



KOU-KAMMA LOCAL MUNICIPALITY

EC109

ANNUAL FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE 2021**

**KOU-KAMMA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

INDEX

CONTENTS	PAGE
GENERAL INFORMATION	3
APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS	4
ACCOUNTING OFFICERS RESPONSIBILITY AND APPROVAL	5
MEMBERS OF THE COUNCIL	6
STATEMENT OF FINANCIAL POSITION	7
STATEMENT OF FINANCIAL PERFORMANCE	8
STATEMENT OF CHANGES IN NET ASSETS	9
CASH FLOW STATEMENT	10
STATEMENT OF FINANCIAL POSITION: COMPARISON OF BUDGET VS ACTUAL AMOUNTS	11
STATEMENT OF FINANCIAL PERFORMANCE: COMPARISON OF BUDGET VS ACTUAL AMOUNTS	12
ACCOUNTING POLICIES	13
NOTES TO THE ANNUAL FINANCIAL STATEMENTS	31

**KOU-KAMMA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

GENERAL INFORMATION

ADDRESS OF THE KOU-KAMMA LOCAL MUNICIPALITY

5 Keet Street

Private Bag X11

Kareedouw

Kareedouw

3170

3170

GRADING OF THE LOCAL AUTHORITY

Grade 1

EXTERNAL AUDITORS

Office of the Auditor General (East London)

69 Frere Road

Vincent

East London

5200

PRIMARY BANKER

ABSA Bank Ltd

ACCOUNTING OFFICER

Kate P.M.

**KOU-KAMMA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

Municipal Manager

Kate P.M.

Chief Financial Officer

Venter N.A.

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 4 to 62, in terms of Section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003) and which I have signed on behalf of the municipality.

KOU-KAMMA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2021

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

The accounting officer is required by the Municipal Finance Management Act (Act No 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 the 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 judgments and estimates.

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 2021 and in the light of this review and the current financial position, as assessed with limited resources, the municipality will continue to operate as a going concern for the foreseeable future.

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

The external auditors are responsible for auditing 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 6 onwards

The annual financial statements set out on pages 5 to 62, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed by:



Kate P.M.
Municipal Manager

**KOU-KAMMA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

MEMBERS OF THE COUNCIL

MAYOR / SPEAKER

Cllr. Vuso M.S.

COUNCILLORS

Cllr. Goliath G.G.M.

Cllr. Herman F.E.

Cllr. Jansen J.

Cllr. Krige J.

Cllr. Platjies J.

Cllr. Pullen H.P.

Cllr. Platjies W.(Appointed 21 January 2021)

Cllr. Rheeders C (Deceased 12 November 2020)

Cllr. Smith K.

Cllr. Strydom F.

Cllr. Yake F.J.

CERTIFICATION OF REMUNERATION OF COUNCILLORS

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution of the Republic of South Africa, 1996, read with the Remuneration of Public Office Bearers Act No.20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

KOU-KAMMA MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	Actual 2021 R	Restated 2020 R
ASSETS			
Current Assets		56 346 520	71 361 383
Inventories	2	348 109	355 979
Receivables from Exchange Transactions	3	17 147 544	19 496 154
Receivables from Non-exchange Transactions	4	29 404 249	31 141 964
VAT Receivable	5	6 023 127	10 422 640
Cash and Cash Equivalents	6	3 381 539	9 916 850
Operating Lease Receivables	7	41 952	27 796
Non-Current Assets		347 215 580	344 889 949
Property, Plant and Equipment	8	321 982 287	319 501 385
Intangible Assets	9	237 624	377 708
Investment Property	10	24 995 669	25 010 857
Total Assets		403 562 099	416 251 332
LIABILITIES			
Current Liabilities		36 396 083	44 738 291
Consumer Deposits	11	105 758	104 975
Current Portion of Long-term Liabilities	15	2 141 923	1 729 868
Provisions	12	2 579 769	2 142 855
Payables from Exchange Transactions	13	29 231 901	32 141 123
Unspent Conditional Grants and Receipts	14	2 336 732	8 619 470
Non-Current Liabilities		11 271 666	11 117 347
Employee Benefit Liabilities	15	8 043 000	8 057 000
Provisions	16	3 228 666	3 060 347
Total Liabilities		47 667 749	55 855 638
Net Assets		355 894 350	360 395 694
NET ASSETS		355 894 350	360 395 694
Accumulated Surplus	17	355 894 350	360 395 694
Total Net Assets		355 894 350	360 395 694

KOU-KAMMA MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

	Note	Actual 2021 R	Restated 2020 R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	18	17 816 326	16 008 510
Fines	19	2 212 156	19 407 898
Income for Agency Services	20	2 563 348	2 982 849
Government Grants and Subsidies Received	21	95 092 478	95 233 018
Other Revenue	25	731 366	2 298 441
Revenue from Exchange Transactions			
Service Charges	22	33 169 847	28 851 872
Rental of Facilities and Equipment	23	97 221	1 054 784
Interest Earned - External Investments	24	290 103	805 733
Interest Earned - Outstanding Debtors	24	16 290 928	16 933 380
Other Revenue	25	3 162 217	1 029 812
Gain on disposal of Property, Plant and Equipment			11 083
Total Revenue		171 425 990	184 617 379
EXPENDITURE			
Employee Related Costs	26	(58 683 643)	(53 857 355)
Remuneration of Councillors	27	(3 732 724)	(3 843 067)
Depreciation and Amortisation	28	(22 130 191)	(20 861 721)
Bad debts		(55 146 605)	(48 210 257)
Finance Costs	29	(1 191 415)	(1 363 975)
Bulk Purchases	30	(4 723 539)	(4 335 227)
Contracted Services	31	(9 507 209)	(11 302 504)
General Expenses	32	(20 339 456)	(22 277 348)
Impairment losses	8		(409 559)
Loss on Disposal of Property, Plant and Equipment	8	(252 551)	(20 440)
Loss on fair value adjustment		(220 000)	
		(175 927 334)	(166 481 454)
SURPLUS/ (DEFICIT) FOR THE YEAR		(4 501 344)	18 135 925

KOU-KAMMA MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

Description	Note	Accumulated Surplus / (Deficit)	Total
		R	R
		-	-
2020			
Restated balance at 1 July 2019		342 240 008	342 240 008
Surplus for the year		18 135 925	18 135 925
Prior year correction		19 760	19 760
Balance at 30 June 2020		<u>360 395 694</u>	<u>360 395 694</u>
2021			
Balance at 1 July 2020		360 395 694	360 395 694
Surplus for the year		(4 501 344)	(4 501 344)
Balance at 30 June 2021		<u>355 894 350</u>	<u>355 894 350</u>

KOU-KAMMA MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

	Note	Actual 2021 R	2020 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		16 964 546	3 427 442
Government Grant and Subsidies	21	86 335 391	98 795 381
Interest Received	24		756 158
Other Receipts		6 554 152	5 067 444
Payments			
Employee Related Costs	26	(59 081 698)	(53 438 969)
Remuneration of Councillors	27	(3 732 724)	(3 843 067)
Interest Paid	29	(1 191 415)	(1 363 975)
Suppliers Paid		(27 796 636)	(28 402 786)
NET CASH FLOWS FROM OPERATING ACTIVITIES	33	18 051 615	20 997 629
CASH FLOWS UTILISED FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	8	(24 819 449)	(32 602 290)
Purchase of Intangible Assets	9	(57 581)	(416 732)
Interest received on bank account and shortterm deposits		290 103	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		(24 586 926)	(33 019 021)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT		(6 535 311)	(12 021 392)
Cash and Cash Equivalents at Beginning of Period		9 916 850	21 937 623
Cash and Cash Equivalents at End of Period		3 381 539	9 916 230

KOU-KAMMA MUNICIPALITY
APPROPRIATION STATEMENT FOR THE YEAR ENDED 30 JUNE 2021
STATEMENT OF FINANCIAL POSITION: COMPARISON OF BUDGET VS ACTUAL AMOUNTS

Description	Original Budget	Budget Adjustments (i.e. s28 & s31 Of The MFMA)	Final Budget	Actual Outcome	Variance	Variance percentage	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget	Notes
ASSETS									
Current Assets	63 846 111	8 029 796	71 875 907	56 346 520	15 529 387				
Inventories	326 679	-	326 679	348 109	(21 430)	-7%	107%	107%	N1
Receivables from Exchange Transactions	30 800 043	-	30 800 043	17 147 544	13 652 499	44%	56%	56%	N2
Receivables from Non-exchange Transactions	32 515 645	-	32 515 645	29 404 249	3 111 396	10%	90%	90%	N3
VAT Receivable	-	-	-	6 023 127	(6 023 127)				
Cash and Cash Equivalents	43 204	8 029 796	8 073 000	3 381 539	4 691 461	58%	42%	7827%	
Operating Lease Receivables	160 540	-	160 540	41 952	118 588	74%	26%	26%	
Non-Current Assets	342 673 707	-	342 673 707	347 215 580	(4 541 873)				
Property, Plant and Equipment	317 564 645	-	317 564 645	321 982 287	(4 417 642)	-1%	101%	101%	N4
Intangible Assets	82 544	-	82 544	237 624	(155 080)	-188%	288%	288%	
Investment Property	25 026 518	-	25 026 518	24 995 669	30 849	0%	100%	100%	
Total Assets	406 519 818	8 029 796	414 549 614	403 562 099	10 987 515				
LIABILITIES									
Current Liabilities	26 929 966	-	26 929 966	36 396 083	(9 466 117)				
Consumer Deposits	105 000	-	105 000	105 758	(758)	-1%	101%	101%	
Current Portion of Long-term Liabilities	-	-	-	2 141 923	(2 141 923)				N5
Provisions	4 256 966	-	4 256 966	2 579 769	1 677 197	39%	61%	61%	N6
Payables from Exchange Transactions	22 568 000	-	22 568 000	29 231 901	(6 663 901)	-30%	130%	130%	
Unspent Conditional Grants and Receipts	-	-	-	2 336 732	(2 336 732)				
Non-Current Liabilities	5 101 485	-	5 101 485	11 271 666	(6 170 181)				
Employee Benefit Liabilities	-	-	-	8 043 000	(8 043 000)				N7
Provisions	5 101 485	-	5 101 485	3 228 666	1 872 819	37%	63%	63%	N8
Total Liabilities	32 031 451	-	32 031 451	47 667 749	(15 636 298)				
Net Assets	374 488 367	8 029 796	382 518 163	355 894 350	26 623 813				
NET ASSETS	374 488 367	8 029 796	382 518 163	355 894 350	26 623 813				
Accumulated Surplus	374 488 367	8 029 796	382 518 163	355 894 350	26 623 813	7%	93%	95%	
Total Net Assets	374 488 367	8 029 796	382 518 163	355 894 350	26 623 813				

