



Karoo Hoogland Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2016  
Published 30 November 2016

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# Karoo Hoogland Local Municipality

Annual 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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual 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 annual financial statements and was given unrestricted access to all financial records and related data.

The annual 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 annual 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 responsibilities 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 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

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 access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Karoo Hoogland consumer base and grants from National Treasury for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 71, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2016 and were signed on its behalf by:

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**Gustav Von Möllendorf**  
**Municipal Manager**

# Karoo Hoogland Local Municipality

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## Accounting Officer's Report

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

### 1. Incorporation

Karoo Hoogland Municipality is a local municipality (category B) performing the functions as set out in the Constitution. (Act no 108 of 1996).

### 2. Review of activities

#### Main business and operations

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

### 3. Going concern

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.

### 4. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name  
Gustav Von Möllendorf

### 6. Bankers

The municipality's preferred bankers are:

Standard Bank  
Williston  
8920

### 7. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

### 8. Jurisdiction

The Karoo Hoogland Local Municipality includes the following areas:

Williston  
Sutherland  
Fraserburg

# Karoo Hoogland Local Municipality

Annual 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>			
Current Assets			
Inventories	3	14 555	7 900
Other receivables from exchange transactions	4	221 263	224 599
Receivables from non-exchange transactions	5	587 616	546 657
VAT receivable	6	354 318	336 053
Receivables from exchange transactions	7	3 164 515	2 922 396
Cash and cash equivalents	8	6 503 433	2 913 329
		<b>10 845 700</b>	<b>6 950 934</b>
Non-Current Assets			
Investment property	9	24 901 710	25 252 145
Property, plant and equipment	10	195 367 631	194 592 463
Intangible assets	11	738 747	309 322
Long term receivables	12	48 548	54 354
Capitalised restoration cost	13	26 983	333 903
		<b>221 083 619</b>	<b>220 542 187</b>
<b>Total Assets</b>		<b>231 929 319</b>	<b>227 493 121</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	14	182 107	173 141
Finance lease obligation	15	164 768	121 824
Payables from exchange transactions	16	9 940 456	8 892 437
Consumer deposits	17	167 508	171 952
Employee benefit obligation	18	241 152	211 000
Unspent conditional grants and receipts	19	293 206	771 177
Provisions	20	30 517 980	29 491 991
		<b>41 507 177</b>	<b>39 833 522</b>
Non-Current Liabilities			
Other financial liabilities	14	2 268 468	2 453 553
Finance lease obligation	15	136 095	75 764
Employee benefit obligation	18	2 793 517	2 854 000
Provisions	20	9 239 101	9 198 624
		<b>14 437 181</b>	<b>14 581 941</b>
<b>Total Liabilities</b>		<b>55 944 358</b>	<b>54 415 463</b>
<b>Net Assets</b>		<b>175 984 961</b>	<b>173 077 658</b>
Accumulated surplus		175 984 961	173 077 658

\* See Note 38

# Karoo Hoogland Local Municipality

Annual 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	21	15 174 936	13 406 415
Rental of facilities and equipment	22	776 047	641 442
Interest received (trading)		909 007	915 447
Agency services		276 318	211 854
Other income	23	1 782 873	760 453
Interest received - investment	24	251 620	197 300
<b>Total revenue from exchange transactions</b>		<b>19 170 801</b>	<b>16 132 911</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	5 058 502	4 483 617
Property rates - interest received	25	269 470	217 030
<b>Transfer revenue</b>			
Government grants & subsidies	26	27 257 148	30 461 730
Public contributions and donations		540	835
Fines, Penalties and Forfeits		6 312	5 610
<b>Total revenue from non-exchange transactions</b>		<b>32 591 972</b>	<b>35 168 822</b>
<b>Total revenue</b>		<b>51 762 773</b>	<b>51 301 733</b>
<b>Expenditure</b>			
Employee related costs	27	(18 013 236)	(19 231 275)
Remuneration of councillors	28	(2 139 474)	(1 905 710)
Depreciation and amortisation		(7 096 624)	(7 370 962)
Impairment loss		(20 908)	-
Finance costs	29	(1 447 028)	(1 759 880)
Debt Impairment	30	(2 417 304)	(1 531 993)
Repairs and maintenance		(1 507 931)	(2 696 890)
Bulk purchases	31	(7 878 333)	(6 488 302)
General Expenses	32	(8 599 540)	(9 250 111)
<b>Total expenditure</b>		<b>(49 120 378)</b>	<b>(50 235 123)</b>
<b>Operating surplus</b>		<b>2 642 395</b>	<b>1 066 610</b>
Loss on disposal of assets and liabilities		(1 809)	(1 443 379)
Actuarial gains/losses	18&20	266 717	702
		<b>264 908</b>	<b>(1 442 677)</b>
<b>Surplus (deficit) for the year</b>		<b>2 907 303</b>	<b>(376 067)</b>

\* See Note 38

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	277 786 671	277 786 671
Adjustments		
Correction of errors	(104 332 946)	(104 332 946)
<b>Restated Balance at 01 July 2014</b>	<b>173 453 725</b>	<b>173 453 725</b>
Changes in net assets		
Surplus for the year	(376 067)	(376 067)
Total changes	(376 067)	(376 067)
<b>Restated* Balance at 01 July 2015</b>	<b>173 077 658</b>	<b>173 077 658</b>
Changes in net assets		
Surplus for the year	2 907 303	2 907 303
Total changes	2 907 303	2 907 303
<b>Balance at 30 June 2016</b>	<b>175 984 961</b>	<b>175 984 961</b>
Note(s)		

\* See Note 38



# Karoo Hoogland Local Municipality

Annual 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>			
Rate payers and other		20 117 010	17 067 577
Grants		27 735 659	30 622 290
Finance income		251 620	197 300
Interest earned - outstanding debtors		909 007	915 447
Property rates - Interest received		269 470	217 030
		<u>49 282 766</u>	<u>49 019 644</u>
<b>Payments</b>			
Employee costs		(20 152 711)	(21 015 584)
Suppliers		(16 994 988)	(16 269 404)
Finance costs		(575 017)	(380 053)
Taxes		(18 265)	(267 316)
		<u>(37 740 981)</u>	<u>(37 932 357)</u>
<b>Net cash flows from operating activities</b>	47	<b><u>11 541 785</u></b>	<b><u>11 087 287</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(7 421 781)	(11 108 913)
Proceeds from sale of property, plant and equipment	10	-	199 777
Purchase of other intangible assets	11	(468 244)	(21 271)
Purchase of long term receivables		-	(132 177)
Proceeds from sale of long term receivables		11 780	-
		<u>(7 878 245)</u>	<u>(11 062 584)</u>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(176 119)	(165 024)
Decrease in consumer deposits		(592)	(112 623)
Finance lease payments		103 275	17 091
		<u>(73 436)</u>	<u>(260 556)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3 590 104</b>	<b>(235 853)</b>
Cash and cash equivalents at the beginning of the year		2 913 329	3 149 182
<b>Cash and cash equivalents at the end of the year</b>	8	<b><u>6 503 433</u></b>	<b><u>2 913 329</u></b>

