



Karoo Hoogland Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2017  
Published 31 August 2017

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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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 2017

## 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 2018 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 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 3.

The annual financial statements set out on pages 3 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

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**Bradley Jerome Swartland**  
**Acting Municipal Manager**

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2017.

### 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	Changes
Bradley Jerome Swartland	Appointed 25 July 2017
Gustav Von Möllendorf	Resigned 30 June 2017

### 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 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
Current Assets			
Inventories	3	275 010	14 555
Other receivables from exchange transactions	4	217 686	221 263
Receivables from non-exchange transactions	5	869 104	585 176
VAT receivable	6	991 177	356 614
Receivables from exchange transactions	7	2 450 513	3 150 153
Unpaid conditional grants and receipts	27	-	70 209
Cash and cash equivalents	8	3 520 298	6 503 433
		<b>8 323 788</b>	<b>10 901 403</b>
Non-Current Assets			
Investment property	9	29 023 463	29 297 118
Property, plant and equipment	10	176 669 515	173 637 066
Intangible assets	11	3 074 868	738 747
Long term receivables	12	36 445	48 548
Capitalised restoration cost	13	10 185 511	26 983
		<b>218 989 802</b>	<b>203 748 462</b>
<b>Total Assets</b>		<b>227 313 590</b>	<b>214 649 865</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	14	240 963	182 107
Finance lease obligation	15	205 158	164 768
Payables from exchange transactions	16	8 826 436	10 461 209
Consumer deposits	17	185 996	167 508
Employee benefit obligation	18	267 492	241 152
Unspent conditional grants and receipts	19	390 809	293 206
Provisions	20	130 455	29 625 784
		<b>10 247 309</b>	<b>41 135 734</b>
Non-Current Liabilities			
Other financial liabilities	14	2 105 939	2 268 468
Finance lease obligation	15	268 351	136 095
Employee benefit obligation	18	3 005 318	2 793 517
Provisions	20	51 081 420	9 239 101
		<b>56 461 028</b>	<b>14 437 181</b>
<b>Total Liabilities</b>		<b>66 708 337</b>	<b>55 572 915</b>
<b>Net Assets</b>		<b>160 605 253</b>	<b>159 076 950</b>
Accumulated surplus		160 605 253	159 076 950

\* See Note 38

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	16 332 728	15 175 628
Rental of facilities and equipment	22	798 236	767 027
Interest received (trading)		1 253 661	904 137
Agency services		315 249	276 318
Discount received	23	1 274 484	-
Other income	24	283 375	1 782 873
Interest received - investment	25	347 941	251 620
<b>Total revenue from exchange transactions</b>		<b>20 605 674</b>	<b>19 157 603</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	5 488 346	5 056 063
Property rates - interest received	26	326 286	269 470
<b>Transfer revenue</b>			
Government grants & subsidies	27	33 172 918	27 327 357
Public contributions and donations		856	540
Fines, Penalties and Forfeits		3 779	6 312
<b>Total revenue from non-exchange transactions</b>		<b>38 992 185</b>	<b>32 659 742</b>
<b>Total revenue</b>		<b>59 597 859</b>	<b>51 817 345</b>
<b>Expenditure</b>			
Employee related costs	28	(20 120 087)	(18 013 236)
Remuneration of councillors	29	(2 128 559)	(2 139 474)
Depreciation and amortisation		(7 047 693)	(7 237 768)
Impairment loss		(28 347)	(20 908)
Finance costs	30	(1 282 049)	(1 447 028)
Debt Impairment	31	(4 544 682)	(2 417 304)
Repairs and maintenance		(1 779 061)	(1 508 158)
Bulk purchases	32	(8 181 846)	(7 886 404)
General Expenses	33	(12 813 966)	(8 599 313)
<b>Total expenditure</b>		<b>(57 926 290)</b>	<b>(49 269 593)</b>
<b>Operating surplus</b>		<b>1 671 569</b>	<b>2 547 752</b>
Loss on disposal of assets and liabilities		-	(1 809)
Loss on derecognition of asset		(281 879)	-
Actuarial gains/losses	18&20	138 611	266 717
		<b>(143 268)</b>	<b>264 908</b>
<b>Surplus for the year</b>		<b>1 528 301</b>	<b>2 812 660</b>

\* See Note 38

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	173 077 658	173 077 658
Adjustments		
Correction of errors	(16 813 368)	(16 813 368)
<b>Balance at 1 July 2015</b>	<b>156 264 290</b>	<b>156 264 290</b>
Changes in net assets		
Surplus for the year	2 812 660	2 812 660
Total changes	2 812 660	2 812 660
<b>Restated* Balance at 01 July 2016</b>	<b>159 076 952</b>	<b>159 076 952</b>
Changes in net assets		
Surplus for the year	1 528 301	1 528 301
Total changes	1 528 301	1 528 301
<b>Balance at 30 June 2017</b>	<b>160 605 253</b>	<b>160 605 253</b>
Note(s)		

\* See Note 38

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Rate payers and other		19 830 368	20 117 010
Grants		33 340 730	27 735 659
Finance income		347 941	251 620
Interest earned - outstanding debtors		1 253 661	909 007
Property rates - Interest received		326 286	269 470
Taxes		6 815	-
		<u>55 105 801</u>	<u>49 282 766</u>
<b>Payments</b>			
Employee costs		(21 447 604)	(20 152 711)
Suppliers		(23 248 306)	(16 994 988)
Finance costs		(213 208)	(575 017)
Taxes		-	(18 265)
		<u>(44 909 118)</u>	<u>(37 740 981)</u>
<b>Net cash flows from operating activities</b>	46	<b><u>10 196 683</u></b>	<b><u>11 541 785</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(9 599 699)	(7 421 781)
Purchase of other intangible assets	11	(2 478 072)	(468 244)
Proceeds (losses) from sale of long term receivables		(589 026)	11 780
<b>Net cash flows from investing activities</b>		<b><u>(12 666 797)</u></b>	<b><u>(7 878 245)</u></b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(300 549)	(176 119)
Decrease in consumer deposits		18 488	(592)
Finance lease payments		(230 961)	103 275
<b>Net cash flows from financing activities</b>		<b><u>(513 022)</u></b>	<b><u>(73 436)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2 983 136)</b>	<b>3 590 104</b>
Cash and cash equivalents at the beginning of the year		6 503 433	2 913 329
<b>Cash and cash equivalents at the end of the year</b>	8	<b><u>3 520 297</u></b>	<b><u>6 503 433</u></b>

