	<b>27 144 648</b>	<b>12 334 521</b>	<b>(568 337)</b>	<b>(9 466 428)</b>	<b>-</b>	<b>(10 732 416)</b>	<b>303 636 779</b>



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	WIP	Disposals	Impairment	Depreciation	Prior period adjustments	Total
Land	7 845 590	22 514 325	-	(21 000)	(270 000)	(1 141 660)	(6 553 404)	22 373 851
Buildings	3 303 844	-	-	-	(125 051)	(113 315)	-	3 065 478
Plant and machinery	177 730	2 040 410	-	-	-	(218 298)	3 617	2 003 459
Furniture and office equipment	519 492	259 240	-	-	-	(290 576)	69 137	557 293
Motor vehicles	710 151	-	-	-	-	(235 608)	26 347	500 890
IT equipment	741 242	219 586	-	(36 948)	-	(269 456)	31 089	685 513
Fencing	6 142	41 202	-	-	-	(1 416)	-	45 928
Infrastructure	222 978 029	7 960 419	13 805 184	-	-	(7 677 391)	(360 663)	236 705 578
Community	15 066 578	124 582	4 003 372	(77 500)	(72 462)	(641 061)	(4 125)	18 399 384
Other property, plant and equipment	1	-	-	-	-	-	-	1
Leased assets	2 009 357	178 096	-	(26 481)	(1 646 309)	(211 836)	-	302 827
Mayoral chain	-	-	-	-	-	-	284 000	284 000
Housing development fund	588	-	-	-	-	-	-	588
	<b>253 358 744</b>	<b>33 337 860</b>	<b>17 808 556</b>	<b>(161 929)</b>	<b>(2 113 822)</b>	<b>(10 800 617)</b>	<b>(6 504 002)</b>	<b>284 924 790</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 9. Property, plant and equipment (continued)

#### Assets subject to finance lease (Net carrying amount)

Other leased assets	270 146	302 826
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The related finance lease obligation is disclosed in note 14.

#### Other information

#### Details of work in progress

The carrying value of property, plant and equipment in the course of construction:

Infrastructure	37 565 649	46 249 220
Community	-	540 299
Plant and machinery	978 317	-
	<b>38 543 966</b>	<b>46 789 519</b>

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

### 10. Heritage assets

The following heritage assets were not recognised due to reliable measurement not being possible on initial recognition. The reason why these assets could be measured reliably is due to their cultural significance, which cannot be valued. Heritage assets are objects and places of cultural significance as defined by the National Heritage Resources Act. In principle these assets are held in custody by the municipality on behalf of the community for present and future generations.

"Taal Monument"	Date: 1905
Work of art - C.J. Langenhoven - Sculpture :	Date: 1900
Work of art - C.J. Langenhoven - Documents	Date: 1960
Chair - Draughtsman	Date: 2008

### 11. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	652 549	(566 046)	86 503	652 550	(521 133)	131 417

#### Reconciliation of intangible assets - 2016

	<b>Opening balance</b>	<b>Additions</b>	<b>Amortisation</b>	<b>Total</b>
Computer software	128 424	-	(41 921)	86 503

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 11. Intangible assets (continued)

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	198 039	20 117	(89 731)	128 425

### 12. Investment

#### Amortised cost

Sanlam		16 539	18 566
Momentum Rand Merchant Bank - Fixed Deposit		-	5 211 564
		<u>16 539</u>	<u>5 230 130</u>

Fixed deposits are investments with a maturity period of more than 12 months and earn interest of 13.46% per annum.

Investments to the value of R 5 590 309 are pledged as security against long term liabilities. Refer to note 13.

#### Non-current assets

Designated at fair value	<u>16 539</u>	<u>18 566</u>
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#### Current assets

At amortised cost	<u>-</u>	<u>5 211 564</u>
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### 13. Long term loan

#### At amortised cost

DBSA	<u>3 362 132</u>	<u>8 534 448</u>
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The Kannaland Municipality entered into an agreement with DBSA on 30 April 2008 to consolidate and reschedule a loan to the amount of R 11 587 526,79 at a rate of 12.5% to be paid to the DBSA in 180 monthly instalments commencing on 31 May 2008. The calculation of the monthly installments is based on the actual number of days elapsed in a 365 day year and shall be payable in arrears on the last business day of each and every month.

#### EXTERNAL LOANS

	Long-term	Short-term	Total
Brought forward	7 848 343	686 105	8 534 448
Interest	-	39 248	39 248
Derecognition of RMB against DBSA	(5 211 564)	-	(5 211 564)
	<u>2 636 779</u>	<u>725 353</u>	<u>3 362 132</u>

#### Non-current liabilities

At amortised cost	<u>1 862 148</u>	<u>7 848 343</u>
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#### Current liabilities

At amortised cost	<u>1 499 984</u>	<u>686 105</u>
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# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	920 816	915 323
- in second to fifth year inclusive	129 040	973 294
	<u>1 049 856</u>	<u>1 888 617</u>
less: future finance charges	(59 465)	(171 869)
<b>Present value of minimum lease payments</b>	<u><b>990 391</b></u>	<u><b>1 716 748</b></u>
<b>Present value of minimum lease payments due</b>		
- within one year	864 839	795 304
- in second to fifth year inclusive	125 552	921 444
	<u><b>990 391</b></u>	<u><b>1 716 748</b></u>
Non-current liabilities	125 553	921 444
Current liabilities	864 839	795 304
	<u><b>990 392</b></u>	<u><b>1 716 748</b></u>

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

Terms and conditions:

The municipality leases printers and copiers from Nashau and Minolta for a 36 month period. The present value of the lease obligation has been determined by discounting the fixed monthly premiums at the prime rate.

Hefcom lease liability relates to the settlement arrangement reached relating to the lease of water meters. The terms of the agreement are 24 monthly payments at a fixed rate. The present value is determined by discounting the fixed monthly premiums at the prime rate.

### 15. Operating lease accrual

Current liabilities	(11 050)	-
	<u><b>(11 050)</b></u>	<u>-</u>

### 16. Payables from exchange transactions

Trade payables	45 796 669	33 663 705
Deposits received	210 244	227 014
Madiba funeral	9 765	9 765
Sundry creditors	13 971 709	11 394 270
Unclaimed monies	-	245 237
Retention - contracts	1 897 702	1 310 038
	<u><b>61 886 089</b></u>	<u><b>46 850 029</b></u>

Payables are being recognised net of any discounts.

Payables should be paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables in initial recognition is not deemed necessary.

Due to limited cash resources, the Municipality failed to comply with the 30 day payment period of creditors.

The carrying value of trade and other payables approximates fair value.

Sundry deposits include library deposits.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>17. Consumer deposits</b>		
Electricity	703 141	669 035

The fair value of consumer deposits approximates their carrying value. Interest is not paid on these amounts.

### 18. Employee benefit obligations

#### Defined benefit plan

#### Post retirement benefit plan

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

Both the Cape Joint Pension Fund and Cape Retirement Fund are multi-employer plans. This means that there are multiple local authorities that participate in these funds. In terms of GRAP 25, multi-employer plans are defined as defined benefit plans. GRAP 25 also states that when sufficient information is not available to use defined benefit accounting for a multi-employer plan, an entity will account for the plan as if it were a defined contribution plan.

The Municipality was not supplied with information on the Municipality's share of the Pension and Retirement Fund's assets by the administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer.