\* See Note 38

# Karoo Hoogland Local Municipality

Annual 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
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	18 246 000	-	<b>18 246 000</b>	18 430 321	<b>184 321</b>	Not a significant variance
Rental of facilities and equipment	497 000	-	<b>497 000</b>	646 495	<b>149 495</b>	Note 49.1
Interest received (trading)	948 000	-	<b>948 000</b>	1 178 452	<b>230 452</b>	Note 49.2
Agency services	243 000	-	<b>243 000</b>	276 318	<b>33 318</b>	Note 49.3
Other income	615 400	-	<b>615 400</b>	1 904 576	<b>1 289 176</b>	Note 49.4
Interest received - investment	215 000	-	<b>215 000</b>	251 620	<b>36 620</b>	Note 49.5
<b>Total revenue from exchange transactions</b>	<b>20 764 400</b>	-	<b>20 764 400</b>	<b>22 687 782</b>	<b>1 923 382</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	5 950 000	-	<b>5 950 000</b>	5 058 502	<b>(891 498)</b>	Note 49.6
<b>Transfer revenue</b>						
Government grants & subsidies	29 260 000	3 000 000	<b>32 260 000</b>	27 257 148	<b>(5 002 852)</b>	Note 49.7
Fines, Penalties and Forfeits	4 500	-	<b>4 500</b>	4 420	<b>(80)</b>	Not a significant variance
<b>Total revenue from non-exchange transactions</b>	<b>35 214 500</b>	<b>3 000 000</b>	<b>38 214 500</b>	<b>32 320 070</b>	<b>(5 894 430)</b>	
<b>Total revenue</b>	<b>55 978 900</b>	<b>3 000 000</b>	<b>58 978 900</b>	<b>55 007 852</b>	<b>(3 971 048)</b>	
<b>Expenditure</b>						
Personnel	(17 352 020)	100 000	<b>(17 252 020)</b>	(18 158 511)	<b>(906 491)</b>	Note 49.8
Remuneration of councillors	(2 085 000)	(100 000)	<b>(2 185 000)</b>	(1 993 398)	<b>191 602</b>	Not a significant variance
Depreciation and amortisation	(599 000)	-	<b>(599 000)</b>	(7 096 624)	<b>(6 497 624)</b>	Note 49.9
Finance costs	(305 000)	-	<b>(305 000)</b>	(1 447 003)	<b>(1 142 003)</b>	Note 49.10
Debt impairment	(2 340 000)	-	<b>(2 340 000)</b>	(2 417 304)	<b>(77 304)</b>	Not a significant variance
Bulk purchases	(7 615 000)	-	<b>(7 615 000)</b>	(7 878 333)	<b>(263 333)</b>	Not a significant variance
Contracted Services	(1 950 000)	-	<b>(1 950 000)</b>	(2 329 107)	<b>(379 107)</b>	Note 49.11
Government Grants and subsidies - Capital expenditure	(8 005 000)	-	<b>(8 005 000)</b>	(6 548 696)	<b>1 456 304</b>	Note 49.7
General Expenses	(15 677 545)	-	<b>(15 677 545)</b>	(9 977 965)	<b>5 699 580</b>	Note 49.12
<b>Total expenditure</b>	<b>(55 928 565)</b>	-	<b>(55 928 565)</b>	<b>(57 846 941)</b>	<b>(1 918 376)</b>	
<b>Deficit before taxation</b>	<b>50 335</b>	<b>3 000 000</b>	<b>3 050 335</b>	<b>(2 839 089)</b>	<b>(5 889 424)</b>	

# Karoo Hoogland Local Municipality

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## 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
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>50 335</b>	<b>3 000 000</b>	<b>3 050 335</b>	<b>(2 839 089)</b>	<b>(5 889 424)</b>	
<b>Reconciliation</b>						
<b>Basis difference</b>						
Capital expenditure which is classified as expenditure in the budget				6 548 696		
<b>Format and classification differences</b>						
Expenses not budgeted for				(1 069 557)		Note 49
Income not budgeted for				267 257		Note 49
<b>Actual Amount in the Statement of Financial Performance</b>				<b>2 907 307</b>		

# Karoo Hoogland Local Municipality

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Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome on a comparable basis	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	5 950 000	-	5 950 000	-	-	5 950 000	5 058 502		(891 498)	85 %	85 %
Service charges	18 246 000	-	18 246 000	-	-	18 246 000	18 430 321		184 321	101 %	101 %
Investment revenue	215 000	-	215 000	-	-	215 000	251 620		36 620	117 %	117 %
Transfers recognised	29 260 000	-	29 260 000	-	-	29 260 000	21 193 900		(8 066 100)	72 %	72 %
Other own revenue	2 307 900	-	2 307 900	-	-	2 307 900	4 010 261		1 702 361	174 %	174 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>55 978 900</b>	<b>-</b>	<b>55 978 900</b>	<b>-</b>	<b>-</b>	<b>55 978 900</b>	<b>48 944 604</b>		<b>(7 034 296)</b>	<b>87 %</b>	<b>87 %</b>
Employee costs	(17 352 020)	100 000	(17 252 020)	-	-	(17 252 020)	(18 158 511)	(2 839 473)	(906 491)	105 %	105 %
Remuneration of councillors	(2 085 000)	(100 000)	(2 185 000)	-	-	(2 185 000)	(1 993 398)	(725 056)	191 602	91 %	96 %
Debt impairment	(2 340 000)	-	(2 340 000)	-	-	(2 340 000)	(2 417 304)	(819 211)	(77 304)	103 %	103 %
Depreciation and asset impairment	(599 000)	-	(599 000)	-	-	(599 000)	(7 096 624)	(1 190 893)	(6 497 624)	1 185 %	1 185 %
Finance charges	(305 000)	-	(305 000)	-	-	(305 000)	(1 447 003)	(1 022 790)	(1 142 003)	474 %	474 %
Bulk purchases	(7 615 000)	-	(7 615 000)	-	-	(7 615 000)	(7 878 333)	-	(263 333)	103 %	103 %
Government Grants and subsidies - Capital expenditure	(8 005 000)	-	(8 005 000)	-	-	(8 005 000)	(6 548 696)	-	1 456 304	82 %	82 %
Other expenditure	(17 627 545)	-	(17 627 545)	-	-	(17 627 545)	(12 307 073)	(2 860 169)	5 320 472	70 %	70 %
<b>Total expenditure</b>	<b>(55 928 565)</b>	<b>-</b>	<b>(55 928 565)</b>	<b>-</b>	<b>-</b>	<b>(55 928 565)</b>	<b>(57 846 942)</b>	<b>(9 457 592)</b>	<b>(1 918 377)</b>	<b>103 %</b>	<b>103 %</b>
<b>Surplus/(Deficit)</b>	<b>50 335</b>	<b>-</b>	<b>50 335</b>	<b>-</b>	<b>-</b>	<b>50 335</b>	<b>(8 902 338)</b>		<b>(8 952 673)</b>	<b>(17 686)%</b>	<b>(17 686)%</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-	-	-	6 063 248		6 063 248	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	540		540	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>50 335</b>	<b>-</b>	<b>50 335</b>	<b>-</b>	<b>-</b>	<b>50 335</b>	<b>(2 838 550)</b>		<b>(2 888 885)</b>	<b>(5 639)%</b>	<b>(5 639)%</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The annual financial statements have been rounded to the nearest Rand.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30 years

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### 1.4 Investment property (continued)

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.5 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.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

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.

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

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
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## Accounting Policies

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

Land	Straight line	Indefinite
Buildings	Straight line	20 - 35 years
Infrastructure	Straight line	10 - 100 years
Community	Straight line	30 years
Other assets	Straight line	3 - 20 years
Leased Assets	Straight line	3 years

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.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

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.

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.

# Karoo Hoogland Local Municipality

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### 1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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	Useful life
Computer software	15 years
Computer software licences	15 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an 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).

### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

# Karoo Hoogland Local Municipality

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## Accounting Policies

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### 1.7 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Other financial liabilities	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Karoo Hoogland Local Municipality

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## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

# Karoo Hoogland Local Municipality

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## Accounting Policies

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### 1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# Karoo Hoogland Local Municipality

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## Accounting Policies

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### 1.8 Leases (continued)

#### Finance leases - lessee

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

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

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



# Karoo Hoogland Local Municipality

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## Accounting Policies

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### 1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

# Karoo Hoogland Local Municipality

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## Accounting Policies

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### 1.10 Employee benefits (continued)

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment 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.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.10 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.10 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.10 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

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

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

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

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

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.14 Revenue from non-exchange transactions (continued)

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.16 Borrowing costs

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

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

### 1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

### 1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.22 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.23 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).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> <li>• GRAP 18: Segment Reporting</li> </ul>	01 April 2017	The adoption of this amendment has not had a material impact on the results of the municipality but has resulted in more disclosure than would have previously been provided in the financial statements
<ul style="list-style-type: none"> <li>• GRAP 20: Related parties</li> </ul>	01 April 2017	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 32: Service Concession Arrangements: Grantor</li> </ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 108: Statutory Receivables</li> </ul>	01 April 2016	The adoption of this amendment has not had a material impact on the results of the municipality but has resulted in more disclosure than would have previously been provided in the financial statements
<ul style="list-style-type: none"> <li>• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset</li> </ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 16 (as amended 2015): Investment Property</li> </ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 17 (as amended 2015): Property, Plant and Equipment</li> </ul>	01 April 2016	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 109: Accounting by Principals and Agents</li> </ul>	01 April 2017	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets</li> </ul>	01 April 2017	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• GRAP 26 (as amended 2015): Impairment of cash-generating assets</li> </ul>	01 April 2017	The impact of the amendment is not material.
<ul style="list-style-type: none"> <li>• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities</li> </ul>	01 April 2018	The impact of the amendment is not material.

### 3. Inventories

Water	14 555	7 900
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#### Inventory pledged as security

No inventory was pledged as security for any liabilities during 2016 and 2015.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>4. Other receivables from exchange transactions</b>		
Land sales	221 263	224 599
<b>5. Receivables from non-exchange transactions</b>		
Consumer debtors - Rates	562 651	515 609
Salary overpayments	24 965	31 048
	<b>587 616</b>	<b>546 657</b>
<b>Consumer debtors - Rates</b>		
Current (0 -30 days)	6 845	20 781
31 - 60 days	20 536	54 956
61 - 90 days	17 558	16 924
91 - 120 days	14 787	15 854
121 - 365 days	116 187	16 058
> 365 days	386 738	391 036
	<b>562 651</b>	<b>515 609</b>

No receivables from non-exchange transactions are pledged as security for any liabilities.