Notes and Legends

- N1 The payment rate of debtors decreased, resulting in higher than expected bad debt provision
N2 The payment rate of debtors decreased, resulting in higher than expected bad debt provision
N3 This relates to the unspent grants at year-end.
N4 Budget error, additions not taken into account
N5 This relates to the write off of performance bonuses in the current year
N6 Due to cash flow difficulties a number of creditors, could not be paid by year-end
N7 This relates to underbudgeting for the increase in the PEIMA liability
N8 Budget error, decrease in landfill site obligation budget was over estimated

KOU-KAMMA MUNICIPALITY
APPROPRIATION STATEMENT FOR THE YEAR ENDED 30 JUNE 2021
STATEMENT OF FINANCIAL PERFORMANCE: COMPARISON OF BUDGET VS ACTUAL AMOUNTS

Description	Original Budget	Budget Adjustments (i.e. s28 & s31 Of The MFMA)	Final Budget	Actual Income & Expenditure	Variance	Variance percentage	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget	Notes
Financial Performance									
Property Rates	17 132 933	150 067	17 283 000	17 816 326	(533 326)	-3%	103%	104%	N1
Service Charges	29 435 745	6 081 255	35 517 000	33 169 847	2 347 153	7%	93%	113%	N2
Rental of Facilities and Equipment	1 432 068	(1 341 070)	90 998	97 221	(6 223)	-7%	107%	7%	N3
Investment Revenue	916 502	(617 475)	299 027	290 103	8 924	3%	97%	32%	N4
Interest earned:outstanding debtors	19 292 641	(1 999 999)	17 292 642	16 290 928	1 001 714	6%	94%	84%	N5
Fines	18 500 000	(16 754 916)	1 745 084	2 212 156	(467 072)	-27%	127%	12%	N6
Income for the agency fees	4 097 398	(695 000)	3 402 398	2 563 348	839 050	25%	75%	63%	N7
Government grants and subsidies	61 288 500	23 408 276	84 696 776	95 092 478	(10 395 702)	-12%	112%	155%	N8
Other Own Revenue	14 508 238	(13 874 238)	634 000	3 893 583	(3 259 583)	-514%	614%	27%	N9
Gain on disposal of assets									
Total Revenue (Excluding Capital Transfers & Contributions)	168 604 025	(5 643 100)	160 960 925	171 425 990	10 465 065	7%	107%	103%	
Employee Costs	58 885 710	(3 185 710)	55 700 000	58 683 643	(2 983 643)	-5%	105%	100%	N7
Remuneration Of Councilors	4 109 519	(33 216)	4 076 303	3 732 724	343 579	8%	92%	91%	N8
Debt Impairment	55 690 462	(26 954 998)	28 735 464	55 148 605	(26 411 141)	-92%	77%	40%	N9
Depreciation & Asset Impairment	21 818 511	(1 951 313)	19 867 198	22 130 191	(2 262 993)	-11%	6%	5%	N10
Finance Charges	272 795	54 559	327 354	1 191 415	(864 061)	-264%	364%	437%	N11
Bulk Purchases	4 591 789	248 819	4 840 608	4 723 539	117 069	2%	98%	103%	N12
Other Materials	6 063 456	123 562	6 187 018	4 001 946	2 185 072	35%	65%	66%	N13
Contracted Services	11 681 063	(3 190 432)	8 490 631	9 507 209	(1 016 578)	-12%	112%	81%	N14
Other Expenditures	22 422 323	644 677	23 067 000	16 337 510	6 729 490	29%	71%	73%	
Impairment loss	-	-	-	-	-				
Loss on fair value adjustment	-	-	-	220 000	(220 000)				
Loss on disposal of asset	-	-	-	252 551	(252 551)				
Total Expenditure	185 535 628	(34 244 052)	151 291 576	175 927 333	24 635 757	16%	116%	95%	
Surplus/(Deficit)	(18 931 603)	28 600 952	9 669 349	(4 501 344)	(14 170 693)	-147%	-47%	24%	
Capital Expenditure									
	25 611 500	(972 519)	24 638 981	24 632 706	(6 275)	0%	100%	96%	

Notes and Legends:

- N1 The increase in property rates relates to the implementation of the supplementary valuation roll
N2 As result of the closure of the community halls for a period 3 months during the financial year, this resulted in a decrease in revenue
N3 The municipality has less funds available on short term investments than anticipated
N4 Budget error, underestimated because fines operations were ceased during the audit year
N5 As result of the closure of the DTLIC for a period 3 months during the financial year, this resulted in a decrease in revenue
N6 The municipality has budgeted other income as part of the revenue enhancement plan, but due to staff shortages in this section, the actual results were lower than anticipated
N7 As result of the National Lockdown and financial impact, a number of budgeted positions was not filled at year-end
N8 Budget error, Budget for provision were under estimated
N9 As a result of not all projects being completed as expected, depreciation was lower than expected.
N10 Due to the increase in creditors, interest incurred during the financial year was higher than anticipated
N11 The result of the decrease is due to the changing of bulk tariffs through Eskom
N12 Due to cost containment measures, the municipality curbs non essential expenditures
N13 Due to cost containment measures, the municipality curbs non essential expenditures
N14 Due to cost containment measures, the municipality curbs non essential expenditures

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) listed below including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 1.6 standards and interpretations effective and adopted in the current year.

1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below.

The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

1. 2. 1 Revenue Recognition

Accounting Policy on *Revenue from Exchange Transactions* and Accounting Policy on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 and GRAP 23. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate. At the time of initial recognition it is inappropriate to assume that the collectability of amounts owing by individual recipients of goods or services will not occur, because the municipality has an obligation to collect all revenue.

1. 2. 2 Financial assets and liabilities

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

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

1. 2. 3 Impairment of Financial Assets

Accounting Policy on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

This was performed per service-identifiable categories across all classes of debtors.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1. BASIS OF PRESENTATION (Continued)

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (Continued)

1. 2. 4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1. 2. 5 Impairment: Write down of Property, Plant and Equipment and Inventories

Accounting Policy on PPE - Impairment of assets and Accounting Policy on Intangible assets - Subsequent Measurement, Amortisation and Impairment and Accounting Policy on Inventory - Subsequent measurement describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing, write down of Inventories to the lowest of Cost and Net Realisable Values (NRV) and whether assets should be written down to current replacement cost.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Non-Cash generating Assets and GRAP 26: Impairment of Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgement by management. During the year no impairments were made to PPE, intangible assets or inventory.

1. 2. 6 Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water after the depth of water in the reservoirs have been determined, which is then converted into volumes based on the total capacity of the reservoir.

1. 2. 7 Defined Benefit Plan Liabilities

The municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the notes to the Annual Financial Statements.

1. 2. 8 Provisions and contingent liabilities

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. Additional disclosure of these estimates of provisions are included in Note 16 Provisions. A valuation report is prepared annually by the Province of the Eastern Cape Local Government and Traditional Affairs Department. This report is an effect to ensure that Kou-kamma Local Municipality complies with the Waste Act and the Generally Recognised Accounting Practice (GRAP) 17 and 19 requirements and standards. GRAP 17 requires the cost of rehabilitation of landfill sites to be capitalised as property, plant and equipment and within GRAP 17 the interest of this report is in the depreciation rate of the sites. GRAP 19 requires for costs of rehabilitation of landfill sites to be provided for.

1. 2. 9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

1. 3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1. 4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1. 5 OFFSETTING

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

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1. BASIS OF PRESENTATION (Continued)

New Standards and Interpretations

1. 6 Standards and interpretations effective and adopted in the current year

GRAP 20 : Related Party Disclosures

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - * has control or joint control over the reporting entity;
 - * has significant influence over the reporting entity;
 - * is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - * the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - * one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - * both entities are joint ventures of the same third party;
 - * one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - * the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - * the entity is controlled or jointly controlled by a person identified in (a); and
 - * a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The entity has adopted the standard for the first time in the 2020/2021 annual financial statements.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1. BASIS OF PRESENTATION (Continued)

GRAP 32 : Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The entity has adopted the standard for the first time in the 2020/2021 annual financial statements.

GRAP 108 : Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The entity has adopted the standard for the first time in the 2020/2021 annual financial statements.

GRAP 109 : Accounting by Principals and Agent

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The entity has adopted the standard for the first time in the 2020/2021 annual financial statements.

IGRAP 17 : Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The entity has adopted the interpretation for the first time in the 2020/2021 annual financial statements..

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1. BASIS OF PRESENTATION (Continued)

IGRAP 18 : Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The entity has adopted the interpretation for the first time in the 2020/2021 annual financial statements.

IGRAP 19 : Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The entity has adopted the interpretation for the first time in the 2020/2021 annual financial statements.