Therefore, although the Cape Joint Retirement Fund is a Multi Employer fund defined as a defined benefit plan, it will be accounted for as a defined contribution plan. All the disclosures have been made as required in GRAP 25.31.

#### CAPE JOINT PENSION FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2015 revealed that the fund is in a sound financial position with a funding level of 101.4% (30 June 2014 - 106.2%).

#### CAPE RETIREMENT FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2015 revealed that the fund is in sound financial position with a funding level of 99.5% (30 June 2014 - 99.9%).

#### Defined contribution plan

Council contributes to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

The total economic entity contribution to such schemes	3 333 877	3 204 379
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### 19. Employee benefit obligation

2016	Opening balance	Contributions for the year	Total
Leave pay	3 832 710	154 263	3 986 973
Bonuses	924 915	63 023	987 938
Long service awards	118 615	65 275	183 890
Post employment medical aid benefit subsidy	418 944	35 256	454 200
	<b>5 295 184</b>	<b>317 817</b>	<b>5 613 001</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015	
<b>19. Employee benefit obligation (continued)</b>			
<b>2015</b>	Opening balance	Contributions for the year	Total
Leave pay	3 396 502	436 208	3 832 710
Bonuses	936 304	(11 389)	924 915
Long service awards	34 232	84 383	118 615
Post employment medical aid benefit subsidy	343 464	75 480	418 944
	<b>4 710 502</b>	<b>584 682</b>	<b>5 295 184</b>

### 20. Other liability

#### 20.1 Long service awards

##### Reconciliation of present value of fund obligation:

Current service costs	140 978	139 181
Interest costs	114 346	104 081
Expected benefit vestings	(118 615)	(118 556)
Total expenses	136 709	124 706
Present value of fund at the beginning of the year	1 476 009	1 343 896
Actuarial (gain) / loss	(113 140)	7 407
Total liability	1 499 578	1 476 009
Less: Current portion	(183 890)	(118 615)
<b>Non-current portion</b>	<b>1 315 688</b>	<b>1 357 394</b>

##### History of past liabilities and experience adjustments

Year	30/06/2012	30/06/2013	30/06/2014	30/06/2015
Accrued liability	1 075 657	1 197 256	1 343 896	1 476 009
Experience adjustment	(41 587)	(63 917)	41 604	13 418

##### Key Actuarial Assumptions Used

###### Rates of Interest

Discount rate	8.54%	8.06 %
General salary inflation	7.20%	7.11 %
Net discount rate	1.34%	0.89 %

##### Sensitivity Analysis on the future service cost and interest cost

Assumption	Change	Current service cost	Interest cost	Total	% Change
Central assumptions		141 000	114 300	255 300	
General salary inflation	1 %	153 500	122 500	276 000	8 %
	-1 %	128 800	106 900	235 700	-7 %
Discount rate	1 %	130 600	119 800	250 400	-2 %
	-1 %	152 900	107 900	260 800	2 %
Average retirement age	- 2 yrs	129 100	103 300	232 400	-9 %
	2 yrs	156 200	128 600	284 800	12 %
Withdrawal rates	-50 %	183 200	134 400	317 600	24 %

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>20. Other liability (continued)</b>		
<b>20.2 Post employment medical aid benefit subsidy</b>		
<b>Reconciliation of present value of fund obligation:</b>		
Current service costs	499 793	521 496
Interest costs	938 405	851 553
Expected benefit vestings	(561 817)	(246 153)
Total expenses	876 381	1 126 896
Present value of fund at the beginning of the year	10 726 849	9 578 485
Actuarial (gain) / loss	(67 603)	21 468
Total liability	11 535 627	10 726 849
Less: Current portion	(454 200)	(418 944)
<b>Non-current portion</b>	<b>11 081 427</b>	<b>10 307 905</b>

### History of past liabilities and experience adjustments

Year	30/06/2012	30/06/2013	30/06/2014	30/06/2015
Accrued liability	6 177 000	6 260 000	9 578 000	10 726 849
Experience adjustment	(292 000)	(195 000)	1 760 000	151 000

### Key Actuarial Assumptions Used

#### Rates of Interest

Discount rate	9.06%	8.92 %
Health care cost inflation rate	8.15%	8.00 %
Net discount rate	0,84%	0.85 %

### Sensitivity Analysis on the future service cost and interest cost

Assumption	Change	In service	Continuation	Total	% Change
Central assumptions		5 031 000	6 505 000	11 536 000	
Health care inflation	1 %	6 193 000	7 219 000	13 412 000	16 %
	-1 %	4 111 000	5 896 000	10 007 000	-13 %
Discount rate	1 %	4 125 000	5 905 000	10 030 000	-13 %
	-1 %	6 195 000	7 220 000	13 415 000	16 %
Post-retirement mortality	- 1 yr	5 241 000	6 757 000	11 998 000	4 %
Average retirement age	1 yr	5 575 000	6 505 000	12 080 000	5 %
Continuation of membership at retirement	-10 %	4 098 000	6 505 000	10 603 000	-8 %

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 20. Other liability (continued)

#### Net expense recognised in the statement of financial performance

Current service cost	640 771	660 677
Interest cost	1 052 751	955 634
Actuarial (gains) losses	(180 743)	28 875
Expected benefit vestings - long service awards	(118 615)	(118 556)
Expected benefits vestings - medical	(561 817)	(246 153)
	<b>832 347</b>	<b>1 280 477</b>

#### The amounts recognised in the statement of financial position are as follows:

Long service awards	1 315 688	1 357 394
Post employment medical aid benefit subsidy	11 081 427	10 307 905
	<b>12 397 115</b>	<b>11 665 299</b>

### 21. Unspent conditional grants and receipts

#### Unspent grants and receipts comprises of:

#### Unspent conditional grants and receipts

National Government Grants	3 071 133	1 293 640
Provincial Government Grants	11 452 367	7 829 511
District Municipality Grants	2 665 551	2 369 874
Other Grant Providers	273 893	273 891
<b>Less: Unpaid grants</b>		
National Government Grants	-	(917 107)
	<b>17 462 944</b>	<b>10 849 809</b>

#### Movement during the year

Balance at the beginning of the year	11 767 204	5 313 630
Additions during the year	88 541 897	71 195 789
Income recognition during the year	(82 846 158)	(65 659 610)
	<b>17 462 943</b>	<b>10 849 809</b>

See appendix "B" for reconciliation of grants from other spheres of government. The Municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

### 22. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Change in estimate	Finance costs	Total
Landfill sites	24 082 746	(9 466 428)	1 101 545	15 717 863

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Finance costs	Prior period correction	Total
Landfill sites	7 766 582	22 576 123	355 243	(6 615 202)	24 082 746



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>22. Provisions (continued)</b>		
Non-current liabilities	15 717 863	19 366 853
Current liabilities	-	4 715 893
	<b>15 717 863</b>	<b>24 082 746</b>

### Rehabilitation of landfill

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use.

The sites are expected to be closed and rehabilitated at the end of their useful lives.

The sites have different useful lives as follows:

- Ladismith landfill site has a remaining useful life of 9 years and is expected to be closed in 2025.
- Zoar landfill site has a remaining useful life of 25 years and is expected to be closed in 2041.
- Calitzdorp landfill site has a remaining useful life of 4 years and is expected to be closed in 2020.