The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

Rand	587 616	546 657
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### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(3 493 874)	(3 341 269)
Provision for impairment	(335 164)	(152 605)
	<b>(3 829 038)</b>	<b>(3 493 874)</b>

Debts are required to be settled after 30 days, interest is charged after this date at prime + 1%. The fair value of trade and other receivables approximates their carrying amounts. Discounting of receivables are not performed at initial recognition in terms of GRAP 104.

In determining the recoverability of a receivable, the Municipality considers any change in the credit quality of the receivable from the date the credit was initially granted, up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts. All Non-Government debtors were either specifically impaired or subject to collective impairment.

### 6. VAT receivable

VAT	354 318	336 053
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The value added tax recoverable from, or payable to, the taxation authority presented in this note and the Statement of Financial Position is on the accrual basis while the municipality is registered on cash basis according to section 15 of the Value-added Tax Act, 1991 (Act 89 of 1991).

The total amount of VAT receivable is R240 880 (2015: R239 913) on the cash basis. The balance on the accrual basis at 30 June 2016 is R475 014 (2015: R336 053) and this is the net amount payable after all cash receipts of consumers and cash payments to suppliers.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>7. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	971 496	771 642
Water	3 855 836	3 025 998
Sewerage	3 483 588	2 657 413
Refuse	3 766 978	2 974 736
Housing rental	243 234	224 040
Other	6 616 040	6 728 007
	<b>18 937 172</b>	<b>16 381 836</b>
<b>Less: Allowance for impairment</b>		
Electricity	(252 291)	(203 623)
Water	(3 083 219)	(2 426 172)
Sewerage	(2 810 154)	(2 128 638)
Refuse	(3 105 694)	(2 425 054)
Housing rental	(147 405)	(90 258)
Other	(6 373 894)	(6 185 695)
	<b>(15 772 657)</b>	<b>(13 459 440)</b>
<b>Net balance</b>		
Electricity	719 205	568 019
Water	772 617	599 826
Sewerage	673 434	528 775
Refuse	661 284	549 682
Housing rental	95 829	133 782
Other	242 146	542 312
	<b>3 164 515</b>	<b>2 922 396</b>
<b>Electricity</b>		
Current (0 -30 days)	109 979	65 744
31 - 60 days	56 635	17 314
61 - 90 days	30 337	46 665
91 - 120 days	14 245	20 732
121 - 365 days	124 935	107 360
> 365 days	383 074	310 204
	<b>719 205</b>	<b>568 019</b>
<b>Water</b>		
Current (0 -30 days)	41 240	43 902
31 - 60 days	28 530	22 173
61 - 90 days	22 390	19 762
91 - 120 days	21 300	25 672
121 - 365 days	149 193	116 607
> 365 days	509 964	371 710
	<b>772 617</b>	<b>599 826</b>
<b>Sewerage</b>		
Current (0 -30 days)	55 898	42 162
31 - 60 days	28 871	19 315
61 - 90 days	22 235	18 707
91 - 120 days	18 663	17 257
121 - 365 days	136 233	122 060
> 365 days	411 534	309 274
	<b>673 434</b>	<b>528 775</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	25 574	21 730
31 - 60 days	20 818	16 748
61 - 90 days	17 438	15 947
91 - 120 days	15 994	15 269
121 - 365 days	115 797	107 720
> 365 days	465 663	372 268
	<b>661 284</b>	<b>549 682</b>
<b>Housing rental</b>		
Current (0 -30 days)	4 201	7 268
31 - 60 days	8 517	7 464
61 - 90 days	3 104	8 623
91 - 120 days	3 411	3 459
121 - 365 days	36 015	28 759
> 365 days	40 581	78 209
	<b>95 829</b>	<b>133 782</b>
<b>Other (specify)</b>		
Current (0 -30 days)	14 208	41 925
31 - 60 days	11 810	8 140
61 - 90 days	5 404	3 042
91 - 120 days	4 303	16 092
121 - 365 days	25 969	39 086
> 365 days	180 452	434 027
	<b>242 146</b>	<b>542 312</b>



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	561 094	303 941
31 - 60 days	368 091	233 956
61 - 90 days	326 395	213 373
91 - 120 days	304 557	217 581
121 - 365 days	279 005	1 646 625
> 365 days	10 990 476	6 103 011
	<hr/>	<hr/>
	12 829 618	8 718 487
Less: Allowance for impairment	(10 853 253)	(8 403 524)
	<hr/>	<hr/>
	<b>1 976 365</b>	<b>314 963</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	436 208	72 341
31 - 60 days	133 092	32 573
61 - 90 days	76 221	55 169
91 - 120 days	66 926	38 900
121 - 365 days	44 147	221 529
> 365 days	433 058	468 738
	<hr/>	<hr/>
	1 189 652	889 250
Less: Allowance for impairment	(508 726)	(411 183)
	<hr/>	<hr/>
	<b>680 926</b>	<b>478 067</b>
<b>National and provincial government</b>		
Current (0 -30 days)	246 411	104 219
31 - 60 days	104 986	53 047
61 - 90 days	82 407	62 586
91 - 120 days	79 427	67 665
121 - 365 days	51 723	386 062
> 150 days	1 649 066	1 287 183
	<hr/>	<hr/>
	<b>2 214 020</b>	<b>1 960 762</b>
<b>Total</b>		
Current (0 -30 days)	1 243 713	480 500
31 - 60 days	606 169	319 576
61 - 90 days	485 023	331 128
91 - 120 days	450 910	324 145
121 - 365 days	374 875	2 254 215
> 365 days	13 072 600	12 672 272
	<hr/>	<hr/>
	16 233 290	16 381 836
Less: Allowance for impairment	(13 068 775)	(13 459 440)
	<hr/>	<hr/>
	<b>3 164 515</b>	<b>2 922 396</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(259 670)	(257 769)
31 - 60 days	(258 932)	(228 422)
61 - 90 days	(258 409)	(218 382)
91 - 120 days	(255 025)	(225 663)
121 - 150 days	(253 719)	(237 393)
> 150 days	(14 486 902)	(12 291 811)
	<hr/>	<hr/>
	<b>(15 772 657)</b>	<b>(13 459 440)</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand	2016	2015
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### 7. Receivables from exchange transactions (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(13 694 771)	(12 158 264)
Contributions to allowance	(2 077 886)	(1 301 176)
	<b>(15 772 657)</b>	<b>(13 459 440)</b>

#### Consumer debtors pledged as security

No receivables from exchange transactions were pledged as security for any liabilities.

#### Fair value of consumer debtors

The carrying value of receivables from exchange transactions approximate their fair values.

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	3 164 515	2 922 396
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### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 700	2 700
Bank balances	6 500 733	2 910 629
	<b>6 503 433</b>	<b>2 913 329</b>

None of the above accounts have been provided as security or have been pledged as collateral.

No restrictions have been placed on the use of the cash and cash equivalents for the operations of the entity.

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

#### Credit rating

AA	6 500 733	2 910 629
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# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

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

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Standard Bank Account number 083212442 (Primary bank account)	4 987 672	1 970 120	398 447	4 987 672	1 970 120	398 447
ABSA Bank Account number 2490000065 (Secondary Bank Account)	942 214	348 502	2 318 620	942 214	348 502	2 318 620
Standard Bank Call Account - Account number 28 864 122 002	2 871	2 871	-	2 871	2 871	-
ABSA Bank Call Account - Account number 4054352064	416 073	400 397	387 593	416 073	400 397	387 593
ABSA Bank Call Account - Account number 92 9194 4935	18 000	18 000	18 000	21 460	18 000	18 000
Standard Bank E-natis	97 744	149 739	-	97 744	149 739	-
ABSA Bank Call Account - Account number 92 9194 4935	1 003	1 000	1 000	1 003	1 000	1 000
Standard Bank FMG Call Account - Account number 28 8644 204	2 203	1 000	1 000	2 203	1 000	1 000
ABSA MSIG Call Account - Account number 92 8398 9884	1 000	1 000	1 000	1 000	1 000	1 000
Standard Bank MIG Call Account - Account number 28 8644 220	5 883	1 000	1 000	5 883	1 000	1 000
Standard Bank Library Call Account - Account number 28 8644 247	5 066	1 000	1 000	5 066	1 000	1 000
Standard Bank EPWP Account Number 28 8644 239	2 542	1 000	1 000	2 542	1 000	1 000
Fuel deposit account	15 000	15 000	15 000	15 000	15 000	15 000
<b>Total</b>	<b>6 497 271</b>	<b>2 910 629</b>	<b>3 143 660</b>	<b>6 500 731</b>	<b>2 910 629</b>	<b>3 143 660</b>