The adoption of these amendment is not expected to impact on the results of the municipality, but has resulted in more disclosures in the annual financial statements.

1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting - issued February 2011, effective date on or after 01 April 2020
- GRAP 34 Separate Financial Statements - issued March 2017, effective date on or after 01 April 2020
- GRAP 35 Consolidated Financial Statements - issued March 2017, effective date on or after 01 April 2020
- GRAP 36 Investments in Associates and Joint Ventures - issued March 2017, effective date on or after 01 April 2020
- GRAP 37 Joint Arrangements - issued March 2017, effective date on or after 01 April 2020
- GRAP 38 Disclosure of Interests in Other Entities - issued March 2017, effective date on or after 01 April 2020
- GRAP 110 Living and Non-living Resources - issued March 2017, effective date on or after 01 April 2020

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

All the other listed standards as listed above will only be effective when a date is announced by the Minister of Finance.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet effective, the municipality may elect to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

GRAP 18 - Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an municipality within a particular region.

Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the municipality. The precise impact of this on the financial statements of the Municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting.

The effective date of the standard is for years beginning on or after 01 April 2020.

GRAP 34 – Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected. The municipality does not have investments in associates or joint ventures.

GRAP 35 – Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

GRAP 36 – Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

GRAP 37 – Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020

No significant impact on the financial statements of the Municipality is expected.

GRAP 38 – Disclosure of Interest in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

GRAP 110 Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the standard is for years beginning on or after 01 April 2020.

No significant impact on the financial statements of the Municipality is expected.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

2. 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, other than investment property, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, being the fair value of the asset at acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2 1 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition, buildings are carried at cost less accumulated depreciation and impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

2 2 Depreciation

Depreciation on assets other than land is calculated on cost, using the straight-line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

The following is an indication of the maximum expected useful life of the assets:

	Years		Years
Infrastructure		Buildings	30
Roads			
Paving	30	Landfill Sites	7 - 50
Asphalt	30		
Gravel	10	Other	
Electricity	20 - 30	Specialist Vehicles	20
Water	20	Other Vehicles	7
Sewer	20 - 30	Office Equipment	10
		Furniture and Fittings	10
Community		Specialised Plant and Equipment	15
Recreational Facilities	20 - 30	Other Plant and Equipment	5
Security	5		
Fencing	3 - 5	Land	Indefinite

The assets estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

2. PROPERTY, PLANT AND EQUIPMENT (Continued)

2 3 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation and impairment (if applicable) only commences when the asset becomes available for use and transferred to the relevant asset class.

2 4 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

2 5 Land & Buildings

Land is not depreciated as it is deemed to have an indefinite useful life. Buildings and other structures situated on land is depreciated less their residual value over their useful life.

2 6 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

2 7 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2017, and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3.

3 INTANGIBLE ASSETS

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

3 1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

3 2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

3 INTANGIBLE ASSETS (continued)

3 2 Subsequent Measurement, Amortisation and Impairment

In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

Intangible asset	Years
Software	2-10

Intangible assets are annually tested for indicators of impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

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

3 3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 INVESTMENT PROPERTY

4 1 Initial Recognition

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

Investment property is recognized as an asset where, and only where:

- 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.

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

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment or Inventory as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another municipality under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc.; and
- Property held for strategic purposes or service delivery.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

4. INVESTMENT PROPERTY (Continued)

4 2 Subsequent Measurement

4 2. 1 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 30 - 60 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The residual value of the investment properties been assumed to be zero.

The land is not depreciated as it has an indefinite useful life.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4 3 Derecognition

An investment property shall be derecognised (removed from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

5 IMPAIRMENT OF ASSETS

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

5 1. Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

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

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

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

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

5 2 Impairment of Non-Cash generating assets

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

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

5 IMPAIRMENT OF ASSETS (continued)

5 2 Impairment of Non-Cash generating assets

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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

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

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

6 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the municipality's Statement of Financial Position when the municipality becomes party to the contractual provisions of the instrument.

The municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

6 1 Financial Assets - Classification

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

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial assets at amortised cost

Financial assets at fair value

Financial assets at cost

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial Instruments at Amortised Cost
Bank Balances and Cash	Financial Instruments at Amortised Cost
Consumer Debtors	Financial Instruments at Amortised Cost
Other Debtors	Financial Instruments at Amortised Cost

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

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

6 FINANCIAL INSTRUMENTS (continued)

6 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another municipality. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liability	Classification in terms of GRAP 104
Long-term Liabilities	Financial liabilities measured at amortised cost
Other Creditors	Financial liabilities measured at amortised cost
Trade Creditors	Financial liabilities measured at amortised cost
Accruals	Financial liabilities measured at amortised cost
Consumer Deposits	Financial liabilities measured at amortised cost
Retention	Financial liabilities measured at amortised cost

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

6 3 Initial and Subsequent Measurement

When a financial asset or financial liability is recognised initially, an municipality shall measure it at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate. Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

6 4 Impairment of Financial Assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Debtors encompasses long term debtors, consumer debtors and other debtors.

Initially Debtors are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Debtors within 12 months from the date of reporting are classified as current.

A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of debtors are assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

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 through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

6 FINANCIAL INSTRUMENTS (continued)

6 5 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire. The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

7 INVENTORIES

7 1 Initial Recognition

Inventories comprise current assets held for sale and current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

7 2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

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

Water inventory

Water is regarded as inventory when the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position. The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water and purified effluent are valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Redundant and slow-moving inventories

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

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

8 REVENUE RECOGNITION

8 1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

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

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

8. REVENUE RECOGNITION (Continued)

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

8 1 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

8 1. 1 Service Charges

Service charges relating to sanitation and sewage are levied in terms of the approved tariffs.

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

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

8 1. 2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

8 1. 3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

8 1. 4 Tariff Charges

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

8 1. 5 Sale of Goods

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

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

8 1. 6 Rentals

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

8 2 Revenue from Non-exchange Transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

8. REVENUE RECOGNITION (Continued)

8 2 1 Rates and Taxes

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

8 2 2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected which has reached warrant stage.

8 2 3 Revenue from conditional grants, building and funding

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

8 2 4 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

9 PROVISIONS

Provisions are recognised when:

- The municipality has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation

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

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

9 PROVISIONS (Continued)

Environmental rehabilitation provisions

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

10 EMPLOYEE BENEFITS

10 1 Short-term Employee Benefits

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

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

10 2 Post employment benefits

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

10 2. 1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

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

10 2. 2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

11 LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases other than finance leases are classified as operating leases.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

11 LEASES (continued)

11 1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured at lower of fair value of the asset or the PV of the minimum lease payments, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the implicit interest rate method.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, Plant and Equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed in the Statement of Financial Performance when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

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

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

11 2 The Municipality as Lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

11 3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

12 BORROWING COSTS

Borrowing costs are expensed as they occur.

13 GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

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

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

14 VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991. Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

15. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is overspending on the total amount appropriated in the municipality's budget or overspending on the total amount appropriated for a vote or expenditure unrelated to the departmental or functional area or expenditure of money appropriated for a specific purpose or a grant by the municipality otherwise than in accordance with the conditions in terms of the Municipal Finance Management Act (Act No 56 of 2003). 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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable. Unauthorised expenditure can only be treated as an asset (recoverable) if a responsible party to recover the money from is identified.

16. IRREGULAR EXPENDITURE

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

17. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is 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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

18. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of changes in accounting policies where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of corrections of errors recorded during the period under review where applicable.

19. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related parties include key management personnel such as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager and close family members of key management personnel.

20. EVENTS AFTER THE REPORTING DATE

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

21. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

22. COMPARATIVE INFORMATION

22.1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 24, been provided to these financial statements and forms part of the Annual Financial Statements.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

22 COMPARATIVE INFORMATION (continued)
22 2 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified, unless a standard of GRAP does not require the restatements of comparative information. The nature and reasons for the reclassification are disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

22 3 Budget Information

The annual budget figures for the period 1 July 2016 to 30 June 2017 have been prepared and presented in accordance with the GRAP standard under the accrual basis of accounting for budgets approved by Council by nature classification, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or under spending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

23 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

24 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

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

25 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

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

26 MATERIAL LOSSES

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125.

Losses are calculated on the following basis -

- Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.
- The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and the case of water the lowest rate per Kl (excl VAT).

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

27 STATUTORY RECEIVABLES

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The entity recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The entity initially measures statutory receivables at their transaction amount.

Subsequent measurement

The entity measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised

Accrued interest

Where the entity levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the entity is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

The entity assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the entity considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the entity measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an entity considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The entity derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the entity, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - o derecognise the receivable; and
 - o recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

28 ACCOUNTING BY PRINCIPLES AND AGENTS

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the entity is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an entity is a principal or an agent requires the entity to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

The entity assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the entity concludes that it is not the agent, then it is the principal in the transactions.

The entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

Recognition

The entity, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The entity, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

KOUKAMMA MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

29 RELATED PARTIES

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

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

The entity is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the entity is exempt from the disclosures in accordance with the above, the entity discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
1. GENERAL INFORMATION		
Kou-Kamma Municipality (the municipality) is a local government institution in the Eastern Cape, and is one of eight local municipalities under the jurisdiction of the Sarah Baartman District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).		
2. INVENTORIES		
Consumable Store	251 258	283 220
Water - at cost	96 851	72 759
Total Inventories	348 109	355 979
All inventory at year end is carried at cost.		
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Debtors: Exchange transactions	181 516 461	141 014 622
Electricity	560 751	491 844
Refuse	26 662 744	21 715 370
Sewerage	57 500 614	46 589 732
Water	95 608 819	71 099 909
Other Receivables	1 183 532	1 117 768
Housing	1 119 432	1 097 902
Loan instalments	64 100	19 867
Less: Provision for Impairment and interest	(164 368 916)	(121 518 468)
Electricity	(277 466)	277 835
Water	(66 079 644)	(45 781 196)
Sewerage	(38 073 667)	(30 920 387)
Refuse	(17 372 658)	(14 154 937)
Housing rental	(572 756)	(717 441)
Loan instalments	(13 245)	
Interest	(41 979 481)	(30 222 342)
Total Receivables from Exchange Transactions	17 147 544	19 496 154
The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.		
The fair value of debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and debtors as well as the current payment ratio's of the municipality's debtors.		
3.1 Ageing of Receivables from Exchange Transactions		
Electricity		
Current (0 -30 days)	4 025	4 062
31 - 60 days	1 600	3 625
61 - 90 days	3 266	3 625
91 - 120 days	1 232	2 518
+120 days	356 676	321 666
Interest	193 952	156 348
Allowance for debt impairment	(277 466)	277 835
	283 285	769 679

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R
Water		
Current (0 -30 days)	3 386 782	3 459 618
31 - 60 days	1 965 391	1 429 461
61 - 90 days	2 042 167	1 351 661
91 - 120 days	2 806 550	1 164 844
+120 days	63 850 698	47 692 717
Interest	21 557 231	16 001 609
Allowance for debt impairment	<u>(66 079 644)</u>	<u>(45 781 196)</u>
	<u>29 529 176</u>	<u>25 318 713</u>
Sewerage		
Current (0 -30 days)	2 361 195	1 183 557
31 - 60 days	547 389	506 681
61 - 90 days	546 705	502 736
91 - 120 days	552 300	498 765
+120 days	37 339 004	31 584 898
Interest	16 154 021	12 313 095
Allowance for debt impairment	<u>(38 073 667)</u>	<u>(30 920 387)</u>
	<u>19 426 947</u>	<u>15 669 345</u>

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
3.1 Ageing of Receivables from Exchange Transactions (continued)		
Refuse		
Current (0 -30 days)	1 181 133	562 539
31 - 60 days	282 849	267 850
61 - 90 days	276 546	262 554
91 - 120 days	301 344	257 930
+120 days	17 407 216	14 768 042
Interest	7 213 657	5 596 455
Allowance for debt impairment	(17 372 658)	(14 154 937)
	9 290 086	7 560 433
Housing rental		
Current (0 -30 days)	3 361	52 027
31 - 60 days	3 361	51 716
61 - 90 days	2 282	48 716
91 - 120 days	3 003	48 716
+120 days	912 678	791 732
Interest	194 748	104 995
Allowance for debt impairment	(559 511)	(717 441)
	559 921	380 461
Loan instalments (and sundry)		
Current (0 -30 days)	16	-
31 - 60 days	16	-
61 - 90 days	4 746	-
91 - 120 days	32 338	-
+120 days	19 145	14 503
Interest	7 840	5 363
Allowance for debt impairment	(13 245)	-
	50 855	19 867
Interest: Exchange Transactions		
Interest	45 321 449	34 177 865
Allowance for debt impairment	(41 979 481)	(30 222 342)
	3 341 969	3 955 523
3.2 Reconciliation of the Provision for Impairment		
Balance at beginning of year	(121 518 468)	(83 284 870)
(Allowance raised) / reversal of allowance	(42 837 203)	(38 233 598)
Amounts written off as uncollectable		
Balance at end of year	(164 368 916)	(121 518 468)

Provision for Impairment excludes VAT however Note 3.1 includes VAT.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
Receivables from exchange transactions past due but not impaired		
In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.		
Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. Individually significant debtors have been considered for impairment, in terms of GRAP 104, however none were impaired. At 30 June 2021 R12 612 827 (2020:R9 060 602) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	6 936 511	3 165 031
2 months past due	2 800 604	3 054 880
3 months past due	2 875 712	2 840 691
	12 612 827	9 060 602

No debtors were pledged as security.

3.3 Ageing of impaired Receivables from Exchange Transactions

As at 30 June 2021	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	6 936 511	2 800 604	2 875 712	168 871 295	181 484 123
Interest				45 321 449	45 321 449
Less: Provision for Impairment				(164 368 916)	(164 368 916)
Net Balances	6 936 511	2 800 604	2 875 712	49 823 829	62 436 656

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

				2021 R	2020 R
3.3 Ageing of impaired Receivables from Exchange Transactions (continued)					
As at 30 June 2020	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	5 261 803	2 259 334	2 169 291	97 146 330	106 836 758
Interest				34 177 865	34 177 865
Less: Provision for Impairment				(121 518 468)	(121 518 468)
Net Balances	5 261 803	2 259 334	2 169 291	9 805 727	19 496 154

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

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2021			
Assessment Rates Debtors	57 696 763	(36 296 824)	21 399 939
Other receivables from non exchange transactions	8 305 009	(300 699)	8 004 310
Total Receivables from Non-exchange Transactions	66 001 772	(36 597 523)	29 404 249
As at 30 June 2020			
Assessment Rates Debtors	49 527 128	(25 809 025)	23 718 102
Other receivables from non exchange transactions	20 396 344	(12 972 482)	7 423 862
Total Receivables from Non-exchange Transactions	69 923 472	(38 781 507)	31 141 964

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

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

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

Interest: Non-Exchange Transactions: Rates

Interest	15 964 950	12 617 028
Allowance for debt impairment	(9 183 366)	(9 344 880)
	6 781 584	3 272 147

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratio's of Other Debtors were also taken into account for fair value determination.

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2021	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	1 098 856	529 467	484 710	55 583 730	57 696 763
Less: Provision for Impairment				(36 296 824)	(36 296 824)
Net Balances	1 098 856	529 466,76	484 710,31	19 286 906	21 399 939
Other receivables from non exchange transactions:					
Gross Balances	2 265 585				2 265 585
Grant Funding: MIG	4 299 839				4 299 839
Small Town Revitalisation	1 739 586				1 739 586
Less: Provision for Impairment	(300 699)				(300 699)
Net Balances	8 004 310	-	-	-	8 004 310

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

			2021 R	2020 R
4.1 Ageing of Receivables from Non-exchange Transactions (continued)				
As at 30 June 2020	Current	Past Due		Total
	0 - 30 days	31 - 60 Days 61 - 90 Days + 90 Days		
Assessment Rates:				
Gross Balances	1 166 295	819 793 766 767 46 774 273		49 527 128
Less: Provision for Impairment			(25 809 025)	(25 809 025)
Net Balances	1 166 295	819 793 766 767 20 965 248		23 718 103

Other receivables from non exchange transactions:				
Gross Balances	19 906 260			19 906 260
Less: Provision for Impairment			(12 972 482)	(12 972 482)
Net Balances	19 906 260	- - (12 972 482)		6 933 778

Other receivables from non exchange transactions:

Current (0 -30 days)		8 305 009	19 906 260
		8 305 009	19 906 260

Rates

Current (0 -30 days)	1 098 856	848 230
31 - 60 days	529 467	504 237
61 - 90 days	484 710	454 789
91 - 120 days	524 053	434 072
+120 days	39 094 727	34 668 772
Interest	15 964 950	12 617 028
Allowance for debt impairment	(36 296 824)	(25 809 025)
	21 399 939	23 718 103

4.2 Reconciliation of Provision for Impairment

Balance at beginning of year	(25 809 025)	(15 119 944)
Impairment Losses recognised	(10 540 025)	(10 759 000)
Impairment Losses reversed	52 226	69 918
Impairment Losses recognised Interest		
Balance at end of year	(36 296 824)	(25 809 025)

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

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

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. Individually significant debtors have been considered for impairment, in terms of GRAP 104, however none were impaired. At 30 June 2021 R2 113 033 (2020: R2 328 011) were past due but not impaired.

1 month past due	1 098 856	819 787
2 months past due	529 467	766 768
3 months past due	484 710	741 456
	2 113 033	2 328 011

5. VAT

Vat Receivable / Payable	6 023 127	10 422 640
--------------------------	------------------	-------------------

VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
6. CASH AND CASH EQUIVALENTS		
Current investment deposits	2 499 124	7 912 886
Bank Accounts	881 795	2 003 344
Total bank balances	3 380 919	9 916 230
Cash on hand	620	620
Total Bank, Cash and Cash Equivalents	3 381 539	9 916 850

The Municipality has the following bank and investment deposit accounts:

Restrictions relate to unspent conditional grants, only if the condition of the grant is met can transfers from cash be done.