The National Norms and Standards for Disposal of Waste to Landfill (GN R 635 and 636) became effective for the first time during the 2014/15 financial year resulting in a significant increase in the provision for rehabilitation and the related asset.

The methodology used for the calculation of the landfill provisions has been amended for the 2015/2016 financial year. The change in methodology may have in some instances resulted in significant changes in lifespan and costs. A summary of the significant changes:

1. The Minimum Requirements for Waste Disposal by Landfill (DWAF, 1998) has been followed more closely to logically estimate the remaining life of the sites.
2. Areas of the actual waste disposal at the sites have been double check in Google Earth history. Where the original site boundaries seem to have been 'jumped' it has been recommended that surface waste and scatter is scraped, collected and consolidated to the original waste disposal areas and only those areas be subjected to capping and rehabilitation.
3. Landfill rehabilitation costs have not been escalated by CPI. It is believed that CPI is a better indication of future costs for rehabilitation than CPA. Therefore the costs should be escalated by CPI and discounted back.

### 23. Revenue

Service charges	60 503 152	58 439 477
Interest received - outstanding debtors	5 125 393	4 648 670
Income from agency services	762 689	733 693
Licenses and permits	320 498	266 899
Miscellaneous revenue	251 933	11 778
Rental income	253 263	271 113
Other income	623 989	522 403
Interest received - investment	265 538	966 316
Gains on disposal of assets	492 589	811 247
Property rates	13 998 053	13 134 570
Other taxation revenue	5 305 331	4 256 385
Government grants & subsidies	77 538 522	61 333 080
Public contributions and donations	389 979	62 500
Fines	5 354 327	695 750
	<b>171 185 256</b>	<b>146 153 881</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>23. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	60 503 152	58 439 477
Interest received - outstanding debtors	5 125 393	4 648 670
Income form agency services	762 689	733 693
Licenses and permits	320 498	266 899
Actuarial gain	251 933	11 778
Rental income	253 263	271 113
Other income	623 989	522 403
Interest received - investment	265 538	966 316
Gain on disposal	492 589	-
	<b>68 599 044</b>	<b>65 860 349</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

<b>Taxation revenue</b>		
Property rates	13 998 053	13 134 570
VAT income recognition	5 305 331	4 256 385
<b>Transfer revenue</b>		
Government grants & subsidies	77 538 522	61 333 080
Public contributions and donations	389 979	62 500
Fines	5 354 327	695 750
	<b>102 586 212</b>	<b>79 482 285</b>

### 24. Service charges

Sale of electricity	38 800 270	34 657 506
Sale of water	11 143 202	13 775 330
Sewerage and sanitation charges	5 733 258	5 161 112
Refuse removal	4 826 422	4 845 529
	<b>60 503 152</b>	<b>58 439 477</b>

### 25. Distribution losses

Material losses

#### 25.1. Electricity losses

These losses are made up as follows:

	2016: Units	2016: Percentage	2015: Units	2015: Percentage
Ladismith	3 224 308	12,03 %	5 299 972	18,41 %
Calitzdorp	1 243 399	17,86 %	1 339 721	19,59 %
<b>Overall % lost during distribution</b>	<b>4 467 707</b>	<b>13,23 %</b>	<b>6 639 693</b>	<b>16,70 %</b>

#### 25.2. Water loss

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>25. Distribution losses (continued)</b>		
Kl consumption	1 933 408	2 130 098
Kilolitre sold	(1 428 923)	(1 301 291)
<b>Quantity lost during distribution</b>	<b>504 485</b>	<b>828 807</b>
% lost during distribution	26,09 %	38,91 %
<b>26. Other revenue</b>		
Rental income	253 263	271 113
Other income	733 302	522 403
	<b>986 565</b>	<b>793 516</b>
<b>27. Investment revenue</b>		
<b>Dividend revenue</b>		
Sanlam	2 634	-
<b>Interest revenue</b>		
Other financial assets	7 153	-
Interest earned on call account	258 385	340 959
Interest earned on investment	-	625 357
	<b>265 538</b>	<b>966 316</b>
	<b>268 172</b>	<b>966 316</b>
<p>The amount included in Investment revenue arising from exchange transactions amounted to R 634 416 (2015:R 966 316).</p>		
<b>28. Property rates</b>		
<b>Rates received</b>		
Residential	17 278 430	15 971 429
Less: Income forgone	(3 280 377)	(2 836 859)
	<b>13 998 053</b>	<b>13 134 570</b>
<b>Valuations</b>		
Residential	552 413 000	530 904 750
Commercial	121 640 000	103 909 250
State	108 194 000	107 426 000
Municipal	48 438 000	94 860 000
Small holdings and farms	1 717 559 000	1 591 654 000
Industrial	35 803 000	28 308 000
General	12 474 000	11 557 000
Church	36 373 000	839 000
Nature reserve	45 120 000	12 045 000
	<b>2 678 014 000</b>	<b>2 481 503 000</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 28. Property rates (continued)

A general rate of 0.010594 is applied to property valuations to determine assessment rates. The following rebates were applied: 30% for pensioners, 75% for agricultural and residential properties with R 40 000 value or less are exempt.

Rates are levied on an annual basis with the final date for payment being 30 September 2013. Interest at prime plus 1% per annum is levied on rates outstanding on monthly rates.

The new general valuation will be implemented on 01 July 2016.

### 29. Government grants and subsidies

#### Operating grants

Equitable share	21 747 000	21 140 160
EPWP Grant	997 388	897 572
CDW Grant	88 706	108 041
National Integrated Electrification Grant	-	129 860
Eden District Municipality	-	151 497
Department of Water Affairs - RBIG	-	58 888
Calitzdorp Housing Grant	14 190 521	2 523 401
Department of Water Affairs - Accelerated Community Infrastructure Programme	476 976	-
Local Government Financial Management Grant	1 469 298	668 549
Municipal Systems Improvement Grant	320 929	794 551
Local Government Financial Management Support grant	1 372 108	30 431
Municipal Infrastructure Grant	491 075	679 954
Library Grant	1 542 652	1 697 584
Nissanville Paving	-	3 289
	<b>42 696 653</b>	<b>28 883 777</b>

#### Capital grants

VWD Pit Latrines	-	1 068 864
Eden District Municipality - Disaster funds	1 084 527	279 530
Municipal infrastructure grant	13 923 967	8 228 705
Zoar Ramp	951 197	1 157 084
National Integrated Electrification Grant	2 631 579	4 903 519
Department of Water Affairs - regional bulk infrastructure grant	2 163 802	10 927 752
DME Side Demand Management Meters	-	3 155 455
Department of Water Affairs - Accelerated Community Infrastructure Programme	13 326 501	2 728 394
Municipal Systems Improvement Grant	497 138	-
Queen Street	263 158	-
	<b>34 841 869</b>	<b>32 449 303</b>
	<b>77 538 522</b>	<b>61 333 080</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	55 791 522	40 192 920
Unconditional grants received	21 747 000	21 140 160
	<b>77 538 522</b>	<b>61 333 080</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>29. Government grants and subsidies (continued)</b>		
<b>Equitable Share</b>		
Current year receipts	21 747 000	21 140 160
Funds utilised - operating	(21 747 000)	(21 140 160)
	<u>-</u>	<u>-</u>

In terms of Section 214 of the Constitution (Act 108 of 1996), this grant is allocated as an unconditional grant by National Treasury and used by the municipality to subsidise the provision of basic services to indigent community members.