### 9. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	27 792 800	(2 891 090)	24 901 710	27 792 800	(2 540 655)	25 252 145

### Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	25 252 145	(350 435)	24 901 710

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

2016

2015

### 9. Investment property (continued)

#### Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	25 602 580	(350 435)	25 252 145

#### Pledged as security

None of the above properties have been pledged as security for any liabilities.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 10. 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	37 436 400	-	37 436 400	37 436 400	-	37 436 400
Buildings	14 372 172	(5 744 109)	8 628 063	14 372 172	(5 131 926)	9 240 246
Plant and machinery	415 680	(234 627)	181 053	502 590	(256 693)	245 897
Furniture and fixtures	1 373 287	(496 607)	876 680	1 292 868	(476 099)	816 769
Motor vehicles	2 163 798	(562 609)	1 601 189	1 908 798	(527 862)	1 380 936
Office equipment	145 700	(59 836)	85 864	148 494	(75 115)	73 379
IT equipment	1 542 324	(365 677)	1 176 647	1 555 488	(279 142)	1 276 346
Infrastructure	206 499 736	(61 584 201)	144 915 535	199 999 220	(56 249 034)	143 750 186
Community	93 077	(5 440)	87 637	93 077	(2 418)	90 659
Other property, plant and equipment	38 457	(17 271)	21 186	40 528	(16 069)	24 459
Leased Assets	490 270	(198 418)	291 852	545 246	(355 238)	190 008
Tools and loose gear	97 077	(31 552)	65 525	93 060	(25 882)	67 178
<b>Total</b>	<b>264 667 978</b>	<b>(69 300 347)</b>	<b>195 367 631</b>	<b>257 987 941</b>	<b>(63 395 478)</b>	<b>194 592 463</b>

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

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	37 436 400	-	-	-	-	37 436 400
Buildings	9 240 246	-	-	(612 183)	-	8 628 063
Plant and machinery	245 897	-	(442)	(64 402)	-	181 053
Furniture and fixtures	816 769	146 184	(300)	(85 973)	-	876 680
Motor vehicles	1 380 936	355 000	(645)	(134 102)	-	1 601 189
Office equipment	73 379	30 083	(109)	(17 489)	-	85 864
IT equipment	1 276 346	55 407	(244)	(154 862)	-	1 176 647
Infrastructure	143 750 186	6 548 696	(48)	(5 362 391)	(20 908)	144 915 535
Community	90 659	-	-	(3 022)	-	87 637
Other property, plant and equipment	24 459	-	(11)	(3 262)	-	21 186
Leased assets	190 008	280 536	-	(178 692)	-	291 852
Tools and loose gear	67 178	5 875	(10)	(7 518)	-	65 525
<b>Total</b>	<b>194 592 463</b>	<b>7 421 781</b>	<b>(1 809)</b>	<b>(6 623 896)</b>	<b>(20 908)</b>	<b>195 367 631</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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2015

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

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

	Opening balance	Additions	Disposals	Depreciation	Total
Land	39 075 400	-	(1 639 000)	-	37 436 400
Buildings	9 896 015	-	-	(655 769)	9 240 246
Plant and machinery	253 286	28 650	-	(36 039)	245 897
Furniture and fixtures	885 669	-	-	(68 900)	816 769
Motor vehicles	1 486 391	-	(4 156)	(101 299)	1 380 936
Office equipment	83 888	-	-	(10 509)	73 379
IT equipment	458 166	879 728	-	(61 548)	1 276 346
Infrastructure	139 212 731	9 895 680	-	(5 358 225)	143 750 186
Community	-	93 077	-	(2 418)	90 659
Other property, plant and equipment	27 235	-	-	(2 776)	24 459
Leased assets	177 451	168 729	-	(156 172)	190 008
Tools and loose gear	30 330	43 050	-	(6 202)	67 178
	<b>191 586 562</b>	<b>11 108 914</b>	<b>(1 643 156)</b>	<b>(6 459 857)</b>	<b>194 592 463</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 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	1 286 244	(547 497)	738 747	820 850	(511 528)	309 322

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	309 322	468 244	(38 819)	738 747

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	320 309	21 271	(32 258)	309 322

#### Pledged as security

No intangible assets were pledged as security for liabilities.

#### Restricted title

There are no intangible assets whose title is restricted.

#### Other information

There are no internally generated intangible assets at year end.

No intangible assets were assessed having an indefinite useful life

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>12. Long term receivables</b>		
Long term receivables	341 445	353 225
Provision for impairment	(292 897)	(298 871)
	<b>48 548</b>	<b>54 354</b>

The long-term receivables relates to outstanding customer service accounts where these customers have arrangements in place with the Municipality to pay their accounts at a fixed instalment over a period longer than 12 months. Arrangements are in place up to 2030.

### 13. Captilised restoration cost

2016	Net Carrying amount at 1 July	Reductions	Depreciation for the year	Impairment / Reversal of Impairment	Net Carrying amount at 30 June
Captilised restoration cost	333 903	(292 623)	(83 476)	69 179	26 983
2015	Net Carrying amount at 1 July	Reductions	Depreciation for the year	Impairment / Reversal of Impairment	Net Carrying amount at 30 June
Captilised restoration cost	1 352 853	(543 622)	(528 413)	53 085	333 903

Restoration cost financed by way of a provision - Refer to note 20 for further details.

### Reconciliation of Carrying amount at 30 June

<b>Net carrying amount</b>		
Cost	9 715 321	10 007 945
Accumulated depreciation	(9 138 500)	(9 055 025)
Accumulated impairment	(549 838)	(619 017)
	<b>26 983</b>	<b>333 903</b>

### 14. Other financial liabilities

#### At amortised cost

Development Bank of South Africa	2 450 575	2 626 694
The loan to DBSA is payable in equal monthly instalments of R25 076. Interest is levied at 5% per annum. The last loan repayment will be on 31 December 2026.		

A cession over the income stream of the Municipality is pledged as security, covering the instalments plus interest and collection charges outstanding at any time during the term of the DBSA loan.

#### Non-current liabilities

At amortised cost	2 268 468	2 453 553
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#### Current liabilities

At amortised cost	182 107	173 141
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# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	193 722	157 701
- in second to fifth year inclusive	146 690	85 242
	<u>340 412</u>	<u>242 943</u>
less: future finance charges	(39 549)	(45 345)
<b>Present value of minimum lease payments</b>	<b><u>300 863</u></b>	<b><u>197 598</u></b>
Non-current liabilities	136 095	75 764
Current liabilities	164 768	121 824
	<b><u>300 863</u></b>	<b><u>197 588</u></b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 2% (2015: 2%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

### Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	300 863	197 588
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For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 40.

The fair value of finance lease liabilities approximates their carrying amounts.

### 16. Payables from exchange transactions

Trade payables	7 943 338	7 522 523
Payments received in advance	432 326	385 380
Accrued bonus	519 876	494 961
Deposits received	113 781	110 182
Unidentified deposits	550 488	379 391
Retentions	380 647	-
	<b><u>9 940 456</u></b>	<b><u>8 892 437</u></b>

### 17. Consumer deposits

Electricity	65 285	70 477
Water	102 223	101 475
	<b><u>167 508</u></b>	<b><u>171 952</u></b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand	2016	2015
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### 18. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

##### Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

##### Subsidy Policy

All continuation members receive a 70% subsidy. Upon a member's death-in-retirement, the surviving dependants will continue to receive the same 70% subsidy. .

The effective date of the actuarial valuation of the post employment medical benefit obligation was the 30 June 2016 and performed by independent professional valuers. The next actuarial valuation is expected to be performed on 30 June 2017.

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

##### Post employment medical benefit

Present value of the post employment medical benefit	(3 034 669)	(3 065 000)
Non-current liabilities	(2 793 517)	(2 854 000)
Current liabilities	(241 152)	(211 000)
	<b>(3 034 669)</b>	<b>(3 065 000)</b>

##### Post employment medical benefit:

The average in-service member liability has increased by 50% since the last valuation due to the following factors:

The total liability has decreased by 1% (or R 0.030 million) since the last valuation.

- an increase in the average age which means members are closer to retirement (less discounting) and less likely to leave before retirement; and
- an increase in the average past service.

The average continuation member liability has decreased by 23% due to the following factors:

- a decrease in the average employer contribution; and
- an increase in the average age.

#### Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3 065 000	2 816 000
Net expense recognised in the statement of financial performance	(30 331)	249 000
	<b>3 034 669</b>	<b>3 065 000</b>



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>18. Employee benefit obligations (continued)</b>		
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	47 000	39 000
Interest cost	273 000	262 000
Actuarial (gains) losses	(102 262)	(26 456)
Change in accounting estimate	-	201 000
Benefits paid	(248 069)	(226 544)
	<b>(30 331)</b>	<b>249 000</b>

### Calculation of actuarial gains and losses

Actuarial (gains) losses – post employment medical obligation	(102 262)	(26 456)
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### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.23 %	7.00 %
Health care cost inflation rate	8.10 %	6.00 %
Net effective discount rate	1.04 %	0.94 %

The basis used to determine the overall expected rate of return on assets is as follow:

#### Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 9.23% per annum has been used. The corresponding index-linked yield at this term is 1.76%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 15 June 2016.