Account number / description

	Bank statement balances		Cash book balances	
	30-Jun-21	30-Jun-20	30-Jun-21	30-Jun-20
Bank accounts				
ABSA Bank Ltd - Current Account (Primary account) - 405 280 5864	621 866	1 108 397	647 863	1 081 560
ABSA Bank Ltd - Call Account - 90 7906 4583	214 362	512 677	214 362	588 860
ABSA Bank Ltd - Savings Account - 91 0220 9606	19 570	332 924	19 570	332 924
ABSA Bank Ltd - Savings Account - 91 9914 8641	2 499 124	7 912 886	2 499 124	7 912 886
Total	3 354 923	9 866 884	3 380 919	9 916 230

6.1 Cash on hand

Cash Floats and Advances	620	620
Total Cash on hand in Cash Floats	620	620

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial

7. OPERATING LEASE ASSET

Operating leases are recognised on the straight line basis as per requirement of GRAP 13. In respect of non-cancellable leases the following asset has been recognised:

Balance at the beginning of the year	27 796	49 748
Movement in operating lease asset	14 156	(21 952)
Operating lease revenue affected	-	-
Balance at the end of the year	41 952	27 796

KOU-KAMMA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

8. PROPERTY, PLANT AND EQUIPMENT

	2021			2020		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Land	5 433 499	-	5 433 499	5 433 499	-	5 433 499
Buildings	5 622 145	(3 498 004)	2 124 141	5 622 145	(3 340 147)	2 281 998
Other property, plant and equipment	21 203 578	(13 002 059)	8 201 519	17 380 728	(11 603 183)	5 777 545
Infrastructure	427 945 215	(199 244 654)	228 700 562	414 989 685	(181 789 455)	233 200 230
Landfill sites	2 095 511	(318 121)	1 777 389	2 095 511	(214 653)	1 880 857
Community	63 201 237	(22 253 687)	40 947 549	62 363 018	(19 969 835)	42 393 183
Infrastructure - WIP	34 797 629	-	34 797 629	28 534 071	-	28 534 071
Total	560 298 813	(238 316 526)	321 982 287	536 418 657	(216 917 273)	319 501 384

Reconciliation of property, plant and equipment - 2021

	Opening	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	5 433 499	-	-	-	-	-	5 433 499
Buildings	2 281 998	-	-	-	(157 857)	-	2 124 141
Other property, plant and equipment	5 777 546	1 917 510	(8 148)	1 913 488	(1 398 876)	-	8 201 519
Infrastructure	233 200 230	731 366	(599 401)	12 823 566	(17 455 199)	-	228 700 562
Landfill sites	1 880 857	-	-	-	(103 468)	-	1 777 389
Community	42 393 184	-	(145 000)	983 218	(2 283 853)	-	40 947 549
Infrastructure - WIP	28 534 071	21 983 830	-	(15 720 272)	-	-	34 797 629
	319 501 384	24 632 706	(752 549)	-	(21 399 253)	-	321 982 287

** Included in Other Property, Plant and Equipment is 18 assets which will be auctioned by the municipality.

Reconciliation of property, plant and equipment - 2020

	Opening	Additions	Disposals	Transfers	Depreciation	Impairment/correction	Total
Land	5 433 499	-	-	-	-	-	5 433 499
Buildings	2 441 284	-	-	-	(159 286)	-	2 281 998
Other property, plant and equipment	5 618 029	914 327	(641 111)	1 101 416	(1 209 173)	(5 941)	5 777 546
Infrastructure	239 743 163	-	-	10 742 151	(16 881 465)	(403 619)	233 200 230
Landfill sites	2 095 511	-	-	-	(214 653)	-	1 880 857
Community	44 646 570	31 271 231	-	(11 843 567)	(2 253 386)	-	42 393 184
Infrastructure - WIP	12 206 626	-	-	-	-	(3 100 219)	28 534 071

KOU-KAMMA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

312 184 680	32 185 558	(641 111)	-	(20 717 964)	(3 509 778)	319 501 385
-------------	------------	-----------	---	--------------	-------------	-------------

KOU-KAMMA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

9. INTANGIBLE ASSETS

2021		2020	
Cost	Accumulated depreciation and impairment	Carrying value	Cost
1 242 230	(1 004 607)	237 624	1 198 682
			(820 974)
			377 708

Computer software

Reconciliation of intangible assets - 2021

Computer software

Opening	Additions	Disposals/ Amortisation	Total
377 708	57 581	(197 665)	237 624

Reconciliation of intangible assets - 2020

Computer software

Opening	Additions	Amortisation	Total
95 942	416 732	(134 966)	377 708

KOU-KAMMA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

10. INVESTMENT PROPERTY

2021			2020		
Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
24 773 446		24 773 446	24 773 446		24 773 446
869 937	(647 714)	222 223	869 937	(632 526)	237 411
25 643 383	(647 714)	24 995 669	25 643 383	(632 526)	25 010 857

Reconciliation of investment property - 2021

Investment property - Land
Investment property - Buildings

	Opening	Disposal	Depreciation	Total
Investment property - Land	24 768 446			24 768 446
Investment property - Buildings	242 411		(15 188)	227 223
	25 010 857	-	(15 188)	24 995 669

Reconciliation of investment property - 2020

Investment property - Land
Investment property - Buildings

	Opening	Disposal	Depreciation	Total
Investment property - Land	24 768 446			24 768 446
Investment property - Buildings	258 071		(15 660)	242 411
	25 026 517	-	(15 660)	25 010 857

Details of property

No investment property has been given as security.

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.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
11. CONSUMER DEPOSITS		
Electricity and Water	105 758	104 975
Total Consumer Deposits	105 758	104 975
12. PROVISIONS		
Balance at beginning of Year	2 142 855	2 133 273
Increase/(Decrease) in Provision	436 914	9 582
Total Provisions	2 579 769	2 142 855
This provision is relating to workmans compensation. This has been estimated based on a return of earning calculation based on current financial information.		
13. PAYABLES		
13.1 PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade payables	13 953 789	16 610 418
Other payables	9 074 124	4 335 890
Accrued Expenses	6 203 988	11 194 815
Total Payables	29 231 901	32 141 123
The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.		
The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.		
The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.		
14. UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
DSRAC - Library Subsidy	378 940	342 675
Small Town Revitalisation	(1 739 586)	651 677
MIG - Municipal Infrastructure Grant	(4 299 839)	3 953 482
INEP - Integrated National Electrification Programme	1 738 003	1 440 463
DEDEA - Waste Management Grant	200 882	826 187
EPWP- Expanded Public Works Programme	18 908	88 604
Total Unspent Conditional Grants	(3 702 692)	7 303 087
Grants spent during the financial year is in accordance with the conditions thereof.		

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
15. EMPLOYEE BENEFIT LIABILITIES		
Non current liability		
Post-retirement Health Care Benefits Liability	5 367 000	5 587 000
Provision for Long Service Awards	2 676 000	2 470 000
	<u>8 043 000</u>	<u>8 057 000</u>
Current portion of long term liability		
Post-retirement Health Care Benefits Liability	150 000	206 000
Provision for Long Service Awards	376 000	209 000
Bonus provision	1 615 923	1 314 868
	<u>2 141 923</u>	<u>1 729 868</u>
Provision for bonuses excludes performance bonuses of 557 employees. The provision only takes the 13th cheque of all other employees into account. The municipality has not paid out any performance bonuses for the past 5 years. The last two financials years performance assessments has not yet been completed. In addition to this the cashflow position of the municipality is very limited. It is based on these factors that management has decided not to provide for performance bonuses.		
15. 1 Post-retirement Health Care Benefits Liability		
Balance at beginning of Year	5 793 000	6 530 942
Net actuarial losses/(gains)	(1 362 000)	(1 519 011)
Current service cost	366 000	399 006
Increase due to Discounting	602 000	604 339
Subsidy rate reduction and application of maximum Benefits Vested	(206 000)	(222 276)
Interest costs		
Total Post-retirement Health Care Benefits Liability	<u>5 193 000</u>	<u>5 793 000</u>
Transfer to Current Provisions	(150 000)	(206 000)
Non-current portion of post-retirement Health Care Benefits Liability	<u>5 043 000</u>	<u>5 587 000</u>

The assumptions used are based on statistics and market data as at 30 June 2021. The following assumptions, in line with GRAP 25, have been used. Assumptions used at the reporting date:

Discount rates used	10.20%
General inflation	4.82%
Medical inflation	6.93%
Real rate (GAP)	3%

KOU-KAMMA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021	2020
R	R

Discount rate assumption:

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 10.58% per annum has been used. The corresponding index-linked yield at this term is 4.71%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2021.

Health care cost inflation assumption

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 6.63% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.13%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.70% which derives from $((1+10.58\%)/(1+6.63\%))-1$.

Future inflation assumption:

The expected inflation assumption of 5.13% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.71%) and those of fixed interest bonds (10.58%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+10.58\%-0.50\%)/(1+4.71\%))-1$. The next contribution increase was assumed to occur with effect from 1 January 2021.

Net discount rate:

A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.70% which derives from $((1+10.58\%)/(1+6.63\%))-1$.

Post-retirement mortality:

PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2020. This means that we expect 1% less people to die next year than under the scenario without mortality improvement.

Family profile:

It has been assumed that female spouses will be four years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Sensitivity analysis

The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Real rate of return

Liability

Cost / (Saving)

Current Assumption 0.46%	0.5% decrease in gap (0.04%)	0.5% increase in gap (0.06%)
5 193 000	4 933 350	5 452 650
	259 650	(259 650)

Mortality

Liability

Cost / (Saving)

Current Assumption PA(90)-1	PA(90)	PA(90)-2
5 193 000	4 952 564	6 228 559
-	240 436	302 383

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2020
R

2021
R

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

	2021 R	2020 R
Balance at the beginning of the year	5 793 000	6 530 942
Net actuarial (losses)/profits	(1 362 000)	(1 519 011)
Current Service Cost	366 000	399 006
Interest cost	602 000	604 339
Subsidy rate reduction and application of maximum		
Benefits paid	(206 000)	(222 276)
Inclusion of eligible members		
Total Recognised Benefit Liability	5 193 000	5 793 000
The amounts recognised in the Statement of Financial Performance are as follows:		
Interest cost	602 000	604 339
Actuarial losses / (gains)	(1 362 000)	(1 519 011)
Total Post-retirement Benefit included in Employee Related Costs (Note 26)	(760 000)	(914 672)

	2021 R	2020 R	2019 R	2018 R
Present Value of Defined Benefit Obligation	5 193 000	5 793 000	6 530 942	2 245 367
Deficit	5 193 000	5 793 000	6 530 942	2 245 367

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

15.2 Post-retirement Long Service Awards liability

	2021 R	2020 R
Balance at beginning of Year	2 679 000	2 615 150
Actuarial Gain	46 000	(7 968)
Increase due to Discounting	-	194 690
Benefits paid	(209 000)	(449 654)
Current service cost	345 000	326 782
Interest cost	191 000	-
Balance at end of Year	3 052 000	2 679 000
Transfer to Current Provisions	(376 000)	(209 000)
Total Post-retirement Long Service Awards liability	2 676 000	2 470 000

The assumptions used are based on statistics and market data as at 30 June 2020. The following valuation assumptions are consistent with the requirements of GRAP 25.