\* See Note 38



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## 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	21 340 100	2 000 000	<b>23 340 100</b>	16 332 728	<b>(7 007 372)</b>	Note 48
Rental of facilities and equipment	506 900	-	<b>506 900</b>	798 236	<b>291 336</b>	Note 48
Interest received (trading)	855 800	-	<b>855 800</b>	1 253 661	<b>397 861</b>	Note 48
Agency services	261 400	-	<b>261 400</b>	315 249	<b>53 849</b>	Note 48
Discount received	-	-	-	1 274 484	<b>1 274 484</b>	Note 48
Other income	523 400	-	<b>523 400</b>	283 375	<b>(240 025)</b>	Note 48
Interest received - investment	231 000	-	<b>231 000</b>	347 941	<b>116 941</b>	Note 48
<b>Total revenue from exchange transactions</b>	<b>23 718 600</b>	<b>2 000 000</b>	<b>25 718 600</b>	<b>20 605 674</b>	<b>(5 112 926)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	6 302 000	-	<b>6 302 000</b>	5 488 346	<b>(813 654)</b>	Note 48
Property rates - penalties imposed	249 200	-	<b>249 200</b>	326 286	<b>77 086</b>	Note 48
<b>Transfer revenue</b>						
Government grants & subsidies	30 590 000	(540 000)	<b>30 050 000</b>	33 172 918	<b>3 122 918</b>	Note 48
Licences and permits	23 900	-	<b>23 900</b>	-	<b>(23 900)</b>	Note 48
Public contributions and donations	-	-	-	856	<b>856</b>	Note 48
Fines, Penalties and Forfeits	4 800	-	<b>4 800</b>	3 779	<b>(1 021)</b>	Note 48
<b>Total revenue from non-exchange transactions</b>	<b>37 169 900</b>	<b>(540 000)</b>	<b>36 629 900</b>	<b>38 992 185</b>	<b>2 362 285</b>	
<b>Total revenue</b>	<b>60 888 500</b>	<b>1 460 000</b>	<b>62 348 500</b>	<b>59 597 859</b>	<b>(2 750 641)</b>	
<b>Expenditure</b>						
Personnel	(18 715 600)	-	<b>(18 715 600)</b>	(20 120 087)	<b>(1 404 487)</b>	Note 48
Remuneration of councillors	(2 400 000)	-	<b>(2 400 000)</b>	(2 128 559)	<b>271 441</b>	Note 48
Depreciation and amortisation	(400 000)	-	<b>(400 000)</b>	(7 047 693)	<b>(6 647 693)</b>	Note 48
Impairment loss/ Reversal of impairments	-	-	-	(28 347)	<b>(28 347)</b>	Note 48
Finance costs	(776 000)	-	<b>(776 000)</b>	(1 282 049)	<b>(506 049)</b>	Note 48
Debt impairment	(2 514 200)	-	<b>(2 514 200)</b>	(4 544 682)	<b>(2 030 482)</b>	Note 48
Repairs and maintenance	-	-	-	(1 779 061)	<b>(1 779 061)</b>	Note 48
Bulk purchases	(8 405 000)	-	<b>(8 405 000)</b>	(8 181 846)	<b>223 154</b>	Note 48
Contracted Services	(1 184 800)	300 000	<b>(884 800)</b>	-	<b>884 800</b>	Note 48
General Expenses	(17 239 800)	(1 760 000)	<b>(18 999 800)</b>	(12 813 966)	<b>6 185 834</b>	Note 48
<b>Total expenditure</b>	<b>(51 635 400)</b>	<b>(1 460 000)</b>	<b>(53 095 400)</b>	<b>(57 926 290)</b>	<b>(4 830 890)</b>	
<b>Operating surplus</b>	<b>9 253 100</b>	-	<b>9 253 100</b>	<b>1 671 569</b>	<b>(7 581 531)</b>	
Gain on disposal of Property, plant and equipment	150 000	-	<b>150 000</b>	-	<b>(150 000)</b>	Note 48
Loss on derecognition of asset	-	-	-	(281 879)	<b>(281 879)</b>	
Actuarial gains/losses	-	-	-	138 611	<b>138 611</b>	Note 48

# 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>150 000</b>	-	<b>150 000</b>	<b>(143 268)</b>	<b>(293 268)</b>	
<b>Surplus before taxation</b>	<b>9 403 100</b>	-	<b>9 403 100</b>	<b>1 528 301</b>	<b>(7 874 799)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>9 403 100</b>	-	<b>9 403 100</b>	<b>1 528 301</b>	<b>(7 874 799)</b>	

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## 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.

#### 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. 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 2017

## 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 by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30 years

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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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.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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

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
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.

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### 1.6 Intangible assets (continued)

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

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

An intangible asset 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	5 years
Computer software licences	5 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').

# Karoo Hoogland Local Municipality

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### 1.7 Financial instruments (continued)

- 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.

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 unithold 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



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### 1.7 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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## 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.

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:

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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

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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.



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## 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-measures 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 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 2017

## 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

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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 2017

## 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 2017

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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 2017

## 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 2017

## 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 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.

### 1.18 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 2017

## Accounting Policies

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### 1.19 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.

### 1.20 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 01/07/2016 to 30/06/2017.

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.

### 1.21 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 2017

## Accounting Policies

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### 1.21 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.

### 1.22 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 2017

## Notes to the Annual Financial Statements

Figures in Rand

2017

2016

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	The impact of the amendment is not material.
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The impact of the amendment is not material.

#### 2.2 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 2017 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• GRAP 18: Segment Reporting	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
• GRAP 20: Related parties	01 April 2017	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 July 2017	The impact of the amendment is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material.
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	The impact of the amendment is not material.
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>3. Inventories</b>		
Consumable stores	221 735	-
Water	53 275	14 555
	<b>275 010</b>	<b>14 555</b>
<b>Inventory pledged as security</b>		
No inventory was pledged as security for any liabilities during 2017 and 2016.		
<b>4. Other receivables from exchange transactions</b>		
Land sales	217 686	221 263
<b>5. Receivables from non-exchange transactions</b>		
Project Nala	90 532	-
Consumer debtors - Rates	759 607	560 211
Salary overpayments	18 965	24 965
	<b>869 104</b>	<b>585 176</b>
<b>Consumer debtors - Rates Gross Balances</b>		
Current (0 -30 days)	139 278	26 550
31 - 60 days	172 256	103 093
61 - 90 days	143 022	99 424
91 - 120 days	134 835	102 269
121 - 365 days	1 253 878	689 007
> 365 days	2 958 041	3 368 906
	<b>4 801 310</b>	<b>4 389 249</b>
<b>Consumer debtors - Rates Less: Allowance for impairment</b>		
Current (0 -30 days)	86 906	19 705
31 - 60 days	121 549	82 557
61 - 90 days	112 291	81 866
91 - 120 days	110 712	87 482
121 - 365 days	1 234 753	572 820
> 365 days	2 375 494	2 984 608
	<b>4 041 705</b>	<b>3 829 038</b>
<b>Consumer debtors - Rates Net Balances</b>		
Current (0 -30 days)	52 372	6 845
31 - 60 days	50 707	20 536
61 - 90 days	30 731	17 558
91 - 120 days	24 123	14 787
121 - 365 days	19 125	116 187
> 365 days	582 549	384 298
	<b>759 607</b>	<b>560 211</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	869 104	585 176

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 5. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(3 829 038)	(3 493 874)
Provision for impairment	(212 667)	(335 164)
	<b>(4 041 705)</b>	<b>(3 829 038)</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	991 177	356 614
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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 R616 665 (2016: R340 880) on the cash basis. The balance on the accrual basis at 30 June 2017 is R936 047 (2016: R356 614) and this is the net amount receivable after all cash receipts of consumers and cash payments to suppliers.