The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed-interest and index-linked yield was taken from the bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

#### Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.10% has been assumed. This is 1.25% in excess of expected CPI inflation over the expected weighted average term of the liability, namely 6.85%. A large differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.04% which derives from  $((1+9.23\%)/(1+8.10\%))-1$ . The expected inflation assumption of 6.85% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.76%) and those of fixed interest bonds (9.23%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $((1+9.23\%-0.50\%)/(1+1.76\%))-1$ .

The next contribution increase was assumed to occur with effect from 1 January 2017.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand	2016	2015
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### 18. Employee benefit obligations (continued)

#### Mortality rates:

The PA 90 ultimate table, rated down by 1 year was used by the actuaries.

#### Average retirement age:

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

#### Continuation of Membership:

It has been assumed that 100% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

#### Family Profile:

It has been assumed that subsidised adult dependants are of the opposite gender and that they will be five years younger / older if they are female / male respectively. Further, we've assumed that 100% and 90% of eligible married and single employees, respectively, who are on a health care arrangement at retirement will have an adult dependant. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	366 000	282 000
Effect on defined benefit obligation	366 000	282 000

### 19. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	1 000	540 071
Library Development Grant	292 206	231 106
	<b>293 206</b>	<b>771 177</b>

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# Karoo Hoogland Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 20. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Decrease in estimate	Total
Environmental rehabilitation	36 362 888	722 348	-	-	458 011	(292 623)	37 250 624
Long service award	1 513 000	143 000	(18 284)	(164 455)	141 000	-	1 614 261
Provision for leave	814 727	133 093	(55 624)	-	-	-	892 196
	<b>38 690 615</b>	<b>998 441</b>	<b>(73 908)</b>	<b>(164 455)</b>	<b>599 011</b>	<b>(292 623)</b>	<b>39 757 081</b>

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Decrease in estimate	Total
Environmental rehabilitation	35 891 683	-	-	-	1 014 827	(543 622)	36 362 888
Long service award	1 315 000	105 000	(35 754)	25 754	103 000	-	1 513 000
Provision for leave	1 062 797	67 176	(315 246)	-	-	-	814 727
	<b>38 269 480</b>	<b>172 176</b>	<b>(351 000)</b>	<b>25 754</b>	<b>1 117 827</b>	<b>(543 622)</b>	<b>38 690 615</b>

Non-current liabilities	9 239 101	9 198 624
Current liabilities	30 517 980	29 491 991
	<b>39 757 081</b>	<b>38 690 615</b>

#### Environmental rehabilitation provision

The municipality has an obligation to rehabilitate the following landfill sites at the end of the expected useful life of the asset. Details of the sites are as follows:

#### Location and estimated decommission date

Williston, Estimated decommission date 2016	10 676 393	10 346 219
Fraserburg, Estimated decommission date 2019	7 944 083	7 723 624
Sutherland, Estimated decommission date 2016	18 630 148	18 293 044
	<b>37 250 624</b>	<b>36 362 887</b>

#### Material Assumptions used

##### Discount Rate used:

The discount rate used to calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. This rate used is also within the inflation target range of the South African Reserve Bank of between 3% to 6%.

#### Long Service Awards

The Municipality offers employees Long Service Awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 20. Provisions (continued)

The Long Service Award liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability.

#### Material Assumptions used

- Discount rate: 8.73%
- General Salary Inflation (long-term): 7.70%
- Net effective discount rate: 0.96%

The salaries used in the valuation include an assumed increase on 1 July 2016 of 6% as per the SALGBC Circular No.: 01/2016. The next salary increase was assumed to take place on 1 July 2017.

The average retirement age was presumed as 63 years to allow for potential early retirements.

#### Provision for leave

Employees are entitled to paid annual leave as per their conditions of service. According to the municipality's leave policy, leave can be accumulated to a maximum of 48 days per employee.

A provision is recognised as the timing and amount of the amount of the leave payouts are uncertain.

No amounts are expected to be reimbursed and no assets have been recognised in this regard.

### 21. Service charges

Sale of electricity	8 796 937	7 745 101
Sale of water	2 349 551	2 050 812
Sewerage and sanitation charges	2 304 609	1 976 058
Refuse removal	1 723 839	1 634 444
	<b>15 174 936</b>	<b>13 406 415</b>

### 22. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	776 047	641 442
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### 23. Other income

Department of justice electrification programme	1 322 491	-
LG Seta Skills development	28 671	7 031
Sundry income	431 711	753 422
	<b>1 782 873</b>	<b>760 453</b>

### 24. Investment revenue

#### Interest revenue

Bank	251 620	197 300
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# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential, commercial property, state and farms	8 528 451	7 744 810
Less: Rebates	(3 469 949)	(3 261 193)
	<u>5 058 502</u>	<u>4 483 617</u>
Property rates - interest received	269 470	217 030
	<u><b>5 327 972</b></u>	<u><b>4 700 647</b></u>
<b>Valuations</b>		
Residential	252 258 000	252 358 000
Commercial	69 167 900	69 222 000
State	40 513 500	40 513 500
Municipal	17 751 100	17 751 100
Small holdings and farms	2 652 080 800	2 652 080 800
Public Service Infrastructure (Zero Rated)	182 741 000	182 741 000
Public Benefit Organisations	4 826 100	4 826 100
Multiple purpose	485 000	485 000
Vacant land	21 633 000	21 578 200
	<u><b>3 241 456 400</b></u>	<u><b>3 241 555 700</b></u>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.011050 (2015: R0.010420) is applied to property valuations to determine assessment rates. Properties used for domestic purposes and consisting of both land and improvements are subject to a R15 000 rebate. There are also different rebates and phased in tariffs for different sectors of the community.

Rates are levied on an annual basis with the final date for payment being 30 September 2016 (30 September 2015). Interest at prime plus 1% per annum.

The new general valuation will be implemented on 01 July 2017.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	15 812 000	14 669 000
Local Government Financial Management Grant	1 800 000	1 800 000
Municipal Systems Improvement Grant	930 000	934 000
Expanded Public Works Program	1 000 000	1 349 714
Library Development Grant	1 651 900	899 011
	<b>21 193 900</b>	<b>19 651 725</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	5 541 071	8 890 000
Regional Bulk Infrastructure Grant	522 177	1 920 005
	<b>6 063 248</b>	<b>10 810 005</b>
	<b>27 257 148</b>	<b>30 461 730</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	11 445 148	15 792 730
Unconditional grants received	15 812 000	14 669 000
	<b>27 257 148</b>	<b>30 461 730</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	540 071	540 071
Current-year receipts	8 005 000	8 890 000
Conditions met - transferred to revenue	(5 541 071)	(8 890 000)
Amounts withheld	(3 003 000)	-
	<b>1 000</b>	<b>540 071</b>
Conditions still to be met - remain liabilities (see note 19).		
This grant was used to construct municipal infrastructure to provide basic services for the benefit of the poor households. The conditions of the grants were met.		
National Treasury withheld R 3 003 000 of the Municipal Infrastructure Grant as the Municipality was not able to demonstrate that the monies would have been timeously spent in the financial year.		
<b>Local Government Financial Management Grant</b>		
Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 26. Government grants and subsidies (continued)

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (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

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19).

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

#### Expanded Public Works Program

Balance unspent at beginning of year	-	349 714
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 349 714)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19).

The purpose of this grant is to improve the quality of life of poor people and increase social stability through engaging the previously unemployed in paid and productive activities, to reduce levels of poverty, contribute towards increased levels of employment and improve opportunities for sustainable work through experience and learning.

#### Regional Bulk Infrastructure Grant

Current-year receipts	522 177	1 920 005
Conditions met - transferred to revenue	(522 177)	(1 920 005)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19).

The purpose of this grant is to develop infrastructure required to connect or augment a water resource, to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area with the municipality.

#### Library Development Grant

Balance unspent at beginning of year	231 106	37 117
Current-year receipts	1 713 000	1 093 000
Conditions met - transferred to revenue	(1 651 900)	(899 011)
	<u>292 206</u>	<u>231 106</u>

Conditions still to be met - remain liabilities (see note 19).