### Local Government Financial Management Grant

Balance unspent at beginning of year	(18 812)	(950 263)
Current-year receipts	1 675 000	1 600 000
Funds utilised - operating	(1 675 000)	(668 549)
Circular 79	18 812	-
	<u>-</u>	<u>(18 812)</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the MFMA, 2003. The FMG grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

### Municipal Systems Improvement Grant

Balance unspent at beginning of year	(306 372)	(445 821)
Current-year receipts	930 000	934 000
Funds utilised - operating	(345 154)	(794 551)
Funds utilised - capital	(554 557)	-
Circular 79	306 372	-
	<u>30 289</u>	<u>(306 372)</u>

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and government systems.

### Municipal Infrastructure Grant

Balance unspent at beginning of year	(251 878)	(464 673)
Current-year receipts	14 082 000	9 927 000
Funds utilised - operating	(492 052)	(716 975)
Funds utilised - capital	(11 845 355)	(8 997 230)
Circular 79	251 878	-
	<u>1 744 593</u>	<u>(251 878)</u>

### Calitzdorp Housing

Balance unspent at beginning of year	2 887	2 487
Current-year receipts	15 571 557	2 523 401
Funds utilised - operational	(14 190 521)	(2 523 001)
	<u>1 383 923</u>	<u>2 887</u>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>29. Government grants and subsidies (continued)</b>		
<b>DME Side Demand Management Meters</b>		
Balance unspent at beginning of year	644 334	323 449
Current-year receipts	-	4 000 000
Funds utilised - capital	-	(3 679 115)
	<b>644 334</b>	<b>644 334</b>
<b>National Government Grants</b>		
Balance unspent at beginning of year	376 532	(590 460)
Current-year receipts	42 434 000	43 601 000
Funds utilised - operating	(25 231 393)	(24 310 485)
Funds utilised - capital	(13 543 912)	(16 359 516)
VAT on funds utilised	(1 881 202)	(1 964 007)
Circular 79	917 103	-
	<b>3 071 128</b>	<b>376 532</b>
Conditions still to be met - remaining liabilities (see note 21).		
<b>Unspent grants</b>		
<b>National Government Grants</b>		
DME Side Demand Management Meters	644 334	644 334
National Integrated Electrical Grant	468 853	468 853
Municipal Infrastructure Grant	1 744 593	-
Zoar Streets	180 453	180 453
Expanded Public Works Programme Grant	2 612	-
Municipal Systems Improvement Grant	30 288	-
	<b>3 071 133</b>	<b>1 293 640</b>
<b>Grant expenditure - grants not yet received</b>		
<b>National Government Grants</b>		
Local Government Financial Management Grant	-	(18 812)
Municipal Infrastructure Grant	-	(251 878)
Municipal Systems Improvement Grant	-	(306 372)
Expanded Public Works Programme	-	(340 046)
	-	<b>(917 108)</b>
Total unspent grants	3 071 133	1 293 640
Grants not yet received	-	(917 108)
<b>Net amount - National Government Grants</b>	<b>3 071 133</b>	<b>376 532</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>29. Government grants and subsidies (continued)</b>		
<b>Provincial Government Grants</b>		
Balance unspent at beginning of year	7 829 511	4 975 360
Current-year receipts	44 275 860	25 400 149
Funds utilised - operating	(17 670 963)	(4 420 099)
Funds utilised - capital	(19 950 271)	(15 882 092)
VAT on funds utilised	(3 031 770)	(2 243 807)
	<b>11 452 367</b>	<b>7 829 511</b>
Conditions still to be met - remain liabilities (see note 21).		
<b>Unspent grants</b>		
<b>Provincial Government Grants</b>		
Land Use Planning Advertising Cost	900	900
Taxi Rank	306 463	306 463
Flood Damage	447 890	447 890
CDW Grant	38 576	19 146
IDC	1 650 000	1 650 000
Local Government Financial Support Grant	-	510 091
Nissanville Paving	100 238	100 238
Calitzdorp Housing	1 383 123	1 617 400
Calitzdorp Housing - ASLA	-	(1 614 913)
VWD Pit Latrines	167 299	167 299
Upgrading Sports Facilities Calitzdorp	250 000	250 000
SDBIP	238 657	237 303
Department of Water Affairs - Bulk Water Meters	59 973	59 973
IDP	175 438	175 438
Department of Water Affairs - Regional Bulk Infrastructure Grant	3 241 924	2 040 234
Department of Water Affairs - Accelerated Community Infrastructure Grant	1 759 561	1 022 408
Library Grant	464 433	236 216
Zoar Ramp	559 986	603 425
HR Project	250 000	-
Thusong Centre	362 000	-
	<b>11 452 367</b>	<b>7 829 511</b>
<b>Grant expenditure - grants not yet received</b>		
<b>Provincial Government Grants</b>		
Local Government Financial Management Support Grant	(4 114)	-
Total unspent grants	11 456 481	7 829 511
Grants not yet received	(4 114)	-
<b>Net amount - Provincial Government Grants</b>	<b>11 452 367</b>	<b>7 829 511</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>29. Government grants and subsidies (continued)</b>		
<b>District Municipality Grants</b>		
Balance unspent at beginning of year	2 369 875	654 838
Current-year receipts	1 532 037	2 194 640
Funds utilised - operating	-	(151 497)
Funds utilised - capital	(1 084 527)	(279 530)
VAT on funds utilised	(151 834)	(48 576)
	<b>2 665 551</b>	<b>2 369 875</b>

Conditions still to be met - remain liabilities (see note 21).

### Unspent grants

<b>District Municipality Grants</b>		
Disaster Funds	2 537 433	2 241 757
Ladismith Water Project	128 118	128 118
<b>Net amount - District Municipality Grants</b>	<b>2 665 551</b>	<b>2 369 875</b>

### Other Grant Providers

Balance unspent at beginning of year	273 891	273 891
Current-year receipts	300 000	-
Funds utilised - capital	(263 158)	-
VAT on funds utilised	(36 842)	-
	<b>273 891</b>	<b>273 891</b>

Conditions still to be met - remain liabilities (see note 21). The grants were spent appropriately and in accordance with the grant conditions set out for each grant.

### Unspent grants

<b>Other Grant Providers</b>		
Drought relief	203 172	203 172
MSP	200	200
Greening - Ladismith	629	629
Greening - Zoar	20 556	20 556
Water Investigation - Van Wyksdorp	10 703	10 703
LED Grant	9 868	9 868
Umsobomwu Project	28 763	28 763
<b>Net amount - Other Grant Providers</b>	<b>273 891</b>	<b>273 891</b>

The municipality has complied with conditions of the allocations made.