Discount rate	7%
General inflation	4%
Salary inflation	7%
Real rate (Gap)	3%

Discount rate Assumption

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit 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 7.42% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 7.42% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.80%. These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market close on 28 June 2021.

Future Inflation Assumption

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the LSA are based on an employee's earnings at the date of the award. This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

Net Discount Rate

The expected inflation assumption of 3.01% was obtained from the differential between market yields on index-linked bonds (3.80%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.42%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+7.42\%-0.50\%)/(1+3.80\%))-1$.

Sensitivity analysis

The results of the valuation are dependent on the underlying assumptions made. The assumptions represent our best estimate of future experience. The actual cost of the subsidy will however be dependent on the actual experience.

Discount rate

	Current Assumption 8.24%	Decrease of 0.5%: 7.39%	Increase of 0.5%: 8.39%
Liability	3 052 000	2 899 400	3 204 600
Cost / (Saving)	-	152 600	(152 600)

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Retirement	2021		2020	
	Current Assumption	Retire at average age	R	Retire at average age
		60		57
Liability				
Cost / (Saving)	3 052 000	2 838 360		3 265 640
	-	213 640		(213 640)
The amounts recognised in the Statement of Financial Position are as follows:				
Balance at the beginning of the year		2 679 000		2 615 150
Current service costs		345 000		326 782
Interest cost		191 000		194 690
Benefits paid		(209 000)		(449 654)
Actuarial (losses) / gains		46 000		(7 968)
Total Recognised Benefit Liability		3 052 000		2 679 000

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

	2021 R	2020 R
Current service cost	345 000	326 782
Interest cost	191 000	194 690
Actuarial (losses) / gains	46 000	(7 968)
Total Long service award included in Employee Related Costs (Note 26)	582 000	513 504

The history of experienced adjustments is as follows:

	2021 R	2020 R	2019 R	2018 R
Present Value of Defined Benefit Obligation	3 052 000	2 679 000	2 615 150	2 076 192
Deficit	3 052 000	2 615 150	2 076 192	2 076 192

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan a long-service award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long-service benefits are payable to employees.

Actuarial valuations are performed annually. The most recent valuations of the present value of the defined benefit obligation was carried out at 30 June 2021 by C Weiss for Arch Actuarial, a member of the Actuarial Society of South Africa.

The defined benefit obligation and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

16. NON-CURRENT PROVISIONS

Reconciliation of non-current provisions
Environmental rehabilitation

Opening Balance	3 060 347	2 715 046
Increase in provision due to discounting	168 319	345 301
Total Non-Current Provision	3 228 666	3 060 347

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021 R	2020 R
-----------	-----------

Assumptions for landfill site provision

The most critical assumptions for estimating the life expectancy and rehabilitation costs of a landfill are:

- Available permitted airspace (typically expressed in cubic metres (m³). The sites will ultimately be used from one side of the fence to the other along the sites' perimeter. However, the final land use has not been determined for all these sites which would indicate the height that is useful for the sites hence the report assumes that, for the sake of calculations, the height of the sites will be between 3 and 5 meters from the lowest level reached by the waste.
- Airspace utilization factor commonly referred to as the in-place waste density (typically expressed as tons of waste placed per cubic meter of airspace consumed (tons/m³). The average density of the waste is between 0,75 T/m³ to 1,20 T/m³, depending on waste type and compaction efficiency, as prescribed by DWAF Minimum Requirements for Waste Disposal by Landfill (Second Edition, 1998). In this report it has been assumed that it is 0,75T/m.
- Waste acceptance rate (typically expressed in tons per year (tpy). Daily deposition of waste is about 10 Tons/per day (estimates given by municipal staff and there were no proper records kept).
- The sites listed below, have been in existence for the reporting period:
Joubertina
Krakeelrivier
Coldstream
Woodlands
- the methodology prescribed by DWAF assumes that landfilling is done instead of waste dumping.

17 ACCUMULATED SURPLUS

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

Accumulated Surplus / (Deficit) due to the results of Operations	371 845 963	363 223 868
18 PROPERTY RATES		
Rates received		
Residential	3 059 853	2 797 733
Commercial	6 608 042	1 929 096
Agricultural	(1 611 252)	2 261 618
Government	6 219 627	5 805 408
Special rating areas	3 540 055	3 214 653
	17 816 326	16 008 510

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
18 PROPERTY RATES (continued)		
Valuations		
Residential	1 123 568 740	1 123 568 740
Commercial	417 973 000	417 973 000
State	499 686 980	499 686 980
Agriculture	2 104 841 199	2 104 841 199
Exempted properties	188 953 500	188 953 500
	4 335 023 429	4 335 023 429

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. A 6.0 per cent increase in tariffs has been applied.

A general rate of 0.8967c is applied to property valuations to determine assessment rates. Rebates of 30% are granted to properties where municipality does not provide services

Rates are levied on an annual basis, with the option of paying the rates on a monthly basis.

19 FINES		
Traffic fines accrual	2 042 450	15 820 100
Traffic fines collected	169 706	3 587 798
	2 212 156	19 407 898

20 INCOME FROM AGENCY SERVICES

The following income is generated:

20.1 Department of transport

Driver License Fees	1 304 675	2 360 294
Motor Vehicle licenses	1 251 369	619 995
Roadworthy certificates	7 304	2 559
	2 563 348	2 982 849

Driver License Fees

Revenue received/to be received on behalf of principal
Expenditure paid/to be paid on principal

	1 304 675	2 360 294
	1 304 675	2 360 294

Motor Vehicles Licences

Revenue received/to be received on behalf of principal
Expenditure paid/to be paid on principal

	4 563 385	2 280 945
	(3 312 016)	(1 640 950)
	1 251 369	619 995

Roadworthy

Revenue received/to be received on behalf of principal
Expenditure paid/to be paid on principal

	7 304	2 559
	7 304	2 559

The municipality collects vehicle registration fees on behalf of the Department of Transport for registration of vehicles done within the municipality's jurisdiction. There have been no changes in the agreement or contracts from the prior period. The municipality is entitled to 19% of the fees collected as per the agreement as compensation for the transactions carried out. There are no liabilities or expenses that has been incurred on behalf of the Department of Transport relating to the above Arrangement

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
20.2 Sarah Baartman District Municipality		
Fire Services		
Revenue received/to be received on behalf of principal	1 106 881	119 244
Expenditure paid/to be paid on principal	(1 106 881)	(119 244)
Receivables on behalf of Principal		
Opening Balance	125 944	-
Revenue receivable	1 300 990	1 161 360
Amount received	(250 000)	(1 035 416)
	1 176 934	125 944
The municipality entered into an agreement with Sarah bBaartman for the provision of specialised fire services falling within the territorial jurisdiction of the municipality. The district municipality consequently obliged to render financial and /infrastructure support to the municipality for the performance of the agreed services		
Environmental Health Services		
Revenue received/to be received on behalf of principal	686 208	1 013 200
Expenditure paid/to be paid on principal	(686 208)	(1 013 200)
	-	-

The municipality entered into a Partnership Performance Service Level Agreement with Sarah Baartman District Municipality to render environmental health services to the community in the geographical area of the municipality. Sarah Baartman is then obliged to make available financial resources to the municipality for the provision of services

KOU-KAMIMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

21 GOVERNMENT GRANTS AND SUBSIDIES RECOGNISED

National Equitable Share	
FMG - Finance Management Grant	
EPWP - Expanded Public Works Programme	
Sarah Baartman District Municipality: Environmental Health Subsidy	
MIG - Municipal Infrastructure Grant: PMU	
DSRAC - Library Subsidy	
MIG - Municipal Infrastructure Grant	
DWAF - Department of Water Affairs Grant	
INEP - Integrated National Electrification Programme	
DEDEA - Waste Management Grant	
Sarah Baartman District Municipality: Fire Services	
MDRG - Municipal Disaster Relief Grant	
Total Government Grants and Subsidies	

National: Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy based on monthly billing, towards the consumer account, which is determined annually by council. All residential households receive 6kl water and some poor areas 50kWh electricity free every month.

	2021 R	2020 R
	60 642 252	49 376 003
	2 800 000	2 435 000
	1 093 092	998 396
	686 208	1 013 200
	598 180	769 800
	1 263 735	957 325
	19 638 558	15 087 362
	418 594	22 008 581
	2 073 997	109 538
	4 119 305	1 843 813
	1 106 881	119 244
	651 676	301 324
	95 092 478	95 019 585

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
FMG - Finance Management Grant		
Balance unspent at beginning of year	-	-
Current year receipts	2 800 000	2 435 000
Conditions met - transferred to Revenue	(2 800 000)	(2 435 000)
Balance at the end of the year	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.

Grant purpose: To provide funding to support the strategic planning and IDP functions within the municipality.

MIG - Municipal Infrastructure Grant: PMU		
Balance unspent at beginning of year	-	-
Current year receipts recognised	598 180	769 800
Transferred to Revenue	(598 180)	(769 800)
Balance at the end of the year	-	-

Grant purpose: This relates to the 5% PMU charge as part of the MIG allocation

Sarah Baartman District Municipality: Environmental Health Subsidy		
Balance unspent at beginning of year	-	-
Current year receipts	686 208	1 013 200
Transferred to Revenue	(686 208)	(1 013 200)
Balance at the end of the year	-	-

Purpose of the subsidy : To provide environmental services on behalf of Sarah Baartman District Municipality.