The grant is being used to support library services.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>27. Employee related costs</b>		
Bargaining council contributions	7 004	6 333
Basic	15 266 384	16 444 418
Bonus	1 042 229	1 170 344
Contributions for UIF, Pensions and Medical Aids	943 362	974 421
Leave pay provision charge	133 094	67 176
Long-service awards	143 000	33 493
Overtime payments	249 739	223 294
Post retirement medical aid expenses	47 000	151 211
SDL	181 424	160 585
	<b>18 013 236</b>	<b>19 231 275</b>
<b>Remuneration of the Municipal Manager: GW Von Möllendorf</b>		
Annual Remuneration	877 510	635 400
Cell phone allowance	-	12 000
Travel Allowance	154 855	112 130
	<b>1 032 365</b>	<b>759 530</b>
<b>Remuneration of the Director Financial Services: MK Botha</b>		
Annual Remuneration	-	850 228
Cell phone allowance	-	11 000
Leave Gratification	-	60 536
Travel Allowance	-	178 121
	-	<b>1 099 885</b>
Mr Botha's services ended in November 2014.		
<b>Remuneration of the Director Financial Services: SJ Myburgh</b>		
Annual Remuneration	713 360	265 500
Mr Myburgh was appointed as acting chief financial officer from 1 January 2015.		
<b>Remuneration of the Director Technical: FJ Lötter</b>		
Annual Remuneration	485 908	454 120
Annual bonus	47 954	44 817
Cell phone allowance	12 000	12 000
Travel Allowance	89 539	83 682
	<b>635 401</b>	<b>594 619</b>
<b>Remuneration of the Director Corporate Services: L Notnagel</b>		
Annual Remuneration	-	318 023
Leave Gratification	-	93 333
Travel Allowance	-	32 146
	-	<b>443 502</b>
Mr Notnagel's services ended in April 2014.		



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>28. Remuneration of councillors</b>		
Mayor	730 633	674 026
Councillors	1 408 841	1 231 684
	<b>2 139 474</b>	<b>1 905 710</b>
<b>JP Julies - Mayor</b>		
Basic salary	638 788	623 786
Cell phone allowance	70 977	20 868
Motor allowance	20 868	29 372
	<b>730 633</b>	<b>674 026</b>
<b>JJ van der Colff</b>		
Basic salary	192 545	186 911
Cell phone allowance	20 868	20 868
Vehicle allowance	21 393	8 801
	<b>234 806</b>	<b>216 580</b>
<b>MM van Wyk</b>		
Basic salary	192 545	186 911
Cell phone allowance	20 868	20 868
Vehicle allowance	21 393	8 801
	<b>234 806</b>	<b>216 580</b>
<b>E Vermeulen</b>		
Basic salary	192 545	186 911
Cell phone allowance	20 868	20 868
Vehicle allowance	21 393	8 801
	<b>234 806</b>	<b>216 580</b>
<b>G Beukes</b>		
Basic salary	192 545	186 911
Cell phone allowance	20 868	20 868
Vehicle allowance	21 393	8 801
	<b>234 806</b>	<b>216 580</b>
<b>J Davids</b>		
Basic salary	192 545	186 911
Cell phone allowance	20 868	20 868
Vehicle allowance	21 393	8 801
	<b>234 806</b>	<b>216 580</b>
<b>K Koopman</b>		
Basic salary	192 545	44 035
Cell phone allowance	20 868	5 217
Vehicle allowance	21 393	-
	<b>234 806</b>	<b>49 252</b>
<b>CM Fortuin</b>		
Basic salary	-	83 691
Cell phone allowance	-	8 695
	-	<b>92 386</b>

# Karoo Hoogland Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>29. Finance costs</b>		
Actuarial interest	414 000	365 000
Long term borrowings	179 111	201 321
Provision for the rehabilitation of landfill sites	458 011	1 014 827
Trade and other payables	395 906	178 732
	<b>1 447 028</b>	<b>1 759 880</b>
<b>30. Debt impairment</b>		
Debt impairment	2 417 304	1 531 993
<b>31. Bulk purchases</b>		
Electricity	7 878 333	6 488 302
<b>32. General expenses</b>		
Advertising	43 880	29 309
Assets expensed	852	1 305
Auditors remuneration	1 707 484	5 277 075
Bank charges	216 296	179 429
Cleaning	29 418	20 390
Commission paid	151 041	138 333
Consultant fees	2 444 738	495 804
Consumables	11 549	-
Donations	111 564	57 038
Entertainment	6 722	22 568
Fuel and oil	465 303	514 717
Insurance	217 048	209 752
Internal audit	6 080	-
Motor vehicle expenses	207	514
Other expenses	661 696	627 010
Postage and courier	2 771	2 368
Printing and stationery	273 656	230 106
Refuse	95 942	72 991
Rehabilitation of landfill sites expense	722 348	-
Research and development costs	39 651	67 780
Software expenses	256 855	233 504
Staff welfare	134 642	258 320
Street lighting	161 947	68 734
Telephone and fax	291 609	361 183
Title deed search fees	10 498	6 900
Training	2 500	-
Transport and freight	6 474	4 403
Travel - local	526 769	370 578
	<b>8 599 540</b>	<b>9 250 111</b>
<b>33. Auditors' remuneration</b>		
Fees	1 707 484	5 277 075

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 34. Financial instruments disclosure

#### Categories of financial instruments

##### 2016

#### Financial assets

	<b>At amortised cost</b>	<b>Total</b>
Other receivables from exchange transactions	221 263	221 263
Receivables from non-exchange transactions	587 616	587 616
Receivables from exchange transactions	3 164 515	3 164 515
Cash and cash equivalents	6 503 433	6 503 433
Long term receivables	48 548	48 548
	<b>10 525 375</b>	<b>10 525 375</b>

#### Financial liabilities

	<b>At amortised cost</b>	<b>Total</b>
Other financial liabilities	2 450 575	2 450 575
Finance lease liability	300 863	300 863
Trade and other payables from exchange transactions	9 420 581	9 420 581
Consumer deposits	167 508	167 508
	<b>12 339 527</b>	<b>12 339 527</b>

##### 2015

#### Financial assets

	<b>At amortised cost</b>	<b>Total</b>
Other receivables from exchange transactions	224 599	224 599
Trade and other receivables from exchange transactions	2 922 396	2 922 396
Receivables from non-exchange transactions	546 657	546 657
Cash and cash equivalents	2 913 329	2 913 329
Long term receivables	54 354	54 354
	<b>6 661 335</b>	<b>6 661 335</b>

#### Financial liabilities

	<b>At amortised cost</b>	<b>Total</b>
Finance lease liability	197 589	197 589
Other financial liabilities	2 626 694	2 626 694
Trade and other payables from exchange transactions	8 397 475	8 397 475
Consumer deposits	171 952	171 952
	<b>11 393 710</b>	<b>11 393 710</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### Financial instruments disclosure (continued)

#### Financial instruments in Statement of financial performance

##### 2016

	<b>At amortised cost</b>	<b>Total</b>
Interest income (calculated using effective interest method) for financial instruments at amortised cost - Exchange transactions	1 160 627	1 160 627
Interest income (calculated using effective interest method) for financial instruments at amortised cost - Non-exchange transactions	269 470	269 470
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(575 017)	(575 017)
	<b>855 080</b>	<b>855 080</b>

##### 2015

	<b>At amortised cost</b>	<b>Total</b>
Interest income (calculated using effective interest method) for financial instruments at amortised cost - Exchange transactions	1 112 747	1 112 747
Interest income (calculated using effective interest method) for financial instruments at amortised cost - Non-exchange transactions	217 030	217 030
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(380 053)	(380 053)
	<b>949 724</b>	<b>949 724</b>

### 35. Commitments

#### Authorised capital expenditure

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

• Property, plant and equipment	16 358 897	5 838 594
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##### Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	32 714 725	35 557 277
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#### Total capital commitments

Already contracted for but not provided for	16 358 897	5 838 594
Not yet contracted for and authorised by accounting officer	32 714 725	35 557 277
	<b>49 073 622</b>	<b>41 395 871</b>

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 36. Contingencies

#### Permits for the operation of landfill sites

The Municipality has three active landfill sites situated in Williston, Fraserburg and Sutherland. The sites in Williston and Sutherland are not licenced as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), In accordance with section 68(1), a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine or to imprisonment, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

#### SAMWU OBO Albert van Wyk vs KHM

Applicant is claiming unfair dismissal from the municipality. Costs will be determined by the court.

#### **Contingent assets**

#### KHM vs L Nothnagel

A claim against L Nothnagel relating to Labour Court costs amounting to R117 651.

#### KHM vs SAMWU (A van Wyk)

Bargaining Council resolution in favour of KHM amounting R17 101.

#### Salary investigation (SALGA T-Scales)

Council to investigate the salary scales of employees due to audit finding. As Council is seeking legal advice the amount cannot accurately be presented.