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>30. Employee related costs</b>		
Basic	35 902 391	29 346 129
Bonus	1 722 529	2 060 537
Medical aid - company contributions	1 690 958	1 935 748
UIF	298 481	202 162
WCA	316	304 748
SDL	276 234	304 502
Other payroll levies	12 447	10 710
Leave pay provision charge	932 973	623 719
Other short term costs	-	28 875
Defined contribution plans	3 333 877	3 204 379
Travel, motor car, accommodation, subsistence and other allowances	-	1 000
Overtime payments	1 372 639	1 243 275
Acting allowances	1 139 985	649 612
Car allowance	2 629 679	2 713 775
Housing benefits and allowances	322 085	76 790
Allowances	-	75 450
Cellphone allowances	117 420	3 000
Standby allowances	988 959	940 599
	<b>50 740 973</b>	<b>43 725 010</b>
	-	-

### Remuneration of municipal manager

Annual Remuneration	1 612 828	1 147 912
Car Allowance	203 675	150 000
Performance Bonuses	102 228	223 039
Contributions to UIF, Medical and Pension Funds	61 759	238 421
Travelling reimbursement	16 487	50 329
Leave paid	-	4 946
	<b>1 996 977</b>	<b>1 814 647</b>

### Remuneration of chief finance officer

Annual Remuneration	1 460 904	1 290 293
Car Allowance	158 085	120 000
Performance Bonuses	95 967	209 276
Contributions to UIF, Medical and Pension Funds	41 248	25 559
Travelling reimbursement	8 466	19 231
Leave paid	-	94 391
	<b>1 764 670</b>	<b>1 758 750</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>30. Employee related costs (continued)</b>		
<b>Remuneration of head corporate services</b>		
Annual Remuneration	934 513	697 337
Car Allowance	145 807	133 086
Performance Bonuses	71 922	156 839
Contributions to UIF, Medical and Pension Funds	205 519	96 317
Leave paid	120 978	-
Travel reimbursement	6 962	32 697
	<b>1 485 701</b>	<b>1 116 276</b>

The following amount was due from the Executive Manager: Corporate Services in respect of overpayment of salary benefits for the year ended 30 June 2015:

Head of Corporate Services	-	70 748
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### Employee related cost consist of the following:

Other employee related cost	43 385 675	39 029 397
Remuneration - Municipal Manager	1 996 977	1 814 647
Remuneration - Chief Financial Officer	1 764 670	1 758 750
Remuneration - Head of Corporate Services	1 485 701	1 116 276
	<b>48 633 023</b>	<b>43 719 070</b>

### 31. Remuneration of councillors

Executive Mayor	448 531	418 844
Deputy Executive Mayor	551 812	568 895
Speaker	430 781	414 452
Councillors	789 888	741 178
Councillors' pension contribution	187 837	90 946
Councillors' medical aid contribution	84 762	60 201
Councillors' telephone / cell allowances	166 476	160 072
Councillors' vehicle allowances	224 183	208 655
	<b>2 884 270</b>	<b>2 663 243</b>

### The following amounts were due from council members in respect of earnings for the year ended 30 June 2015:

Executive Mayor	-	2 441
Deputy Executive Mayor	-	34 285
Speaker	-	1 708
Councillors	-	15 292
	-	<b>53 726</b>

### 32. Depreciation and amortisation

Property, plant and equipment	10 732 416	9 659 565
Investment property	35 769	35 764
Intangible assets	43 824	89 730
Rehabilitation asset	1 009 829	1 141 052
	<b>11 821 838</b>	<b>10 926 111</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>33. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	2 113 656
Investment property	17 317	-
Trade and other receivables	-	391 899
	<u>17 317</u>	<u>2 505 555</u>
<b>The main classes of assets affected by impairment losses are:</b>		
Investment property	17 317	-
Electricity	-	391 899
Leased assets	-	1 646 360
Land and buildings	-	402 294
	<u>17 317</u>	<u>2 440 553</u>
<b>34. Finance costs</b>		
Provision for landfill site	1 101 545	355 243
Other interest paid - external fines and penalties	3 780 127	3 758 752
	<u>4 881 672</u>	<u>4 113 995</u>
<b>Interest - fines and penalties</b>		
DBSA loan - interest	1 068 002	1 108 981
<b>35. Debt impairment</b>		
Contributions to debt impairment provision	18 224 265	7 122 595
<b>Current year provision for bad debts is as follows</b>		
Provision for Electricity	2 866 502	1 712 576
Provision for Housing	34 090	6 999
Provision for Other Debts	(1 040 023)	(437 546)
Provision for Rates	(11 745 408)	822 024
Provision for Sanitation / Refuse	3 262 426	1 208 028
Provision for Sewerage	3 432 587	1 058 988
Provision for Traffic fines	4 290 326	263 110
Provision for Water	6 645 000	2 488 416
	<u>7 745 500</u>	<u>7 122 595</u>
<b>Total provision for Bad Debts as at 30 June</b>		
Provision for Electricity	5 890 603	3 062 688
Provision for Housing	69 391	113 727
Provision for Other Debts	244 341	1 302 305
Provision for Rates	11 745 408	13 012 053
Provision for Sanitation / Refuse	9 521 076	10 045 429
Provision for Sewerage	9 441 531	9 789 156
Provision for Traffic fines	7 426 296	3 135 970
Provision for Water	11 721 321	12 824 236
	<u>56 059 967</u>	<u>53 285 564</u>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand			2016	2015
<b>35. Debt impairment (continued)</b>				
<b>Reconciliation of provisions for debt impairment</b>	Balance 1 July 2015	Bad Debt Written off	Provision for Bad Debts 2016	Total provision at year end
Provision for Electricity	3 062 688	(38 587)	2 866 502	5 890 603
Provision for Housing	113 727	(78 426)	34 090	69 391
Provision for Other Debts	1 302 305	(17 941)	(1 040 023)	244 341
Provision for Rates	13 012 053	-	(1 266 645)	11 745 408
Provision for Sanitation/Refuse	10 045 429	(3 786 779)	3 262 426	9 521 076
Provision for Sewerage	9 789 156	(3 780 212)	3 432 587	9 441 531
Provision for Traffic Fines	3 135 970	-	4 290 326	7 426 296
Provision for Water	12 824 236	(7 747 915)	6 645 000	11 721 321
	<b>53 285 564</b>	<b>(15 449 860)</b>	<b>18 224 263</b>	<b>56 059 967</b>
<b>36. Bulk purchases</b>				
Electricity			27 962 660	24 788 805
Water			202 543	807 418
			<b>28 165 203</b>	<b>25 596 223</b>
<b>37. Contracted services</b>				
Specialist Services			18 951 312	10 201 503

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>38. General expenses</b>		
Advertising	67 180	79 394
Auditors remuneration	4 077 613	6 580 778
Bank charges	730 951	277 830
Chemicals	333 787	493 119
Cleaning	67 881	77 055
Commission paid	248 221	295 402
Community development and training	(2 150)	17 219
Computer expenses	110 417	-
Conferences and seminars	-	23 408
Consulting and professional fees	5 662 035	1 818 482
Consumables	62 371	35 832
Donations	455 447	36 227
Electricity	3 855 019	575 798
Entertainment	85 614	48 268
Fines	23 286	630
Fuel and oil	858 421	1 297 070
Hire	81 118	139 113
Insurance	91 920	157 506
Landfill sites	-	146 419
Magazines, books and periodicals	6 486	16 223
Medical expenses	-	13 560
Postage and courier	271 263	373 796
Printing and stationery	477 932	378 215
Promotions	710 587	1 468 598
Promotions and sponsorships	136 934	36 000
Recruitment cost	11 388	7 085
Refuse	181 225	130 639
Adjustment for missing assets / assets not on fixed asset register	-	888
Royalties and license fees	70 192	53 248
Security (Guarding of municipal property)	98 866	115 037
Sewerage and waste disposal	22 136	4 559
Software expenses	956 235	1 469 232
Staff welfare	36 309	60 109
Subscriptions and membership fees	50 121	527 020
Sundry expenses	1 501 547	980 939
Telephone and fax	996 282	1 433 259
Title deed search fees	37 097	42 144
Tourism development	792 755	1 617 237
Training	68 483	94 332
Transport and freight	5 114	1 600
Travel - local	1 073 132	1 879 663
Uniforms	29 767	99 154
Water	76 058	10 612
	<b>24 419 040</b>	<b>22 912 699</b>