### 7. Receivables from exchange transactions

#### Gross balances

Electricity	1 442 212	971 370
Water	5 128 405	3 850 520
Sewerage	4 736 848	3 489 929
Refuse	4 906 016	3 766 870
Housing rental	262 830	232 951
Other	5 346 000	6 611 170
	<b>21 822 311</b>	<b>18 922 810</b>

#### Less: Allowance for impairment

Electricity	(520 215)	(252 291)
Water	(4 753 994)	(3 083 219)
Sewerage	(4 458 425)	(2 810 154)
Refuse	(4 721 727)	(3 105 694)
Housing rental	(166 826)	(147 405)
Other	(4 750 611)	(6 373 894)
	<b>(19 371 798)</b>	<b>(15 772 657)</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Net balance</b>		
Electricity	921 997	719 079
Water	374 411	767 301
Sewerage	278 423	679 775
Refuse	184 289	661 176
Housing rental	96 004	85 546
Other	595 389	237 276
	<b>2 450 513</b>	<b>3 150 153</b>
<b>Electricity</b>		
Current (0 -30 days)	450 573	109 979
31 - 60 days	88 115	56 635
61 - 90 days	56 162	30 337
91 - 120 days	64 558	14 245
121 - 365 days	49 729	124 935
> 365 days	212 860	382 948
	<b>921 997</b>	<b>719 079</b>
<b>Water</b>		
Current (0 -30 days)	99 978	41 240
31 - 60 days	27 145	28 530
61 - 90 days	20 108	22 390
91 - 120 days	13 197	21 300
121 - 365 days	8 198	149 193
> 365 days	205 785	504 648
	<b>374 411</b>	<b>767 301</b>
<b>Sewerage</b>		
Current (0 -30 days)	129 250	55 898
31 - 60 days	30 216	28 871
61 - 90 days	14 681	22 235
91 - 120 days	11 008	18 663
121 - 365 days	9 064	136 233
> 365 days	84 204	417 875
	<b>278 423</b>	<b>679 775</b>
<b>Refuse</b>		
Current (0 -30 days)	87 717	25 574
31 - 60 days	15 957	20 818
61 - 90 days	7 771	17 438
91 - 120 days	4 241	15 994
121 - 365 days	3 330	115 797
> 365 days	65 273	465 555
	<b>184 289</b>	<b>661 176</b>
<b>Housing rental</b>		
Current (0 -30 days)	41 484	4 201
31 - 60 days	3 601	8 517
61 - 90 days	2 821	3 104
91 - 120 days	2 215	3 411
121 - 365 days	1 813	36 015
> 365 days	44 070	30 298
	<b>96 004</b>	<b>85 546</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Other</b>		
Current (0 -30 days)	67 539	14 208
31 - 60 days	20 410	11 810
61 - 90 days	4 045	5 404
91 - 120 days	560	4 303
121 - 365 days	500	25 969
> 365 days	502 335	175 582
	<b>595 389</b>	<b>237 276</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	869 306	316 408
31 - 60 days	761 385	278 037
61 - 90 days	531 421	271 882
91 - 120 days	514 219	263 051
121 - 365 days	3 562 947	1 995 018
> 365 days	12 694 041	12 689 672
	<b>18 933 319</b>	<b>15 814 068</b>
Less: Allowance for impairment	(18 168 281)	(15 285 111)
	<b>765 038</b>	<b>528 957</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	422 705	113 275
31 - 60 days	125 276	40 800
61 - 90 days	68 672	20 898
91 - 120 days	68 541	20 399
121 - 365 days	376 278	223 659
> 365 days	844 665	653 521
	<b>1 906 137</b>	<b>1 072 552</b>
Less: Allowance for impairment	(1 203 516)	(497 059)
	<b>702 621</b>	<b>575 493</b>
<b>National and provincial government</b>		
Current (0 -30 days)	204 178	85 097
31 - 60 days	80 821	97 635
61 - 90 days	76 569	68 904
91 - 120 days	76 076	51 589
121 - 365 days	293 699	368 308
> 365 days	251 511	1 364 657
	<b>982 854</b>	<b>2 036 190</b>
<b>Total</b>		
Current (0 -30 days)	1 496 190	514 780
31 - 60 days	967 482	416 472
61 - 90 days	676 662	361 684
91 - 120 days	658 835	335 039
121 - 365 days	4 232 924	2 586 985
> 365 days	13 790 217	14 707 850
	<b>21 822 310</b>	<b>18 922 810</b>
Less: Allowance for impairment	(19 371 797)	(15 772 657)
	<b>2 450 513</b>	<b>3 150 153</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(619 649)	(259 670)
31 - 60 days	(782 039)	(258 932)
61 - 90 days	(571 072)	(258 409)
91 - 120 days	(563 057)	(255 025)
121 - 365 days	(532 921)	(253 719)
> 365 days	(16 303 060)	(14 486 902)
	<b>(19 371 798)</b>	<b>(15 772 657)</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>7. Receivables from exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(15 772 657)	(13 694 771)
Contributions to allowance	(3 599 141)	(2 077 886)
	<b>(19 371 798)</b>	<b>(15 772 657)</b>
<b>Consumer debtors pledged as security</b>		
No receivables from exchange transactions were pledged as security for any liabilities.		
<b>Fair value of consumer debtors</b>		
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	2 450 513	3 150 153
<b>8. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	2 700	2 700
Bank balances	3 517 598	6 500 733
	<b>3 520 298</b>	<b>6 503 433</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.		
<b>Credit quality of cash at bank and short term deposits, excluding cash on hand</b>		
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:		
<b>Credit rating</b>		
AA	3 517 598	6 500 733



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

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

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
Standard Bank Account number 083212442 (Primary bank account)	1 274 984	4 987 672	1 970 120	1 274 984	4 987 672	1 970 120
ABSA Bank Account number 2490000065 (Secondary Bank Account)	1 214 904	942 214	348 502	1 214 904	942 214	348 502
Standard Bank Call Account - Account number 2886 4192 2002	13	2 871	2 871	13	2 871	2 871
ABSA Bank Call Account - Account number 4054352064	435 545	416 073	400 397	435 545	416 073	400 397
ABSA Bank Call Account - Account number 92 9194 4935	18 050	18 000	18 000	18 050	21 460	18 000
Standard Bank E-natis - Account number 083 116 192	497 064	97 744	149 739	497 064	97 744	149 739
ABSA Bank Call Account - Account number 92 9194 4935	-	1 003	1 000	-	1 003	1 000
Standard Bank FMG Call Account - Account number 28 8644 204	1 258	2 203	1 000	1 258	2 203	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	11 012	5 883	1 000	11 012	5 883	1 000
Standard Bank Library Call Account - Account number 28 8644 247	4 478	5 066	1 000	4 478	5 066	1 000
Standard Bank EPWP Account Number 28 8644 239	1 000	2 542	1 000	1 000	2 542	1 000
Fuel deposit account	15 000	15 000	15 000	15 000	15 000	15 000
ABSA INEG - 928 398 9339	1 000	-	-	1 000	-	-
Standard bank fixed deposit Eskom - Account number 2886 4192 2006	3 460	-	-	3 460	-	-
Standard bank fixed deposit Eskom - Account number 2886 4192 2005	34 750	-	-	34 750	-	-
Standard Bank money market - Account number 2886 4192 2003	4 080	-	-	4 080	-	-
<b>Total</b>	<b>3 517 598</b>	<b>6 497 271</b>	<b>2 910 629</b>	<b>3 517 598</b>	<b>6 500 731</b>	<b>2 910 629</b>

### 9. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31 760 008	(2 736 545)	29 023 463	31 760 008	(2 462 890)	29 297 118

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 9. Investment property (continued)

#### Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	29 297 118	(273 655)	29 023 463

#### Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	29 570 772	(273 654)	29 297 118

#### 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.

#### Restatement of corresponding figures

The opening balance of Investment property was restated as a result of an error discovered during the current financial year. For more information, refer to note 38.