#### CASE OF SAMWU VS KHM (JK MALHO)

Disciplinary case by municipality against an employee amounting to R6 618.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 37. Related parties

#### Relationships

Accounting Officer G Von Möllendorf  
Members of key management S Myburgh  
F Lötter

#### Related party balances

##### Amounts included in Trade receivable (Trade Payable) regarding related parties

JJ Vermeulen	322	-
MM Van Wyk	(130)	-
JJ van der Colff	(18)	-
JP Julies	315	-
K Koopman	1 109	18 289

#### Related party transactions

##### Rates levied 1 July to 30 June

JJ Vermeulen	194	183
MM Van Wyk	2 595	2 449
JJ Van der Colff	5 301	4 993
JP Julies	774	729
K Koopman	3 378	3 526
C Fortuin	-	271

##### Service charges levied 1 July to 30 June

JJ Vermeulen	4 826	4 502
JP Julies	4 220	3 528
K Koopman	18 669	6 772
C Fortuin	-	1 129

Remuneration of key management refer to note 26 of the annual financial statements.

### 38. Prior period errors

Skills development levy with an amount of R83 was paid over twice to SARS, resulting in the overstatement of Employee related costs and the understatement of Receivables from non-exchange transactions.

A deposit with an amount of R5 144 for agency fees was erroneously recorded twice in the accounting records of the municipality. This resulted in the overstatement of cash and cash equivalents and income from agency services by R5 144.

A SARS investigation revealed that the municipality claimed too much input VAT during the previous 3 financial years. This resulted in the understatement of opening accumulated surplus by R1 107, other expenditure by R508, and the overstatement of VAT receivable by R1 616.

Correction of Consumer Deposits in relation to transactions recorded in 2014/2015 resulting in understatement of consumer deposit by R3 852, overstatement of service charges by R3 852.

Correction of incorrect service charges and property rates in the 2014/15 financial year. This resulted in the overstatement of service charges by R84 692, overstatement of property rates by R79 668, overstatement of Trade and other Receivables by R84 692, and the overstatement of Receivables from non-exchange transactions by R79 668.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Prior period errors (continued)

An employee was overpaid for services rendered in prior years. This is being in the process of being recovered from the employee. The recovered monies were however incorrectly recorded as other income, instead of recognising a receivable. This resulted in the understatement of Opening Accumulated Surplus by R36 965, overstatement of Other income by R6 000, and understatement of Other Receivables from Non-exchange transactions by R30 965.

Accumulated amortisation on intangible assets amounting to R360 was incorrectly recorded in the accumulated surplus account in the prior year. This resulted in the overstatement of Intangible assets by R360 and the understatement of Accumulated surplus by R360.

Management revised the calculation of the non-current portion of long term debtors with arrangement in place. The revised calculation is based on the assumption that consumers who default on their arrangements, are classified as current receivables. In addition, the provision for impairment of long term debtors was incorrectly classified under current receivables. This resulted in the overstatement of long receivables by R3 420 337, the understatement of receivables from exchange transactions by R2 740 994 and the understatement of receivables from non-exchange transactions by R679 343.

The Provision for the Rehabilitation of landfill sites was restated due to inaccurate calculations made by the previous engineer. Professional engineers were appointed to value the provision and determined that the incorrect sizes were used in the previous estimates. This resulted in the overstatement of Opening Accumulated surplus by 7 669 918, understatement of the Provision for the Rehabilitation of landfill sites by R6 755 062, understatement of Capitalised restoration cost by R90 366, overstatement of Depreciation expense by R534 995, overstatement of impairment expense by R11 474, and overstatement of Finance costs by R458 752..

The fixed asset register was recompiled, due to the following reasons:

- Depreciation and accumulated depreciation was incorrectly calculated.
- Retentions on infrastructure projects were not recorded.
- Buildings were included on the fixed asset register that are not registered in the municipality's name.
- Capital assets were erroneously expensed.
- Sold assets were erroneously included on the fixed asset register.

Above corrections resulted in the overstatement of other income by R4 550, overstatement of depreciation expense by R3 363 245, overstatement of loss on disposal of assets by R394, overstatement of accumulated surplus by R90 709 274, understatement of payables from exchange transactions by R434 044, overstatement of Property, plant and equipment by R86 969 445, and the understatement of VAT receivable by R53 304.

It was discovered that interest on audit fees was incorrectly classified as general expenses instead of finance costs, resulting in the overstatement of general expenses by R178 732 and the understatement of finance costs by R178 732.

Included in the debtors gross balance are old balances amounting to R5 989 973, which were removed from the debtors system. These balances should have been impaired in 2007 already, resulting in the overstatement of Receivables from non-exchange transactions by R1 069 522, Receivables from exchange transactions by R4 920 451 and the overstatement of Accumulated surplus by R5 989 973.

The provision for debt impairment was revisited and determined that R235 332 was incorrectly recorded as Receivables from exchange transactions, instead of Receivables from non-exchange transactions. This resulted in the understatement of Receivables from exchange transactions and the overstatement of Receivables from non-exchange transactions by R235 332.

The provision for leave was incorrectly classified as Payables from exchange transactions instead of provisions. This has been corrected resulting in a decrease in Payables from exchange transactions by R814 727 and an increase in current provisions by R814 727.

Operating grant expenditure was re-allocated according to their function. This resulted in an increase in Property, plant and equipment by R28 650, a decrease in other income by R52 000, an increase in general expenses by R1 308 730, a decrease in operating grant expenditure by R3 109 282, decrease in repairs and maintenance by R379 381 and the increase in employee related costs by R2 099 285.

The correction of the errors results in adjustments as follows:

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Prior period errors (continued)

#### Statement of financial position

Capitilised restoration cost	-	90 366
Cash and cash equivalents	-	(5 144)
Consumer deposits	-	3 852
Intangible assets	-	360
Long term receivables	-	(3 420 337)
Opening Accumulated Surplus or Deficit	-	(104 332 946)
Payables from exchange transactions (Provision for leave)	-	(814 727)
Payables from exchange transactions (Retentions)	-	434 044
Property, plant and equipment	-	(86 969 445)
Provisions	-	7 569 789
Receivables from exchange transactions	-	(2 028 818)
Receivables from non-exchange transactions	-	(674 131)
VAT Receivable	-	51 687

#### Statement of Financial Performance

Agency services	-	(5 144)
Depreciation and impairment	-	(3 898 240)
Employee related costs	-	2 099 201
Finance costs	-	(280 021)
General expenses	-	1 130 506
Loss on disposal of assets and liabilities	-	(394)
Operating grant expenditure	-	(3 109 282)
Other income	-	51 076
Property rates	-	(79 668)
Repairs and maintenance	-	(379 383)
Service charges	-	(88 544)

### 39. Comparative figures

Certain comparative figures have been reclassified.

The reason for the restatement are because management is of the opinion that the reclassifications present a fairer representation of the financial position of the municipality.

The effects of the reclassification are as follows:

#### Statement of financial position - extract

	<b>Reclassificati on</b>
Payables from exchange transactions	1 309 688
Employee benefits	(2 822 688)
Provisions	1 513 000
Other financial liabilities	(197 589)
Finance lease liability	197 589
Trade Receivables from exchange transactions	(224 559)
Other receivables from exchange transactions	224 559
<b>Total</b>	<b>-</b>



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Annual Financial Statements for the year ended 30 June 2016

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### 39. Comparative figures (continued)

#### Statement of financial performance - extract

	<b>Reclassificati on</b>
Government grants and subsidies	(7 031)
Other income	7 031
<b>Total</b>	<b>-</b>

### 40. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### Liquidity risk

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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

<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>
Other financial liabilities	300 915	300 915	902 746	1 354 120
Finance lease obligation	193 722	108 480	38 210	-
Payables from exchange transactions	9 420 581	-	-	-
Consumer deposits	167 508	-	-	-

  

<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>
Other financial liabilities	300 915	300 915	902 746	1 655 035
Finance lease obligation	157 702	85 242	-	-
Payables from exchange transactions	8 397 475	-	-	-
Consumer deposits	171 952	-	-	-

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 40. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial instrument	2016	2015
Cash and cash equivalents	6 503 433	2 913 329
Receivables from exchange transactions	3 164 515	2 922 396
Receivables from non-exchange transactions	587 616	546 657
Other receivables	221 263	224 599

The municipality has not pledged any of the above assets as securities for any liabilities during the year or the previous year.

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

#### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2016, if interest rates on Rand-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax surplus for the year would have been R 27 514 (2015: R 28 243) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R 27 514 (2015: R 28 243) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets..

### 41. Going concern

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 ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding from National Treasury for the on-going operations for the municipality. The Municipality is aware that steps such as effective cash management procedures and effective debt collection procedures must be implemented to ensure its ability to meet its obligations and to increase its cash flow.

### 42. Events after the reporting date

No events after the reporting date occurred that requires disclosure.