### 39. Auditors' remuneration

Fees	4 077 613	6 580 778
------	-----------	-----------

The amount owing to the Auditor-General as at 30 June 2016 amounts to R 10 796 222 (2015: R 6 580 778). This amount is included as a provision in the abovementioned amount.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>40. Net cash from operating activities</b>		
<b>Adjustments for:</b>		
Surplus	3 532 268	14 927 033
<b>Adjustments for:</b>		
Depreciation and amortisation	11 815 995	10 926 111
Gain on derecognition of assets	(426 780)	(811 247)
Impairment deficit	17 317	2 505 555
Debt impairment	18 224 265	7 122 595
Movements in operating lease assets and accruals	11 050	(171 999)
Movements in retirement benefit assets and liabilities	1 049 633	1 649 256
Non cash expenses	-	139 322
<b>Changes in working capital:</b>		
Inventories	213 174	386 012
Other receivables	(12 767 205)	(17 660 970)
Payables from exchange transactions	15 036 060	4 227 300
Decrease / (Increase) in VAT	(4 289 925)	2 111 031
Increase / (decrease) in unspent grants and receipts	6 386 972	5 536 179
Consumer deposits	34 106	-
	<b>38 836 930</b>	<b>30 886 178</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 41. Related parties

30 June 2016

#### Relationships

Supplier with close family members of directors/shareholders in the service of the state	Charles Otton Electrical CC
Councillor:	
Ward 1	J Donson
Ward 2	Meshoa / A Ewerts
Ward 3	HD Ruiters / PJ Antonie
Ward 4	AJ Rossouw / L Willemse
Executive managers	
- Executive Manager: Financial Services	N.B. Delo
- Executive Manager: Corporate Services	H. Barnard
Municipal Manager	M.M. Hoogbaard

#### Related party transactions for the year ended 30 June 2016:

Relationship	Name	Rates	Services Total	Outstanding balance
<b>Municipal Manager and Councillors</b>				
Executive Mayor	J Donson	2 470	6 242	664
Deputy Mayor	PJ Antonie	966	18 386	713
Municipal Manager	MM Hoogbaard	-	25 698	1 217
Ex-Co Member: Financial Services	N Delo	-	31 450	928
Ex-Co Member: Corporate Services	H Barnard	786	14 363	669
Councillor: Ward 2	W Meshoa	618	3 367	228
Councillor: Ward 3	HD Ruiters	876	13 375	553
Councillor: Ward 3	A Rossouw	-	14 926	1 196
Councillor: Ward 4	A Rossouw	3 790	6 537	842
Councillor: Ward 4	A Ewerts	-	4 676	495
Councillor: Ward 4	L Willemse	5 390	9 671	907
		<b>14 896</b>	<b>148 691</b>	<b>8 412</b>

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and are settled in the following month except the account of Councillor NML Claasen. Consumer deposits were received from councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

30 June 2015

#### Relationships

Supplier with close family members of directors/shareholders in the service of the state	Charles Otton Electrical CC
Councillor:	
Ward 1	J Donson
Ward 2	W Meshoa / A Ewerts
Ward 3	HD Ruiters / A Ewerts
Ward 4	A J Rossouw / L Willemse
Executive managers	
- Executive manager: Financial Services	N.B. Delo
- Executive manager: Corporate Services	H. Barnard
Municipal Manager	M.M. Hoogbaard

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 41. Related parties (continued)

Related party transactions for the year ended 30 June 2015:

Relationship	Name	Rates	Services Total	Outstanding balance
<b>Municipal Manager and Councillors</b>				
Executive Mayor	J Donson	2 331	6 534	641
Deputy Mayor	PJ Antonie	911	7 500	598
Municipal Manager	MM Hoogbaard	-	11 847	976
Ex-Co Member: Financial Services	N Delo	-	16 335	1 205
Ex-Co Member: Corporate Services	H Barnard	741	5 894	635
Councillor: Ward 2	W Meshoa	583	3 331	256
Councillor: Ward 3	HD Ruiters	826	4 945	1 451
Councillor: Ward 3	A Rossouw	3 576	5 230	731
Councillor: Ward 4	A Rossouw	525	11 768	832
Councillor: Ward 4	A Ewerts	-	3 498	294
Councillor: Ward 4	L Willemse	5 085	5 414	871
		<b>14 578</b>	<b>82 296</b>	<b>8 490</b>

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and are settled in the following month except the account of Councillor A Ewerts. Consumer deposits were received from councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Remuneration paid to key management is disclosed in note 30.

#### Compensation to accounting officer and other key management

Payments made to suppliers with close family members of directors/members in the service of the state

278 388

178 680

#### Sub-heading

### 42. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

- Infrastructure assets

469 407 034

25 739 369

##### Total capital commitments

Already contracted for but not provided for

469 407 034

25 739 369

This committed expenditure relates to property, plant and equipment (infrastructure assets) and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

### 43. Contingencies

The Municipality is defending the claim against Molly Anne Smith for damages by falling in an irrigation furrow. Judgement was given against the municipality on 14 August 2014 in the Western Cape High Court. Leave to appeal was however granted on the 18th September 2014. This appeal will serve before Court during September 2015. The potential liability is estimated to be R1 500 000.



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

### Figures in Rand

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#### 44. Risk management

##### Financial risk management

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

##### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

<b>At 30 June 2016</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Loans and borrowings	2 440 534	1 714 859	5 144 577	3 143 908
Finance leases	920 816	129 040	-	-
Consumer deposits	703 141	-	-	-
Payables from exchange transactions	61 886 089	-	-	-
Bank overdraft	522 146	-	-	-

<b>At 30 June 2015</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Loans and borrowings	1 715 167	1 715 167	5 145 502	4 859 640
Finance leases	915 322	973 294	-	-
Consumer deposits	669 035	-	-	-
Payables from exchange transactions	46 318 948	-	-	-

##### Credit risk

Credit Risk is the risk that the counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debt. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. On-going credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due to the diversified nature and immaterial nature of individual balances. In the case of consumer debtors the Municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levy of penalty payment", restricting 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.

The Municipality only deposits cash with major banks with high quality credit standing. No cash and cash equivalent were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 44. Risk management (continued)

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from National and Provincial government and there is no expectation of counter party default.

The Municipality has not offered any guarantee to any instance for the 2016/2017 financial year.

Financial instruments of the Municipality, as specified below, are classified as Financial Instruments at amortised cost. The maximum credit and interest risk exposure in respect of the relevant financial instruments are as follows:

Financial instrument	2016	2015
Loan to golf club	-	2 186
Receivables from exchange transactions	13 183 479	18 256 190
Receivables from non-exchange transactions	5 040 395	6 071 217
Cash and cash equivalents	3 321 141	3 746 501
Investments	16 539	5 211 564
	<b>21 561 554</b>	<b>33 287 658</b>

### Market risk

#### Interest rate risk

The Municipality is exposed to interest rate risk due to the movement in long-term and short interest rates.