### 10. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	12 609 424	(2 430 206)	10 179 218	12 609 424	(2 185 646)	10 423 778
Community	3 137 143	(620 124)	2 517 019	3 137 143	(555 936)	2 581 207
Furniture and fixtures	1 433 959	(587 365)	846 594	1 422 626	(520 109)	902 517
IT equipment	1 547 423	(317 698)	1 229 725	1 543 164	(366 181)	1 176 983
Infrastructure	177 698 765	(49 875 414)	127 823 351	176 902 177	(44 067 689)	132 834 488
Land	16 023 400	-	16 023 400	16 073 400	-	16 073 400
Leased Assets	646 605	(200 453)	446 152	490 270	(198 418)	291 852
Motor vehicles	2 920 319	(657 430)	2 262 889	2 163 798	(562 609)	1 601 189
Office equipment	254 552	(77 985)	176 567	151 833	(63 458)	88 375
Other property, plant and equipment	46 476	(19 881)	26 595	39 130	(17 674)	21 456
Plant and machinery	433 214	(255 091)	178 123	415 680	(234 627)	181 053
Tools and loose gear	98 980	(38 805)	60 175	98 980	(32 697)	66 283
Work in progress	14 899 707	-	14 899 707	7 394 485	-	7 394 485
<b>Total</b>	<b>231 749 967</b>	<b>(55 080 452)</b>	<b>176 669 515</b>	<b>222 442 110</b>	<b>(48 805 044)</b>	<b>173 637 066</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

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

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings	10 423 778	-	-	(244 560)	-	10 179 218
Community	2 581 207	-	-	(64 188)	-	2 517 019
Furniture and fixtures	902 517	12 149	(397)	(67 675)	-	846 594
IT equipment	1 176 983	398 796	(229 821)	(116 233)	-	1 229 725
Infrastructure	132 834 488	796 588	-	(5 779 378)	(28 347)	127 823 351
Land	16 073 400	-	(50 000)	-	-	16 023 400
Leased assets	291 852	366 069	-	(211 769)	-	446 152
Motor vehicles	1 601 189	756 521	-	(94 821)	-	2 262 889
Office equipment	88 375	102 719	-	(14 527)	-	176 567
Other property, plant and equipment	21 456	10 170	(1 661)	(3 370)	-	26 595
Plant and machinery	181 053	17 535	-	(20 465)	-	178 123
Tools and loose gear	66 283	-	-	(6 108)	-	60 175
Work in progress	7 394 485	7 505 222	-	-	-	14 899 707
	<b>173 637 066</b>	<b>9 965 769</b>	<b>(281 879)</b>	<b>(6 623 094)</b>	<b>(28 347)</b>	<b>176 669 515</b>

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

	Opening balance	Additions	Depreciation	Impairment loss	Total
Buildings	10 668 338	-	(244 560)	-	10 423 778
Community	2 645 395	-	(64 188)	-	2 581 207
Furniture and fixtures	814 875	146 184	(58 542)	-	902 517
IT equipment	1 252 072	48 037	(123 126)	-	1 176 983
Infrastructure	136 442 090	2 292 069	(5 878 763)	(20 908)	132 834 488
Land	16 073 400	-	-	-	16 073 400
Leased assets	190 008	280 536	(178 692)	-	291 852
Motor vehicles	1 315 757	355 000	(69 568)	-	1 601 189
Office equipment	65 293	30 083	(7 001)	-	88 375
Other property, plant and equipment	23 664	-	(2 208)	-	21 456
Plant and machinery	201 270	-	(20 217)	-	181 053
Tools and loose gear	67 067	5 875	(6 659)	-	66 283
Work in progress	3 137 858	4 256 627	-	-	7 394 485
	<b>172 897 087</b>	<b>7 414 411</b>	<b>(6 653 524)</b>	<b>(20 908)</b>	<b>173 637 066</b>

#### Pledged as security

No items of Property, plant and equipment are pledged as securities for any liabilities, with the exception of the following:

Leased assets	446 152	291 852
Leased assets are pledged as security for finance lease liabilities. For terms and conditions refer to note 15.		
Seбата Connect PBX	93 383	-
The Seбата Connect PBX is pledged as security for the loan with Seбата. For terms and conditions refer to note 14.		

#### Work in progress where construction has been halted

During the 2017 financial year, construction on the project Williston Ground Water was halted due to the municipality not having sufficient funding to continue the project. The total value of the project amounts to R3 091 728.

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.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

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

#### Restatement of corresponding figures

The opening balance of Investment property was restated as a result of an error discovered during the current financial year. For more information, refer to note 38.

### 11. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3 763 877	(689 009)	3 074 868	1 286 244	(547 497)	738 747

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	738 747	2 478 072	(141 951)	3 074 868

#### Reconciliation of intangible assets - 2016

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

#### 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

### 12. Long term receivables

Long term receivables	930 471	341 445
Provision for impairment	(894 026)	(292 897)
	<b>36 445</b>	<b>48 548</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.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand			2017	2016	
<b>13. Captilised restoration cost</b>					
<b>2017</b>	Net Carrying amount at 1 July	Additions	Depreciation for the year	Impairment / Reversal of Impairment	Net Carrying amount at 30 June
Captilised restoration cost	26 983	10 111 266	(8 994)	56 256	10 185 511
<b>2016</b>	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

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

### Reconciliation of Carrying amount at 30 June

#### Net carrying amount

Cost	19 826 588	9 715 321
Accumulated depreciation	(9 147 495)	(9 138 500)
Accumulated impairment	(493 582)	(549 838)
	<b>10 185 511</b>	<b>26 983</b>

### 14. Other financial liabilities

#### At amortised cost

Development Bank of South Africa 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.	2 268 499	2 450 575
Sebata Connect PBX The loan to Sebata is payable in equal monthly instalments of R4 126. The loan is interest free. The last loan repayment will be on 31 January 2019.	78 403	-
	<b>2 346 902</b>	<b>2 450 575</b>

#### Total other financial liabilities

**2 346 902      2 450 575**

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	2 105 939	2 268 468
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#### Current liabilities

At amortised cost	240 963	182 107
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# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	259 266	193 722
- in second to fifth year inclusive	307 177	146 690
	<u>566 443</u>	<u>340 412</u>
less: future finance charges	(92 934)	(39 549)
<b>Present value of minimum lease payments</b>	<b>473 509</b>	<b>300 863</b>
Non-current liabilities	268 351	136 095
Current liabilities	205 158	164 768
	<u>473 509</u>	<u>300 863</u>

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% (2016: 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	473 509	300 863
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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 39.

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

### 16. Payables from exchange transactions

Trade payables	4 992 290	7 952 542
Payments received in advance	529 513	432 326
Removal of invasive alien vegetation	234	-
Accrued leave pay	1 270 075	892 196
Accrued bonus	586 242	519 876
Deposits received	113 029	113 781
Unidentified deposits	604 687	550 488
Retentions	730 366	-
	<u>8 826 436</u>	<u>10 461 209</u>

### 17. Consumer deposits

Electricity	64 375	65 285
Water	121 621	102 223
	<u>185 996</u>	<u>167 508</u>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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Figures in Rand 2017 2016

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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 2017 and performed by independent professional valuers. The next actuarial valuation is expected to be performed on 30 June 2018.

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

##### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(3 272 810)	(3 034 669)
Non-current liabilities	(3 005 318)	(2 793 517)
Current liabilities	(267 492)	(241 152)
	<b>(3 272 810)</b>	<b>(3 034 669)</b>

##### In-service members:

The average in-service member liability has increased by 11% since the last valuation due to the following factors:

The total liability has increased by 8% (or R 0.238 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;
- an increase in the average past service;
- an increase in the average future employer contribution.

These impacts were partially offset by an increase in the net discount rate.

The total in-service member liability has also increased by 11% due to the above, and because there was no change in the numbers.