DWAF - Department of Water Affairs Grant		
Balance unspent at beginning of year	1 316 383	16 917 967
Current year receipts	-	10 000 000
Reverted to National Revenue Fund	(897 789)	(3 593 003)
Transferred to Revenue	(418 594)	(22 008 581)
Balance at the end of the year	-	1 316 383

Grant purpose: The purpose of the grant is to assist drought stricken municipalities within the country

DSRAC - Library Subsidy		
Balance unspent at beginning of year	342 675	-
Current year receipts	1 300 000	1 300 000
Transferred to Revenue	(1 263 735)	(957 325)
Balance at the end of the year	378 940	342 675

Grant purpose: The purpose of the grant is a subsidy for library services in the Kou-kamma district. The subsidy covers salaries, operation and maintenance costs.

MIG - Municipal Infrastructure Grant		
Balance unspent at beginning of year	3 953 481	4 414 643
Current year receipts	11 979 544	14 626 200

Transferred to Revenue
Balance at the end of the year

Grant purpose: The purpose of the MIG grant is to provide capital funding for the upgrading, maintenance of the municipal infrastructure in order to provide basic services to the community.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
INEP - Integrated National Electrification Programme		
Balance unspent at beginning of year	1 440 462	
Current year receipts	3 037 000	1 550 000
Transferred to Revenue	(2 073 996)	(109 538)
Other Adjustments	(665 463)	
Balance at the end of the year	1 738 003	1 440 462
Grant Purpose: The purpose of the grant is to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.		
Small Town Revitalisation		
Balance unspent at beginning of year	-	1 101 359
Current year receipts		-
Transferred to Revenue	(1 739 586)	(1 101 359)
Balance at the end of the year	(1 739 586)	-
Grant purpose: To provide funding for the creation of sustainable RDP houses.		
MDRG - Municipal Disaster Relief Grant		
Balance unspent at beginning of year	651 676	-
Current year receipts		953 000
Transferred to Revenue	(651 676)	(301 324)
Balance at the end of the year	-	651 676
Grant purpose: Covid 19 Relief fund to Municipalities		
DEDEA - Waste Management Grant		
Balance unspent at beginning of year	826 187	-
Current year receipts	3 494 000	2 670 000
Transferred to Revenue	(4 119 305)	(1 843 813)
Balance at the end of the year	200 882	826 187
Grant purpose: Waste management within the municipal boundaries		
EPWP - Expanded Public Works Programme		
Balance unspent at beginning of year	88 604	-
Current year receipts	1112000	1 087 000
Amount reverted back	(88 604)	
Transferred to Revenue	(1 093 092)	(988 396)
Balance at the end of the year	18 908	88 604
Grant purpose: To provide employment to improve the quality of life of unemployed people through the appointment of them to do labour intensive projects for example: Road Maintenance and the maintenance of buildings; Maintenance of social infrastructure; Beautification and cleansing of the municipal areas.		

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
22 SERVICE CHARGES		
Sale of Electricity	2 647 169	2 612 199
Sale of Water	19 917 095	16 031 514
Refuse Removal	3 735 386	3 375 374
Sewerage and Sanitation Charges	6 870 197	6 342 700
Total Service Charges	33 169 847	28 361 788
Attributable to:		
Continuing Operations	33 169 847	28 361 788
	33 169 847	28 361 788

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs. Included in the amounts disclosed in Free Basic Services provided to residents who qualify in terms of the approved policy.

23 RENTAL OF FACILITIES AND EQUIPMENT

Operating Lease Rental Revenue:		
Halls		
Houses	69 439	111 719
Facilities and equipment	27 782	391 989
Rental of equipment	97 221	503 708
Rental other	-	-
Total Rental of Facilities and Equipment	97 221	551 076
Attributable to:		
Continuing Operations	97 221	1 054 784
	97 221	1 054 784

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

24 INTEREST EARNED

External Investments:		
Bank Account and short term deposits	290 103	805 000
Total Interest Earned	290 103	805 000
Outstanding Debtors:		
Debtors	16 290 928	16 933 380
Total Interest Earned Outstanding Debtors	16 290 928	16 933 380
Total	16 581 032	17 738 380

25 OTHER REVENUE

Other Income from Non-exchange transactions		
Donations received	731 366	771 462
Actuarial gain		1 526 979
Other income from exchange transactions		

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
Valuation certificates	11 244	8 729
Building plan fees	410 685	245 613
Land use application fees	33 733	23 464
Information fees	43 986	46 918
Cemetery fees	101 689	88 377
Sundry other fees	2 560 881	616 712
Total Other Revenue	3 162 217	3 328 253
Attributable to:		
Continuing Operations	3 162 217	3 328 253
	3 162 217	3 328 253

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 18 to 23, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
26 EMPLOYEE RELATED COSTS		
Employee Related Costs – Salaries and Wages	37 807 345	35 716 730
Employee Related Costs – Contributions for UIF, Pensions and Medical Aids	8 458 473	7 762 975
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	2 070 360	1 850 257
Housing Benefits and Allowances	576 972	356 849
Overtime Payments	4 206 402	4 310 727
Long-service awards	459 795	200 451
Total Employee Related Costs	53 579 346	50 197 988
Attributable to:		
Continuing Operations	53 579 346	50 197 988
	53 579 346	50 197 988

Included in Employee Related Costs is an amount of R5 573 591 (2020: R5 166 950) paid by the municipality to Defined Contribution Plans at rates specified by the rules of the plans. For the financial period ending 30 June 2021, contributions due in respect of the 2020/21 reporting period has been accounted for and paid over to the plans accordingly.

Remuneration of Section 57 Employees:

Remuneration of the Municipal Manager (Kate P.M)

Annual Remuneration	1 050 382	969 583
Car and Other Allowances	260 000	274 108
Company Contributions to UIF, skills	1 933	13 748
Total	1 312 315	1 257 440

The Municipal Manager Mr Kate P.M. was appointed 11 April 2017

Remuneration of the Chief Financial Officer (Venter N.)

Annual Remuneration	1 020 552	892 035
Car and Other Allowances	102 000	144 000
Company Contributions to UIF, skills	1 933	11 857
Total	1 124 485	1 047 892

The contract of the Chief Financial Officer Ms Venter N. ended 31 November 2016. The contract was renewed, appointed date 27 January 2017

Remuneration of the Manager: Corporate Services (Tom T.)

Annual Remuneration	815 353	523 083
Car and Other Allowances	556 951	512 952
Company Contributions to UIF, skills	1 933	11 665
Total	1 374 237	1 047 700

The Manager: Corporate Services Ms Tom T. was appointed 1 December 2017

Remuneration of the Manager: Director: Community & Technical Services (Galaba M)

Appointed 1 July 2020

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Annual Remuneration
 Car and Other Allowances
 Company Contributions to UIF, Medical and Pension Funds

	2021	2020
	R	R
	1 255 628,74	
	35 698	
	1 933	
	<u>1 293 260</u>	
		<u>-</u>

Employee costs
 Employee related costs
 Directors

	53 579 346	50 197 988
	5 104 297	3 353 032
	<u>58 683 643</u>	<u>53 551 020</u>

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

27 REMUNERATION OF COUNCILLORS

	2021 R	2020 R
Mayor	917 438	854 441
Councillors	2 426 885,76	2 580 626
Councillors' allowances	388 400,00	408 000
Total Councillors' Remuneration	3 732 724	3 843 067
Councillors' remuneration		
Goliath. G.G.M.	295 891	298 659
Herman F.E.	295 891	298 659
Jansen J.	295 891	299 296
Krige J	295 891	298 850
Plaaijies J.	295 891	298 659
Pullen H.P.	295 891	298 659
Rheeders C (Deceased 12 November 2020)	99 617	299 296
Plaaijies W (Appointed 21 January 2021)	52 650	
Strydom F	295 891	298 850
Smil K	295 891	298 850
Yake F.J.	295 891	298 659
	2 815 286	2 988 434

In-kind Benefits

The Executive Mayor is full-time and is provided with an office and secretarial support at the cost of the Council.

The councillor salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution

28 DEPRECIATION AND AMORTISATION

Depreciation: Property, Plant and Equipment	21 917 338	20 801 982
Amortisation: Intangible Assets	197 665	52 837
Depreciation: Investment Property	15 188	6 902
Total Depreciation and Amortisation	22 130 191	20 861 721

Attributable to:

Continuing Operations

	22 130 191	20 861 721
	22 130 191	20 861 721

29 FINANCE COSTS

Suppliers	1 190 535	109 642
Finance Charges	880	1 254 333
Creditors Overdue	1 191 415	1 363 975
Attributable to:		
Continuing Operations	1 191 415	1 363 975
	1 191 415	1 363 975

30 BULK PURCHASES

Electricity	4 640 192	4 291 401
-------------	-----------	-----------

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Water	2021	2020
	R	R
	83 347	43 826
Total Bulk Purchases	4 723 539	4 335 227

KOU-KAMIMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

31 CONTRACTED SERVICES

	2021 R	2020 R
Professional Fees	5 428 984	1 471 987
Security Services	1 838 971	1 575 014
General contract expenses	2 239 254	4 917 485
Total Contracted Services	9 507 209	7 964 486
Attributable to:		
Continuing Operations	9 507 209	7 964 486
	9 507 209	7 964 486

32 GENERAL EXPENSES

Included in General Expenses are the following:

Advertising	325 856	557 493
Audit Fees - External	1 753 523	3 022 704
Bank Charges	363 462	463 863
Electricity purchases	4 676 803	4 291 781
Insurance	574 988	837 743
Licence cards & fees - vehicles	103 823	74 411
Other expenses	4 901 686	9 574 112
Other rentals	1 257 010	300 795
Rental of office equipment	549 804	464 665
Subscription and publications	44 347	-
Telephone cost	1 645 633	2 009 384
Materials and stores	4 001 946	-
Travel and subsistence	140 577	680 397
Total General Expenses	20 339 456	22 277 348