This risk is managed on an ongoing basis by comparison between current market related rates and historical rates and adjustments made where considered necessary.

As the municipality has significant interest bearing investments, the entity's income and operating cash flows are exposed to changes in the market interest rates.

The municipality did not hedge against any interest rates risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in the interest rates are as follow:

Cash and cash equivalents	3 321 141	3 746 501
Investments	16 539	5 211 564
	<b>3 337 680</b>	<b>8 958 065</b>
1% increase in interest rates	73 790	87 188
1% decrease in interest rates	(73 790)	(87 188)

### 45. Going concern

#### Financial sustainability

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business for the 12 month period ending 30 June 2017.

The following material uncertainties may cast doubt on the going concern assumption:

- Regular payment of statutory obligations
- Debtor payment ratio of 86% not in line with National Treasury's norm of 95%
- High level of water losses that occur
- High level of poverty within the Kannaland municipal area
- Skills shortage, specifically in the financial, administration and compliance departments
- The potential risk that contingent liabilities as disclosed this set of financial statements may materialise in actual commitments to pay.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 45. Going concern (continued)

The management of Kannaland Municipality, together with MISA drafted a scope of works to appoint a service provider to draft and implement a revenue enhancement strategy. This appointment will take place during the 2016-17 financial year. If implemented properly, this strategy will ensure financial sustainability.

### 46. Events after the reporting date

Council appointed MPAC will investigate the UIFWE incurred by the municipality for the period 2015 to 2016. The final report of findings and recommendations from the investigation will be recommended to council for approval, condoning and write-off of the UIFWE incurred by the municipality for the period 01 July 2015 up to and including the year ended 30 June 2016.

Subsequent to the local government elections on 03 August 2016, the new council was constituted on the 16th of August 2016. The newly elected councillors were appointed on that day. The previous councillors terminated office between the 2nd and 12th of August 2016.

Subsequent investigations into the existence of the RMB investment resulted in the investment being already ceded to the DBSA for repayment of debt. Consequently, the investment balance was set-off against the liability and no RMB investment exists as at year end.

### 47. Unauthorised expenditure

Unauthorised expenditure	32 813 913	88 793 590
Unauthorised expenditure current year - operating	6 315 738	29 685 925
Unauthorised expenditure current year - capital	26 307	3 127 988
Written off by Council	(32 813 913)	(88 793 590)
	<b>6 342 045</b>	<b>32 813 913</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015			
<b>47. Unauthorised expenditure (continued)</b>					
<b>Budget comparison by municipal vote - Operating expenditure</b>	Actual	Budget	Variance - Actual	Variance - %	Unauthorised expenditure
<b>Vote</b>					
Council's general expenses	11 865 504	11 364 653	500 851	4%	500 851
Municipal manager	6 908 471	9 507 210	(2 598 739)	(27%)	-
Corporate services	13 527 082	13 633 870	(106 788)	(1%)	-
Property rates	140 927	289 760	(148 833)	(51%)	-
Municipal buildings	3 225 533	2 143 279	1 082 254	50%	1 082 254
Budget and treasury services	20 307 944	20 993 465	(685 521)	(3%)	-
Community services	592 453	373 570	218 883	59%	218 883
Cemetery	232 167	30 870	201 297	652	201 297
				%	
Library	1 570 517	1 662 330	(91 813)	(6%)	-
Housing	14 380 177	12 760 130	1 620 047	13%	1 620 047
Swimming pools	600 782	606 170	(5 388)	(1%)	-
Parks and recreation	165 036	330 600	(165 564)	(50%)	-
Waste management - Refuse	3 112 713	2 320 110	792 603	34%	792 603
Waste management - Sewerage	5 424 245	5 618 390	(194 145)	(3%)	-
Traffic	2 495 939	2 777 150	(281 211)	(10%)	-
Public Works	6 135 827	6 987 120	(851 293)	(12%)	-
Water	10 614 903	8 715 100	1 899 803	22%	1 899 803
Electricity	31 212 474	34 533 903	(3 321 429)	(10%)	-
	<b>132 512 694</b>	<b>134 647 680</b>	<b>(2 134 986)</b>	<b>-</b>	<b>6 315 738</b>

### Details of material variances

#### Council and general expense - R500 851 (overspending)

Legal fees overspent by R315 081,08. Salaries overspent.

#### Municipal buildings - R1 082 254 (overspending)

Salaries and wages as well as Repairs and maintenance were underbudgeted.

#### Community services - R218 883 (overspending)

Depreciation charge was underbudgeted.

#### Cemetery - R201 297 (overspending)

Salaries and wages overspent.

#### Housing - R1 620 047 (overspending)

Expense of R1617 400 prior year project expense not budgeted for in the current year.(incomplete project in prior year - balance carried forward)

#### Waste management - Refuse - R792 603 (overspending)

Salaries overspent by R396 876,54 and wages overspent by R597 846,60.

#### Water - R1 899 803

Water was underbudgeted for the year.

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand			2016	2015	
<b>47. Unauthorised expenditure (continued)</b>					
<b>Budget comparison by municipal vote - Capital expenditure</b>	Actual	Budget	Variances - Actual	Variance - %	Unauthorised expenditure
<b>Vote</b>					
Admin services	8 400	30 000	(21 600)	(72%)	-
Financial services	24 870	1 430 000	(1 405 130)	(98%)	-
Electricity	2 815 498	3 080 000	(264 502)	(9%)	-
Library	26 307	-	26 307	0%	26 307
Licensing and traffic	-	750 000	(750 000)	0%	-
Municipal buildings	214 477	732 070	(517 593)	(71%)	-
Municipal managers	235 239	540 000	(304 761)	(56%)	-
Public Works: Street	5 782 564	8 685 196	(2 902 632)	(33%)	-
Sanitation / refuse	11 579	30 000	(18 421)	(61%)	-
Sewerage	621 199	3 446 921	(2 825 722)	(82%)	-
Water	30 714 484	31 739 898	(1 025 414)	(3%)	-
	<b>40 454 617</b>	<b>50 464 085</b>	<b>(10 009 468)</b>	<b>-</b>	<b>26 307</b>

### Library - R26 307

Library capital expenditure not budgeted for as it is grant expenditure.

### 48. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	70 356	6 042 096
Fruitless and wasteful expenditure - current year	1 813 438	70 356
Written off by Council	(70 356)	(6 042 096)
	<b>1 813 438</b>	<b>70 356</b>
<b>Fruitless and wasteful expenditure</b>		
Current year	<b>1 813 438</b>	<b>70 356</b>

During the year the municipality incurred penalties and interest due to the late payment of certain creditors and suppliers. Part of the financial recovery strategy of the municipality includes entering into payment arrangements for long outstanding amounts with certain of its suppliers. The financial recovery strategy was approved by council in December 2013.