##### Continuation members:

The average continuation member liability has increased by 7% due to an increase in the average employer contribution and a decrease in the average age, partially offset by a decrease in the proportion of members with spouses receiving the subsidy and an increase in the net discount rate.

The total continuation member liability has also increased by 7% due to the above, and because there was no change in the number of members.

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

Opening balance	3 034 669	3 065 000
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# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>18. Employee benefit obligations (continued)</b>		
Net expense recognised in the statement of financial performance	238 141	(30 331)
	<b>3 272 810</b>	<b>3 034 669</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	49 725	47 000
Interest cost	269 169	273 000
Actuarial (gains) losses	170 067	(102 262)
Contributions made	(250 820)	(248 069)
	<b>238 141</b>	<b>(30 331)</b>
<b>Calculation of actuarial gains and losses</b>		
Actuarial (gains) losses – Obligation	170 067	(102 262)
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Discount rates used	9.05 %	9.23 %
Health care cost inflation rate	7.35 %	8.10 %
Net effective discount rate	1.59 %	1.04 %

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 government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 9.05% per annum has been used. The corresponding index-linked yield at this term is 2.55%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2017.

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



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 18. Employee benefit obligations (continued)

#### Health Care Cost Inflation Rate:

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 7.35% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.85%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.59% which derives from  $((1+9.05\%)/(1+7.35\%))-1$ .

The expected inflation assumption of 5.85% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (2.55%) and those of fixed interest bonds (9.05%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $((1+9.05\%-0.50\%)/(1+2.55\%))-1$ .

The next contribution increase was assumed to occur with effect from 1 January 2018.

#### Replacement ratio:

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

#### Pre-retirement mortality:

The SA 85-90 ultimate table, adjusted for female lives, was used by the actuaries.

#### Mortality rates:

The PA 90 ultimate table, 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	360 800	284 100

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>18. Employee benefit obligations (continued)</b>		
Effect on defined benefit obligation	3 626 000	2 972 000
<b>19. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	1 000	1 000
Library Development Grant	389 809	292 206
	<b>390 809</b>	<b>293 206</b>

See note 27 for reconciliation of grants from National/Provincial Government.

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

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 20. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Increase in estimate	Change in discount factor	Total
Environmental rehabilitation	37 250 624	1 904 925	-	10 111 267	516 365	49 783 181
Long service award	1 614 261	(171 882)	(140 980)	-	127 295	1 428 694
	<b>38 864 885</b>	<b>1 733 043</b>	<b>(140 980)</b>	<b>10 111 267</b>	<b>643 660</b>	<b>51 211 875</b>

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	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
	<b>37 875 888</b>	<b>865 348</b>	<b>(18 284)</b>	<b>(164 455)</b>	<b>599 011</b>	<b>(292 623)</b>	<b>38 864 885</b>

Non-current liabilities	51 081 420	9 239 101
Current liabilities	130 455	29 625 784
	<b>51 211 875</b>	<b>38 864 885</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 2037	13 987 731	10 676 393
Fraserburg, Estimated decommission date 2019	10 655 237	7 944 083
Sutherland, Estimated decommission date 2037	25 140 213	18 630 148
	<b>49 783 181</b>	<b>37 250 624</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 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 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: 8.45% (2016: 8.73%)
- General Salary Inflation (long-term): 6.27% (2016: 7.70%)
- Net effective discount rate: 2.05% (2016: 0.96%)

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.36% as per the SALGBC Circular No.: 02/2017. The next salary increase was assumed to take place on 1 July 2018.

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

### 21. Service charges

Sale of electricity	8 771 818	8 796 826
Sale of water	2 879 981	2 344 887
Sewerage and sanitation charges	2 634 875	2 310 171
Refuse removal	2 046 054	1 723 744
	<b>16 332 728</b>	<b>15 175 628</b>

### 22. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	798 236	767 027
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### 23. Discount received

Settlement discount received - Auditor General	1 274 484	-
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Karoo Hoogland Local Municipality entered into a settlement agreement with the Auditor General. In accordance with this agreement, interest amounting to R 1 274 484 was written off by the Auditor General during the 2017 financial year due to the municipality's adherence to this agreement.

### 24. Other income

Department of justice electrification programme	-	1 322 491
LG Seta Skills development	34 524	28 671
Sundry income	248 851	431 711
	<b>283 375</b>	<b>1 782 873</b>

### 25. Investment revenue

#### Interest revenue

Bank	347 941	251 620
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# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>26. Property rates</b>		
<b>Rates received</b>		
Residential, commercial property, state and farms	9 173 454	8 526 012
Less: Rebates	(3 685 108)	(3 469 949)
	<u>5 488 346</u>	<u>5 056 063</u>
Property rates - interest received	326 286	269 470
	<u><b>5 814 632</b></u>	<u><b>5 325 533</b></u>
<b>Valuations</b>		
Residential	240 596 200	252 258 000
Commercial	84 455 000	69 167 900
State	40 513 500	40 513 500
Municipal	20 395 000	17 751 100
Small holdings and farms	2 504 656 000	2 652 080 800
Public Service Infrastructure (Zero Rated)	182 740 000	182 741 000
Public Benefit Organisations	4 826 100	4 826 100
Multiple purpose	485 000	485 000
Vacant land	21 576 000	21 633 000
	<u><b>3 100 242 800</b></u>	<u><b>3 241 456 400</b></u>

Valuations on land and buildings are performed every 4 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 R0.011890 (2016: R0.011050) 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 2017 (30 September 2016). Interest at prime plus 1% per annum.

The new general valuation will be implemented on 1 July 2018.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>27. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	16 138 000	15 812 000
Local Government Financial Management Grant	1 825 000	1 800 000
Municipal Systems Improvement Grant	-	930 000
Expanded Public Works Program	1 000 000	1 000 000
Library Development Grant	1 978 396	1 651 900
National Treasury assistance	2 817 313	-
	<b>23 758 709</b>	<b>21 193 900</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	7 744 000	5 541 071
Regional Bulk Infrastructure Grant	70 209	592 386
Integrated National Electrification Programme	1 600 000	-
	<b>9 414 209</b>	<b>6 133 457</b>
	<b>33 172 918</b>	<b>27 327 357</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	17 034 918	11 515 357
Unconditional grants received	16 138 000	15 812 000
	<b>33 172 918</b>	<b>27 327 357</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.		
An amount of R540 000 was withheld during the year due to unspent monies from the previous financial year not being approved by National Treasury.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	1 000	540 071
Current-year receipts	7 744 000	8 005 000
Conditions met - transferred to revenue	(7 744 000)	(5 541 071)
Other	-	(3 003 000)
	<b>1 000</b>	<b>1 000</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.		
During 2016 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	1 825 000	1 800 000
Conditions met - transferred to revenue	(1 825 000)	(1 800 000)

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

	2017	2016
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### 27. Government grants and subsidies (continued)

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

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).

#### Integrated National Electrification Programme

Current-year receipts	1 600 000	-
Conditions met - transferred to revenue	(1 600 000)	-
	-	-

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

The purpose of this grant is to implement the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.

#### Municipal Systems Improvement Grant

Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	-	-

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

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

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

Balance unspent at beginning of year	(70 209)	-
Current-year receipts	70 209	522 177
Conditions met - transferred to revenue	-	(592 386)
	-	(70 209)

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.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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Figures in Rand	2017	2016
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### 27. Government grants and subsidies (continued)

#### Library Development Grant

Balance unspent at beginning of year	292 206	231 106
Current-year receipts	2 076 000	1 713 000
Conditions met - transferred to revenue	(1 978 397)	(1 651 900)
	<b>389 809</b>	<b>292 206</b>

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

The grant is being used to support library services.