### 43. Fruitless and wasteful expenditure

Opening balance	1 638 328	1 319 507
Fruitless and wasteful expenditure - Current year	396 722	350 937
	<b>2 035 050</b>	<b>1 670 444</b>

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### 43. Fruitless and wasteful expenditure (continued)

The fruitless and wasteful opening balances were restated as the municipality examined the entire population of the previous 2 financial years.

All fruitless and wasteful expenditure incurred, are as a result of Interest and penalties on late payments to suppliers. No disciplinary actions were taken against officials responsible.

### 44. Irregular expenditure

Opening balance	23 382 945	11 457 901
Add: Irregular Expenditure - current year	3 722 458	11 925 044
	<b>27 105 403</b>	<b>23 382 945</b>

#### Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Procurement processes not followed	None	10 207
Awards to suppliers not on the municipality's approved database	None	108 619
Quotations not evaluated in accordance with Section 2 (1) (a) of PPPF Act.	None	1 654 937
Tender procedures not followed	None	1 948 695
		<b>3 722 458</b>

Management examined the entire population of the 2013-14 as well as the 2014-15 financial years to determine the full extent of the irregular expenditure. Consequently the opening balance of irregular expenditure was restated as follows:

Closing balance	Balance previously reported	Additional irregular identified	Restated balance
2013-14	-	11 457 901	11 457 901
2014-15	12 178 755	11 204 190	23 382 945
	<b>12 178 755</b>	<b>22 662 091</b>	<b>34 840 846</b>

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

#### Contributions to organised local government

Opening balance	1 719 783	916 353
Current year subscription / fee	600 000	1 010 000
Amount paid - current year	(510 000)	(206 570)
	<b>1 809 783</b>	<b>1 719 783</b>

# Karoo Hoogland Local Municipality

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## Notes to the Annual Financial Statements

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### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Distribution losses

##### Electricity distribution losses:

###### 2016:

- Units purchased (Kwh)	6 425 565
- Units lost during distribution (Kwh)	1 077 219
- Percentage lost during distribution	16.76%

###### 2015:

- Units purchased (Kwh)	5 766 695
- Units lost during distribution (Kwh)	602 451
- Percentage lost during distribution	10.45%

##### Water distribution losses:

###### 2016:

- Kilo litres raw water input	302 418
- Kilo litres lost during distribution	24 889
- Percentage lost during distribution	8.23%

###### 2015:

- Kilo litres raw water input	331 112
- Kilo litres lost during distribution	30 032
- Percentage lost during distribution	9.07%

#### Audit fees

Opening balance	4 351 952	696 306
Current year subscription / fee	1 934 591	4 549 088
Value added tax (VAT)	270 843	636 872
Amount paid - current year	(1 754 002)	(1 530 314)
	<b>4 803 384</b>	<b>4 351 952</b>

#### PAYE and UIF

Current year subscription / fee	2 892 470	3 243 226
Amount paid - current year	(2 892 470)	(3 243 226)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	2 089 441	4 297 493
Amount paid - current year	(2 089 441)	(4 297 493)
	-	-

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

VAT receivable	354 318	336 053
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VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

No councillors had arrear accounts at 30 June 2016. The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
K Koopman	-	18 289	18 289

During the year the following Councillors' had arrear accounts outstanding for more than 90 days:

30 June 2015	Outstanding amount	Ageing (in days)
K Koopman	18 289	90

### 46. 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 annual financial statements.

#### Reason for deviation

Sole suppliers	1 250 784	1 290 219
Emergency	61 919	53 323
Impracticable	1 940 124	94 157
	<b>3 252 827</b>	<b>1 437 699</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Cash generated from operations

Surplus (deficit)	2 907 303	(376 067)
<b>Adjustments for:</b>		
Depreciation and amortisation	7 096 624	7 370 962
Loss on sale of assets and liabilities	1 809	1 443 379
Landfill Sites Rehabilitation Expense	722 348	-
Finance costs	872 011	1 379 826
Impairment deficit	20 908	-
Debt impairment	2 417 304	1 531 993
Movements in retirement benefit assets and liabilities	(30 331)	242 000
Movements in provisions	1 066 466	983 275
Actuarial gain	(266 717)	(702)
Reversal of impairments	-	(41 612)
<b>Changes in working capital:</b>		
Inventories	(6 655)	13 990
Other receivables from exchange transactions	3 336	(224 599)
Consumer debtors	(2 555 337)	(2 171 334)
Other receivables from non-exchange transactions	(376 123)	(45 881)
Payables from exchange transactions	169 519	1 521 721
VAT	(18 265)	(267 316)
Unspent conditional grants and receipts	(477 971)	(159 725)
Consumer deposits	(4 444)	(112 623)
	<b>11 541 785</b>	<b>11 087 287</b>

### 48. Unauthorised expenditure

Opening balance	75 669 965	65 070 196
Unauthorised expenditure current year - operating	9 457 593	10 599 769
	<b>85 127 558</b>	<b>75 669 965</b>

No disciplinary steps were taken during the year as a consequence of above expenditure.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Budget differences

#### Material differences between budget and actual amounts

1. Rental of facilities and equipment: The Communage rental income was higher than anticipated due to not all contacts was included in the calculation for the budgeted amount.
2. Interest received - trading: More interest levied as anticipated.
3. Agency services: More commission received as anticipated due to more licences/permits and registrations of motor vehicles issued on behalf of the Department of Transport.
4. Other income: The Department of Justice paid R1,3 million to the municipality for the upgrading of the electrical supply to the Magistrates court.
5. Interest received - investment: Increase in bank balances due to better resource management, resulting in more interest received.
6. Property rates: The Municipality did not budget accurate for the exemptions and additional reductions and rebates on Property rates.
7. Government grants and subsidies: An Amount of R 3 003 000 was held back due to lack of expenditure. The additional R3 Million as per adjustment budget from Provincial Government did not realise.
8. Employee cost: The CFO was paid from the FMG and not from own funds as originally budgeted.
9. Depreciation and amortisation: The Municipality cannot budget for depreciation according to the Asset register as it will incur a deficit and will significantly influence the operations of the Municipality.
10. Finance costs: Municipality did not budget for lease interest under Finance cost but as general expenses.
11. Contracted services: Monies saved on the appointment of consultants.
12. General expenses: Auditors remuneration was significantly less than the prior year.

#### Differences between budget and actual amounts basis of preparation and presentation

The amounts in the annual financial statements were reclassified by functional classification to be on the same basis as the final approved budget. The amounts of these adjustments are identified in the following table.

- Capital grant expenditure of R6 548 696 was reclassified as expenditure to be on the same basis as the budget.

- The following expenditure items were not budgeted for and therefore excluded from actual expenditure to be on the same basis as the budget:

<b>Expenditure</b>	<b>Actual</b>
General expenses	(722 348)
Impairment loss	(20 908)
Repairs and maintenance	(324 492)
Loss on disposal of PPE	(1 809)
	<b>(1 069 557)</b>

- The following revenue items were not budgeted for and therefore excluded from actual revenue to be on the same basis as the budget:

<b>Revenue</b>	<b>Actual</b>
Actuarial gains	266 717
Public contributions and donations	540
	<b>267 257</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand

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### 49. Budget differences (continued)

#### Changes from the approved budget to the final budget

1. The salary expense of the Finance Department were decreased with R 100 000 from R 5.1 Mil to R 5 Mil.
2. The Remuneration of Councillors were increased with R 100 000 from R 2 085 000 to R 2 185 000 in the Council General Department
3. The Capital Income Budget was increased with R 3 000 000 from R 8 005 000 to R 11 005 000 due to Funds that were made available by the Provincial Government. It however did not realise.
4. The Capital Expenditure Budget was increased with R 3 000 000 from R 8 005 000 to R 11 005 000 to expend the amount of additional funding by Provincial Government. It however did not realise.



## Appendix A

June 2016

### Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016
		Rand	Rand	Rand	Rand
<b>Development Bank of South Africa</b>					
ANNUITY LOAN	102367/1 31 December 2026	2 626 694	-	176 119	2 450 575
		<b>2 626 694</b>	<b>-</b>	<b>176 119</b>	<b>2 450 575</b>
<b>Total external loans</b>					
Development Bank of South Africa		2 626 694	-	176 119	2 450 575
		<b>2 626 694</b>	<b>-</b>	<b>176 119</b>	<b>2 450 575</b>

## **Appendix B**

June 2016

### **Analysis of property, plant and equipment as at 30 June 2016**

<b>Cost/Revaluation</b>	<b>Accumulated depreciation</b>
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**Appendix C**  
June 2016

**Segmental analysis of property, plant and equipment as at 30 June 2010**  
**Cost/Revaluation** **Accumulated Depreciation**

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-

**Appendix F**  
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**  
 June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Mar	Jun	Sep	Dec	Mar	Mar	Jun	Sep	Dec	Mar	Mar	Jun	Sep	Dec	Mar			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.