### 49. Irregular expenditure

Opening balance	(3 597 939)	18 884 573
Add: Irregular Expenditure - current year	20 776 646	8 532 194
Less: Amounts condoned	(8 532 194)	(18 884 573)
Less: Correction of error current year	-	(12 130 133)
	<b>8 646 513</b>	<b>(3 597 939)</b>
<b>Irregular expenditure consists of:</b>		
Non-compliance: bid adjudication committee	14 190 521	6 782 934
Non-compliance: local content	-	55 751
Non-compliance: bid evaluation	6 519 914	226 041
Awards made to suppliers with close family members of directors / shareholders in the service of the state	66 211	66 211
Tax clearance certificates	-	1 401 257
	<b>20 776 646</b>	<b>8 532 194</b>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

#### Details of Section 36 SCM deviations

Section 36 SCM deviations - reported					3 105 180	17 996 732
Deviations from the Supply Chain Management Regulations were as follows:	Less than R 30,000	Between R 30,001 and R 200,000	Between R 200,001 and R 2,000,000	More than R 2,000,001	Total	
Financial Services	58 741	31 920	-	-	90 661	
Grant / Grant Funding	-	-	1 603 650	-	1 603 650	
ICT	-	339 597	-	-	339 597	
Corporate Services	42 950	545 207	-	-	588 157	
Technical Services	91 526	519 101	-	-	610 627	
Water	39 947	78 781	-	-	118 728	
	<u>233 164</u>	<u>1 514 606</u>	<u>1 603 650</u>	<u>-</u>	<u>3 351 420</u>	

The major deviation above R 500,000, were as follows:

Supplier	Amount
E HERANDIEN / CONSTRUCTION	1 005 488
Reg.36 ( 1 ) a ( v ) additional project in respect of the installation of water meters approved by Department of Water and Sanitation. Funds to be spent by the end of March 2016.	

### 51. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Opening balance	7 659 214	2 265 082
Current year subscription / fee	10 753 222	6 746 907
Amount paid - current year	-	(1 352 775)
	<u>18 412 436</u>	<u>7 659 214</u>

Audit fees are paid in accordance with MFMA 125 (1)(c). The amount budgeted for 2015/2016 amounts to R 2 000 000.

#### PAYE and UIF

Opening balance	3 061 634	16 792
Opening balance correction	-	594 598
Current year subscription / fee	7 240 535	5 908 370
Amount paid - current year	(3 062 498)	(3 458 126)
Penalties & interest	987 928	-
	<u>8 227 599</u>	<u>3 061 634</u>

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

<b>Figures in Rand</b>	<b>2016</b>	<b>2015</b>
<b>51. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Pension and Medical Aid Deductions</b>		
Opening balance	661 727	16 792
Current year subscription / fee	7 490 973	6 318 361
Amount paid - current year	(6 829 246)	(5 673 426)
	<b>1 323 454</b>	<b>661 727</b>
<b>VAT</b>		
Opening balance	6 783 415	8 894 446
Output VAT on supply of goods and services	(8 109 716)	(7 310 615)
Input VAT on goods and services	11 552 016	10 240 250
Payments / (Refunds)	847 625	(5 040 666)
	<b>11 073 340</b>	<b>6 783 415</b>
Closing balance		

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand 2016 2015

### 52. Prior period errors

Presented on the following pages are those items contained in the statement of financial position and the statement of financial performance that have been affected by prior-year adjustments and the cash flow statement was adjusted accordingly.

Reclassification

The effect of the correction of prior period errors has been reflected in the correction of errors column. Where appropriate, specific balances have been referenced to an explanation of the correction.

Statement of Financial Position at 30 June 2015	Notes	As previously reported	Reclassification / rounding	Correction of errors - 2016	Restated
<b>Net Assets and Liabilities</b>					
<b>Net Assets</b>					
Accumulated surplus/(deficit)	A	(218 244 190)	-	1 647 584	(216 596 606)
<b>Non-Current Liabilities</b>					
Long term loan		(7 848 343)	-	-	(7 848 343)
Finance lease obligation		(921 444)	-	-	(921 444)
Employee benefit obligation		(11 665 299)	-	-	(11 665 299)
Provisions		(25 982 055)	-	6 615 202	(19 366 853)
<b>Current Liabilities</b>					
Current portion of long term loan		(686 105)	-	-	(686 105)
Finance lease obligation		(795 304)	-	-	(795 304)
Payables from exchange transactions		(46 318 948)	-	-	(46 318 948)
Consumer deposits		(669 035)	-	-	(669 035)
Employee benefit obligation		(5 295 184)	-	-	(5 295 184)
Unspent conditional government grants and receipts		(10 849 809)	-	(917 103)	(11 766 912)
Provisions		(4 715 893)	-	-	(4 715 893)
<b>Assets</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment		291 428 791	-	(6 504 001)	284 924 790
Investment property		1 897 109	-	-	1 897 109
Intangible assets		128 425	-	-	128 425
<b>Current Assets</b>					
Inventory		466 211	-	-	466 211
Loan to golf club		2 186	-	-	2 186
Receivables from non-exchange transactions		6 071 217	-	-	6 071 217
VAT Receivable		6 783 415	-	-	6 783 415
Receivables from exchange transactions		18 256 190	-	-	18 256 190
Cash and cash equivalents		3 746 501	-	-	3 746 501
Investments		5 211 564	-	18 566	5 230 130
		<u>-</u>	<u>-</u>	<u>860 248</u>	<u>860 248</u>



# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand		2016	2015		
<b>52. Prior period errors (continued)</b>					
<b>Statement of Financial Performance for the Year Ended 30 June 2015</b>	Notes	As previously reported	Reclassification / rounding	Correction of errors	Restated
<b>Revenue</b>					
<b>Revenue from Non-exchange Transactions</b>					
Property taxes		13 134 570	-	-	13 134 570
Other taxation revenue		4 256 385	-	-	4 256 385
Government grants and subsidies		61 333 080	-	-	61 333 080
Public contributions and donations		62 500	-	-	62 500
Fines		695 750	-	-	695 750
<b>Revenue from Exchange Transactions</b>					
Service charges		58 439 477	-	-	58 439 477
Interest received - outstanding debtors		4 648 670	-	-	4 648 670
Income for agency services		733 693	-	-	733 693
Licences and permits		266 899	-	-	266 899
Actuarial gain		11 778	-	-	11 778
Rental income		271 113	-	-	271 113
Other income		516 463	-	-	516 463
Interest received - investment		966 316	-	-	966 316
Gain or loss on disposal of assets and liabilities		811 247	-	-	811 247
<b>Expenditure</b>					
Personnel		(43 719 070)	-	-	(43 719 070)
Remuneration of councillors		(2 663 243)	-	-	(2 663 243)
Depreciation and amortisation		(10 926 111)	-	-	(10 926 111)
Impairment loss		(2 505 555)	-	-	(2 505 555)
Finance charges		(4 113 995)	-	-	(4 113 995)
Debt impairment loss		(7 122 595)	-	-	(7 122 595)
Repairs and maintenance		(1 431 640)	-	-	(1 431 640)
Bulk purchases		(25 596 223)	-	-	(25 596 223)
Contracted services		(10 201 503)	-	-	(10 201 503)
General expenses		(22 940 973)	-	-	(22 940 973)
<b>Net surplus for the year</b>		<b>14 927 033</b>	<b>-</b>	<b>-</b>	<b>14 927 033</b>

### A. Provisions

In the prior year, provisions for the rehabilitation of landfill sites and the related assets were overstated due to incorrect inputs used. The following corrections were made:

Decrease in provisions  
Decrease in PPE

6 553 404

-

# KANNALAND MUNICIPALITY

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

2016

2015

### 52. Prior period errors (continued)

#### B. Conditional government grants

The prior year balances were restated after the implementation of section 6.8 of circular 79:

Increase in conditional grants

Decrease in accumulated surplus

R917 108