#### National Treasury assistance

Current-year receipts	2 817 313	-
Conditions met - transferred to revenue	(2 817 313)	-
	<b>-</b>	<b>-</b>

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

This grant relates to audit fees that were paid by National Treasury on behalf of the municipality.

#### 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 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>28. Employee related costs</b>		
Bargaining council contributions	7 150	7 004
Basic	16 855 008	15 266 384
Bonus	1 213 955	1 042 229
Contributions for UIF, Pensions and Medical Aids	1 045 525	942 562
Leave pay provision charge	409 900	133 094
Long-service awards	136 797	143 000
Overtime payments	217 273	249 739
Post retirement medical aid expenses	49 725	47 800
SDL	180 570	181 424
Travel, motor car, accommodation, subsistence and other allowances	4 184	-
	<b>20 120 087</b>	<b>18 013 236</b>

### Remuneration of the Municipal Manager: GW Von Möllendorf

Annual Remuneration	1 004 750	877 510
Car Allowance	177 309	154 855
	<b>1 182 059</b>	<b>1 032 365</b>

Mr GW Von Möllendorf's services as Municipal Manager were terminated on 30 June 2017.

Mr BJ Swartland was appointed as the Acting Municipal Manager from 25 July 2017.

### Remuneration of the Director Financial Services: SJ Myburgh

Annual Remuneration	754 928	713 360
Car allowance	216 316	-
Cell phone allowance	12 000	-
	<b>983 244</b>	<b>713 360</b>

### Remuneration of the Director Technical: FJ Lötter

Annual Remuneration	577 024	485 908
Annual Bonuses	-	47 954
Cell phone allowance	12 000	12 000
Car allowance	92 738	89 539
Acting allowance	14 245	-
	<b>696 007</b>	<b>635 401</b>

Mr Lotter acted as Municipal Manager during December 2016 and January 2017.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>29. Remuneration of councillors</b>		
Mayor	718 216	730 633
Councillors	1 410 343	1 408 841
	<b>2 128 559</b>	<b>2 139 474</b>
<b>JP Julies - Mayor</b>		
Basic salary	68 983	638 788
Cell phone allowance	7 665	70 977
Motor allowance	2 254	20 868
	<b>78 902</b>	<b>730 633</b>
<b>VC Wentzel - Mayor</b>		
Basic salary	558 600	-
Cell phone allowance	62 067	-
Vehicle allowance	18 648	-
	<b>639 315</b>	<b>-</b>
<b>JJ van der Colff</b>		
Basic salary	192 545	192 545
Cell phone allowance	21 394	20 868
Vehicle allowance	20 868	21 393
	<b>234 807</b>	<b>234 806</b>
<b>MM van Wyk</b>		
Basic salary	20 793	192 545
Cell phone allowance	2 310	20 868
Vehicle allowance	2 254	21 393
	<b>25 357</b>	<b>234 806</b>
<b>E Vermeulen</b>		
Basic salary	20 793	192 545
Cell phone allowance	2 310	20 868
Vehicle allowance	2 254	21 393
	<b>25 357</b>	<b>234 806</b>
<b>G Beukes</b>		
Basic salary	20 793	192 545
Cell phone allowance	2 310	20 868
Vehicle allowance	2 254	21 393
	<b>25 357</b>	<b>234 806</b>
<b>J Davids</b>		
Basic salary	192 545	192 545
Cell phone allowance	21 394	20 868
Vehicle allowance	20 868	21 393
	<b>234 807</b>	<b>234 806</b>
<b>K Koopman</b>		
Basic salary	20 793	192 545
Cell phone allowance	2 310	20 868
Vehicle allowance	2 254	21 393
	<b>25 357</b>	<b>234 806</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>29. Remuneration of councillors (continued)</b>		
<b>A Januarie</b>		
Basic salary	172 060	-
Cell phone allowance	19 118	-
Vehicle allowance	18 648	-
	<b>209 826</b>	<b>-</b>
<b>G Klazen</b>		
Basic salary	172 060	-
Cell phone allowance	19 118	-
Vehicle allowance	18 648	-
	<b>209 826</b>	<b>-</b>
<b>J Jooste</b>		
Basic salary	172 060	-
Cell phone allowance	19 118	-
Vehicle allowance	18 648	-
	<b>209 826</b>	<b>-</b>
<b>JJ Jacobs</b>		
Basic salary	172 060	-
Cell phone allowance	19 118	-
Vehicle allowance	18 648	-
	<b>209 826</b>	<b>-</b>
The municipal elections were held on 3 August 2016.		
As a result the following councillors' services were terminated during the 2016/17 financial year: JP Julies, MM van Wyk, E Vermeulen, G Beukes and K Koopman.		
The following councillors were newly appointed during the 2016/17 financial year: A Januarie, G Klazen, J Jooste, JJ Jacobs and VC Wentzel.		
<b>30. Finance costs</b>		
Actuarial interest	396 464	414 000
Long term borrowings	156 011	179 111
Provision for the rehabilitation of landfill sites	516 365	458 011
Trade and other payables	213 209	395 906
	<b>1 282 049</b>	<b>1 447 028</b>
<b>31. Debt impairment</b>		
Debt impairment	3 782 643	2 417 304
Bad debts written off	762 040	-
	<b>4 544 683</b>	<b>2 417 304</b>
<b>32. Bulk purchases</b>		
Electricity	8 181 846	7 886 404

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>33. General expenses</b>		
Advertising	59 286	43 880
Audit committee fees	6 475	-
Auditors remuneration	2 230 762	1 707 484
Bank charges	241 081	216 296
Cleaning	27 095	29 418
Commission paid	185 896	151 041
Community development and training	8 965	-
Consultant fees	1 688 631	2 444 738
Consumables	1 937 135	11 549
Donations	48 249	111 564
Entertainment	9 858	6 722
Fuel and oil	542 189	465 303
Insurance	263 427	217 048
Internal audit	-	6 080
Library projects	16 226	-
Licence fees	109 389	-
Motor vehicle expenses	-	207
Operating grant expenditure	-	625
Other expenses	170 078	661 696
Postage and courier	3 106	2 771
Printing and stationery	424 772	273 656
Refuse	98 245	95 942
Rehabilitation of landfill sites expense	1 904 925	722 348
Research and development costs	51 144	39 651
Security (Guarding of municipal property)	23 336	-
Software expenses	666 331	256 855
Staff welfare	112 972	134 642
Street lighting	-	161 947
Subscriptions and membership fees	503 373	-
Telephone and fax	161 866	291 609
Title deed search fees	163 616	10 498
Training	98 503	2 500
Transport and freight	1 633	6 474
Travel - local	1 055 402	526 769
	<b>12 813 966</b>	<b>8 599 313</b>

### 34. Financial instruments disclosure

#### Categories of financial instruments

2017

#### Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	217 686	217 686
Receivables from non-exchange transactions	869 104	869 104
Receivables from exchange transactions	2 450 513	2 450 513
Cash and cash equivalents	3 520 298	3 520 298
Long term receivables	36 445	36 445
	<b>7 094 046</b>	<b>7 094 046</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### Financial instruments disclosure (continued)

#### Financial liabilities

	<b>At amortised cost</b>	<b>Total</b>
Other financial liabilities	2 346 902	2 346 902
Finance lease liability	473 509	473 509
Payables from exchange transactions	6 955 593	6 955 593
Consumer deposits	185 996	185 996
	<b>9 962 000</b>	<b>9 962 000</b>

#### 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	585 176	585 176
Receivables from exchange transactions	3 150 153	3 150 153
Cash and cash equivalents	6 503 433	6 503 433
Long term receivables	48 548	48 548
	<b>10 508 573</b>	<b>10 508 573</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
Payables from exchange transactions	9 049 135	9 049 135
Consumer deposits	167 508	167 508
	<b>11 968 081</b>	<b>11 968 081</b>

### 35. Commitments

#### Authorised capital expenditure

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

• Property, plant and equipment	29 631 200	16 358 897
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##### Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	30 629 918	32 714 725
---------------------------------	------------	------------

#### Total capital commitments

Already contracted for but not provided for	29 631 200	16 358 897
Not yet contracted for and authorised by accounting officer	30 629 918	32 714 725
	<b>60 261 118</b>	<b>49 073 622</b>

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources and government grants and subsidies.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 36. Contingencies

#### 2017:

##### SAMWU OBO Albert van Wyk vs KHM

Applicant is claiming unfair dismissal from the municipality. Costs will be determined by the court. The possible obligation is estimated as R45 000.

##### Duneco CC

Dispute regarding services rendered to the municipality. The estimated possible obligation amounts to R65 000.

#### 2016:

##### 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

#### 2017:

##### KHM vs L Nothnagel

A claim against L Nothnagel relating to Labour Court costs amounting to R1 090 911.

##### 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.

##### Marius Kirsten Botha

Kimberley High Court Matter for an amount of R540 240.

#### 2016:

##### 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.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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Figures in Rand

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### 36. Contingencies (continued)

#### 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 2017

## Notes to the Annual Financial Statements

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### 37. Related parties

#### Relationships

Accounting Officer and Members of Municipal Council  
Members of key management

Refer to accounting officer's report note  
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
J Davids	272	-
VC Wentzel	334	-
A Januaries	2 910	-
G Klazen	334	-
J Jooste	359	-
JJ Jacobs	322	-
GW Von Mollerndorf	539	-

##### Amounts included in Receivables from non-exchange transactions

Salary overpayment - F Lötter	18 965	24 965
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#### Related party transactions

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

JJ Vermeulen	38	194
MM Van Wyk	2 791	2 595
JJ Van der Colff	-	5 301
JP Julies	151	774
K Koopman	646	3 378
G Klazen	138	-
AM Januarie	18	-
J Jooste	717	-
SM Davids	157	-
M Jacobs	98	-
JJ van der Colff	5 386	-

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

GW von Möllendorf	8 545	-
JJ Vermeulen	832	4 826
JP Julies	756	4 220
K Koopman	1 037	18 669
JS Beukes	790	-
G Klazen	3 401	-
AM Januarie	16 743	-
J Jooste	3 611	-
SM Davids	4 086	-
VC Wentzel	3 363	-
M Jacobs	3 307	-

Remuneration of key management refer to note 28 of the annual financial statements.



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Prior period errors

Correction of incorrect service charges and property rates in the 2015/16 financial year. This correction resulted in an increase in service charges by R692, decrease in property rates by R2 440, decrease in rental income by R9 021, decrease in VAT receivable by R1 166, increase in Receivables from Exchange transactions by R 14 364 and the decrease in Receivables from Non-exchange transactions by R2 440.

An invoice relating to the 2015/16 financial year was not recorded on the financial system. This correction resulted in the increase in bulk purchases by R 8 071, increase in VAT receivable by R1 130, and the increase in Payables from Exchange transactions by R9 201.

A receivable was recognised for RBIG grant monies allocated to the municipality during the 2015/16 financial year, but only received during the 2016/17 financial year. This correction resulted in the increase in Government grant and subsidies and Unpaid grants and receipts by R70 209.

The Investment property register was recompiled during the current year due to investment property that was classified as fixed assets in the previous fixed asset register. Investment properties register also previously only listed a single value for land and building, but were now corrected in a value for land and a value for buildings to calculate depreciation more accurate. The correction of the error for 30 June 2015 resulted in the increase in Investment property by R3 967 208, decrease in accumulated depreciation by 351 419, increase in Opening Accumulated surplus by R4 318 627 and the depreciation expense for 2015/2016 by R76 781. Part of this correction of error result is the previous incorrect classification of investment properties as fixed assets that at 30 June 2015 increased Investment property by R3 967 208, increase in accumulated depreciation by 331 626, increase in Opening Accumulated surplus by R3 635 582 and the depreciation expense for 2015/2016 by R373 079.

The fixed asset register was recompiled during the current year due to the previous fixed asset register being incomplete and including fixed assets that could not be physically verified. The correction of the error resulted in the decrease in Property, plant and equipment by R21 730 564, the increase in depreciation for the year by R217 925, and the decrease in opening accumulated surplus or deficit by R21 512 643.

A retention was erroneously included under Trade and payables of R380 647. This was due to the duplication of the retention under expenditure for the 2014/15 financial year. The resultant correction resulted in the decrease in trade and other payables by R380 647 and the increase in Opening accumulated surplus by the same amount.

Accrued leave pay was reclassified from Provisions to Payables from exchange transactions. The reclassification results in the increase in Payables from Exchange transactions by R892 196 and the decrease in Provisions by R892 196.

The correction of the errors results in adjustments as follows:

#### Statement of financial position

Payables from exchange transactions - Trade payables	-	(371 448)
Receivables from non-exchange transactions	-	(2 440)
Receivables from exchange transactions	-	14 364
VAT receivable	-	2 296
Unpaid Conditional Grants and Receipts	-	70 209
Investment property	-	4 395 408
Opening Accumulated surplus	-	(16 813 368)
Property, plant and equipment	-	(21 730 564)
Payables from exchange transactions - Accrued leave pay	-	892 196
Provisions	-	(892 196)

#### Statement of Financial Performance

Bulk purchases	-	(8 071)
Service charges - Electricity	-	(110)
Service charges - Water	-	(4 664)
Service charges - Sewerage and sanitation charges	-	5 562
Service charges - Refuse removal	-	(95)
Interest on outstanding debtors	-	(4 870)
Rental income	-	(9 021)
Property rates	-	(2 440)
Government grants and subsidies	-	70 209
Depreciation	-	(141 144)

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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### 39. 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.

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	300 551	300 551	1 202 205	1 051 929
Finance lease obligation	260 836	189 802	115 805	-
Payables from exchange transactions	6 955 593	-	-	-
Consumer deposits	185 996	-	-	-

  

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
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	9 049 135	-	-	-
Consumer deposits	167 508	-	-	-

#### 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	2017	2016
Cash and cash equivalents	3 520 298	6 503 433
Receivables from exchange transactions	2 450 513	3 150 153
Receivables from non-exchange transactions	869 104	585 176
Other receivables from exchange transactions	217 686	221 263

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

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 39. Risk management (continued)

#### 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 2017, 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 27 420 (2016: R 27 514) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R 27 420 (2016: R 27 514) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets..

### 40. 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.

### 41. Events after the reporting date

No events after the reporting date occurred that requires disclosure.

### 42. Fruitless and wasteful expenditure

Opening balance	2 067 166	1 670 444
Fruitless and wasteful expenditure - Current year	256 676	396 722
	<b>2 323 842</b>	<b>2 067 166</b>

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.

### 43. Irregular expenditure

Opening balance	27 105 403	23 382 945
Add: Irregular Expenditure - current year	5 801 360	3 722 458
	<b>32 906 763</b>	<b>27 105 403</b>

#### Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Procurement processes not followed	None	5 312 012
Supplier not registered on municipality's supplier database	None	13 410
Quotations were not evaluated in accordance with Section 2 (1) (a) of the PPPF Act	None	475 938
		<b>5 801 360</b>

The full extent of the irregular expenditure of R5 801 369, is still in the process of being investigated.

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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

#### Contributions to organised local government

Opening balance	1 809 783	1 719 783
Current year subscription / fee	500 000	600 000
Amount paid - current year	(5 578)	(510 000)
Amount paid - previous years	(500 000)	-
	<b>1 804 205</b>	<b>1 809 783</b>

#### Distribution losses

##### Electricity distribution losses:

###### 2017:

- Units purchased (Kwh)	6 369 088
- Units lost during distribution (Kwh)	1 001 482
- Percentage lost during distribution	15.72%

###### 2016:

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

##### Water distribution losses:

###### 2017:

- Kilo litres raw water input	289 092
- Kilo litres lost during distribution	15 768
- Percentage lost during distribution	5.45%

###### 2016:

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

#### Audit fees

Opening balance	4 803 384	4 351 952
Current year subscription / fee	2 798 042	1 934 591
Amount paid - previous years	(1 230 000)	270 843
Amount paid - current year	(900 000)	(1 754 002)
Amount settled by National Treasury	(3 211 737)	-
Amounts written off	(1 316 247)	-
	<b>943 442</b>	<b>4 803 384</b>

#### PAYE and UIF

Current year subscription / fee	3 206 832	2 892 470
Amount paid - current year	(3 206 832)	(2 892 470)
	-	-

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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

#### Pension and Medical Aid Deductions

Current year subscription / fee	2 695 059	2 089 441
Amount paid - current year	(2 695 059)	(2 089 441)
	-	-

#### VAT

VAT receivable	991 177	356 614
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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 or at 30 June 2017.

### 45. 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	1 877 176	1 250 784
Emergency	610 217	61 919
Impractical	811 646	1 940 124
	<b>3 299 039</b>	<b>3 252 827</b>

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 46. Cash generated from operations

Surplus	1 528 301	2 812 660
<b>Adjustments for:</b>		
Depreciation and amortisation	7 047 693	7 237 768
Loss on sale of assets and liabilities	-	1 809
Loss on derecognition of asset	281 879	-
Landfill Sites Rehabilitation Expense	1 904 925	722 348
Finance costs	1 068 840	872 011
Impairment deficit	28 347	20 908
Debt impairment	4 544 682	2 417 304
Movements in retirement benefit assets and liabilities	(697 873)	(30 331)
Movements in provisions	2 188 462	988 997
Inventory adjustment	(56 256)	-
Actuarial gain	(138 611)	(266 717)
Discount received	(1 274 484)	-
<b>Changes in working capital:</b>		
Inventories	(260 455)	(6 655)
Other receivables from exchange transactions	3 577	3 336
Receivables from exchange transactions	(3 488 527)	(2 540 687)
Other receivables from non-exchange transactions	(412 064)	(378 563)
Payables from exchange transactions	(1 623 490)	256 190
VAT	(634 563)	(15 969)
Unspent conditional grants and receipts	167 812	(548 180)
Consumer deposits	18 488	(4 444)
	<b>10 196 683</b>	<b>11 541 785</b>

### 47. Unauthorised expenditure

Opening balance	85 127 558	75 669 965
Unauthorised expenditure current year - operating	11 699 778	9 457 593
	<b>96 827 336</b>	<b>85 127 558</b>

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

### 48. Budget differences

#### Material differences between budget and actual amounts

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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Figures in Rand

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### 48. Budget differences (continued)

#### Service charges

Although the R 2 000 000 was included in Service charges it was actually retained income from previous years and the A1 schedules do not make provision for this. The actual subsidies on indigent customers are account for as a negative income, whilst it has been budgeted for as an expense.

#### Rental of facilities and equipment

Inaccurate budgeting as the previous years actual was R 767 027.

#### Interest received (trading)

Lower than anticipated collection rate and therefore the increase in actual penalties is higher than the budgeted amount.

#### Agency services

The amount exceed the budget amount as the municipality did receive a letter from the Department of Transport indicating that the municipality will not render the service anymore with effect from 1 April 2017.

#### Discount received

Not budgeted as the municipality did not anticipate that discount on the AG account would have realised.

#### Other income

Various other income budgeted did not realise examples are as follows: Swimming Pool fees, revenue LG Seta, water reconnection fees etc.

#### Interest received - investment

Delayed expenditure on Grant funding had the effect that funds were longer in the investment accounts as anticipated and therefore more interest was received.

#### Property rates

Indigent subsidies is budgeted for under general expenses and for the actuals the subsidy is treated as a negative income and therefore deducted from the property rates charges.

#### Property rates - penalties imposed

Lower than anticipated collection rate and therefore the increase in actual penalties is higher than the budgeted amount.

#### Government grants & subsidies

An amount of R 2 800 000 of Treasury Assistance is included in grant and was not budgeted for as there was no official correspondence in this regard that have committed the assistance beforehand. An amount of R 333 000 received from the Department Sport, Arts and Culture for the upgrading of the Libraries were not budgeted for as there was no commitment received beforehand.

#### Licences and permits

Not a material variance.

#### Public contributions and donations

Not a material variance.

#### Fines, Penalties and Forfeits

# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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Figures in Rand

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### 48. Budget differences (continued)

Not a material variance.

#### Employee related costs

The leave pay provision is higher than anticipated.

#### Remuneration of councillors

Due to the uncertainty of the upper limits for Councillors it make budgeting for this expenses difficult and over budgeting is rather preferred than under budgeting.

#### Depreciation and amortisation

The municipality cannot budget for the actual amount as this will have the impact that the municipality will budget for a deficit which according to legislation is not permitted.

#### Impairment loss/ Reversal of impairments

Not a material variance.

#### Finance costs

Finance cost for the rehabilitation of landfill sites were not budgeted for.

#### Debt impairment

The actual amount of debtors written off is included in the total of debt impairment. The actual written -off of debtor accounts were not budgeted for although a provision for debt impairment was provided for.

#### Repairs and maintenance

Repairs and maintenance was budgeted for under general expenses.

#### Bulk purchases

Not a material variance.

#### Contracted Services

The actual expenditure is included in general expenses.

#### General Expenses

The actuals of contracted services and repairs and maintenance is included in general expenses. The subsidies for indigent consumers is also included in general expenses and the actuals were considered as a negative income.

#### Gain on disposal of Property, plant and equipment

The municipality did not dispose any PPE for the year under review as the obsolete and redundant list was completed at year end but there was not enough time to sell the applicable PPE.

#### Actual gains/Losses

The municipality did not budget for an actuarial gain or loss.

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



# Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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Figures in Rand

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### 48. Budget differences (continued)

#### Service charges

Water meter expenses in the water department was adjusted upwards with R2 700 000 to cater for water meters purchased.

#### Government grants and subsidies

Transfers and grants was adjusted downwards with R540 000 to balance the loss of income on the equitable share.

#### Contracted services

Contracted services was adjusted downwards with R300 000 to balance the shortfall of electricity operating income.

#### General expenses

Travel, accommodation and subsistence was adjusted upwards with R 400 000 and financed from the saving on transfers and grants.

The transfer and grants expenses was adjusted downwards with an additional R 400 000.

## Appendix A

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

Loan Number	Redeemable	Balance at 30 June 2016 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2017 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

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

June 2017



## Appendix C

### 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**

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
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

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