33 CASH GENERATED BY OPERATIONS

(Deficit) / Surplus for the Year	(4 501 344)	20 983 859
Adjustment for:		
Depreciation and Amortisation	22 130 191	20 861 721
Losses / (Gains) on Disposal of Property, Plant and Equipment	252 551	-
Movements in retirement benefit assets and liabilities	398 055	-
Movements in provisions	605 233	(418 916)
Impairment of debtors	40 666 464	417 162
Fair value adjustment	220 000	321 962
Non-cash Government grants adjustments	(341 447)	-
Changes in working capital:		
(Increase) / Decrease in Inventories	7 870	(41 213)
(Increase) / Decrease in receivables from exchange transactions	(40 501 838)	(7 403 630)
(Increase) / Decrease in other receivables from non-exchange transactions	3 921 699	(2 787 799)
Increase / (Decrease) in payables from exchange transactions	-2 909 222	6 197 545
(Increase)/Decrease in lease receivables	(14 156)	21 952
(Increase) / Decrease in VAT Receivable	4 399 513	5 214 642
Increase / (Decrease) in unspent conditional grants and receipts	(6 282 738)	(12 713 141)
Increase / (Decrease) in consumer deposits	783	-

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Cash generated by / (utilised in) Operations

	2021	2020
	R	R
	18 051 615	(17 713 141)

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

34 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

34.1 Unauthorised Expenditure

Opening balance
Prior year approval (written off by council)
2020/21 Unauthorised expenditure

	2021 R	2020 R
	16 125 928	18 040 699
	(16 125 928)	(1 914 771)
	(10 703 019)	-
	<u><u>-10 703 019</u></u>	<u><u>16 125 928</u></u>

34.2 Fruitless and Wasteful Expenditure

Opening balance
Prior year approval (written off by council)
Fruitless and Wasteful Expenditure current year

	1 554 739	5 263 982
	(1 496 170)	(3 998 263)
	<u><u>58 569</u></u>	<u><u>289 020</u></u>
	<u><u>1 554 739</u></u>	<u><u>1 554 739</u></u>

34.3 Irregular Expenditure

Opening balance
Prior year approval (written off by council)
Contravention of the supply chain policy

	45 669 006	127 236 129
	(43 728 870)	(97 380 903)
	1 174 448	15 813 780
	<u><u>3 114 584</u></u>	<u><u>45 669 006</u></u>

Irregular expenditure of R1 174 448 (2019/20:R15 813 780) for the current financial year relates to contravention of paragraph 33 of the Supply Chain Management regulation. This regulation deals with the composition of the Bid Adjudication Committee. As a result of this all tenders awarded in relation to the before

35 CORRECTION OF PRIOR PERIOD ERROR

The correction of the errors / change in accounting policies resulted in adjustments as follows:

35.1 Trade Payables

Correction of creditors

Adjustment against statement of financial performance

Adjustments affecting the statement of financial position

Increase in creditors

This relates to invoices not accrued in prior year :Abeco and Ntlama Civils

	237 800
	<u><u>(237 800)</u></u>

35.2 Trade receivables from Exchange transaction

Correction of debtors

Adjustments affecting the statement of financial position

Adjustment against statement of financial performance

This relates to Conlog revenue received for prior year invoices

	490 084
	<u><u>(490 084)</u></u>

35.3 Property Plant and Equipment

Repairs incorrectly included in WIP additions

Adjustment against retained earnings 30 June 2019

Adjustments affecting the statement of financial position

Decrease in WIP

	3 100 219
	<u><u>(3 100 219)</u></u>

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
--	-----------	-----------

This relates to a correction of prior year depreciation which relates to reviewed useful lives.

This relates to correction of workmans compensation

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

36 Material losses			
Distribution losses on electricity (R)			
Distribution losses on water (R)			
	2021	2020	
	R	R	
Accounted water losses :			
Volume Distributed (kl)	1 225 274	1 201 341	
Volume Billed(kl)	11 948 894	11 497 567	
Non-Revenue Water (kl)	13 174 168	12 698 908	
Methodology used			
	Litres per annum	Litres per annum	
	1 533 102	1 533 102	
	(937 054)	(625 778)	
	596 048	907 324	

The water loss calculations were based on the readings of the bulk water meters on the main line feeding into the distribution systems from the reservoirs and then the end users meters.

In determining the water loss the following were considered:

The methodology is based on the logical intellect or arithmetic principle that a product metered at initial point of the sealed pipeline will be equal to the amount of product metered at the end of the same pipeline

On that case, the volume of water from reservoir metered on the outlet pipe A distributing to point B, C and D is expected to be equals to the sum of water metered at points B, C and D. The difference is therefore considered a loss as it is not been accounted for.

In the absence of meters at point B, C and D, the total volume of water distributed at point A (Reservoir outlet) is considered water loss as it is not accounted for on the distribution mains.

The value of water is based on the expenditure incurred in relation to the volume of water purified from all systems inclusive of bulk water purchases for the entire financial year.

Such information is used to determine the value of water per specific volume. The determined total amount of water unaccounted for is then converted in to rand value based.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
37 Audit fees		
Opening balance	3 795 460	2 472 736
Current year audit fee	1 753 523	3 936 833
Current year Interest	152 280	295 528
	<u>5 701 263</u>	<u>3 795 460</u>
The balance unpaid represents the audit fees that could not be paid due to financial constraints endured by the municipality.		
38 PAYE and UIF		
Current year payroll deductions	8 172 022	6 948 607
	<u>8 172 022</u>	<u>7 12 154</u>
39 Pension and medical aid deductions		
Current year payroll deductions and Council contributions	12 711 658	11 355 442
	<u>12 711 658</u>	<u>998 701</u>
40 CAPITAL COMMITMENTS		
The municipality had the following capital commitments at year-end.		
Commitments in respect of Capital Expenditure:		
- Approved and Contracted for:-		
Infrastructure	6 537 213	16 160 465
	<u>6 537 213</u>	<u>16 160 465</u>
Total Capital Commitments	<u>6 537 213</u>	<u>16 160 465</u>
This expenditure will be financed from:		
Government Grants	6 537 213	16 160 465
	<u>6 537 213</u>	<u>16 160 465</u>
41 LEASES		
At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment		
The Municipality has leased portion 250 of Krakeelrivier no, 314 to Strydom Vrugteboerdery for R3,500 per annum with an escalation of 10%. The lease is for an indefinite period.		
The municipality has entered into a lease agreement with Telkom to rent the ISDN 30 PRA for a period of 5 years at R2857.58 per month.		

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021
R

2020
R

Operating leases - Municipality as lessee (expense) (continued)

The municipality has entered into a lease agreement with Telkom to rent the TL-DIS Gold Access Service for a period of 3 years at R16 434,86 per month.

The municipality has entered into a lease agreement with Telkom for the rental of a VPN Supreme solution for a period of 3 years at R43 161,34 per month.

The Municipality entered into a lease agreement with B.J. Kemp, for the use of fountainwater and drainage water on Farm Krakeel nr. 115, Joubertina for R6500 pa, with 8% escalation each year. The lease is for a five year period and expires on 31 January 2022.

Operating lease payments represent rentals payable by the municipality for certain of its office equipment.

The municipality has entered into an operating lease agreement with Sky metro for the rental of 2 bizhub machines and 8 Sharp digital copiers for a period of three years. The lease period commenced on the 20 December 2018.

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

- (i) The equipment shall remain the property of the lessor;
- (ii) The lessee shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the office equipment; and
- (iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

The municipality has entered into a lease agreement with Ilitha Creche for the use of a municipal building at R5 per month, no escalation for 9 years and 11 months.

The municipality has entered into a lease agreement with The Heights Tea Estate for the use of a municipal property at R10 per month, no escalation for 9 years and 11 months.

The Municipality has entered into a lease agreement with Atlas Tower Property Limited (MTN) who is a licensed operator of an electronic communications network. MTN (Pty) Ltd is leasing the Erf 77 in Coldstream. The initial lease period is 9 years and 11 months at R10 260 per month. The lease expires on 28 February 2026

The municipality has entered into a lease agreement with the Stockfarmers Association for the use of municipal land at R300 per month, no escalation for 9 years and 11 months.

The municipality has entered into a lease agreement with Cell C (Pty) Ltd who is a licensed operator of an electronic communications network. Cell C (Pty) Ltd is leasing a site for the installation of certain infrastructure assets required for the operation of its network. The initial lease period is 9 years and 11 months with two renewal options of 5 years each. There are no contingent rentals and no subleases.

The Municipality has entered into a lease agreement with Vodacom PTY (Pty) Ltd who is a licensed operator of an electronic communications network. Vodacom (Pty) Ltd is leasing a site for the installation of certain infrastructure assets required for the operation of its network. The initial lease period is 9 years and 11 months with two renewal options of 5 years each. There are no contingent rentals and no subleases.

The Municipality has entered into a lease agreement with Vodacom PTY (Pty) Ltd who is a licensed operator of an electronic communications network. Vodacom (Pty) Ltd entered into a lease agreement in order to install antennae and equipment on the building situated at Joubertina. The lease contract expired in 2005

The Municipality has entered into a lease agreement with Sentech Soc Ltd to hire a portion of certain property situated off R62 in Joubertina and the unimpeded use of the access road for the purpose of site access.
Interest rate increase is in line with a published index("increases in line with CPI").

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021
R

2020
R

The municipality entered into a lease agreement with the Electoral Commission (IEC) for the rental of a vacant land, at R3000 per month inclusive of VAT with an annual escalation of 5% for a period of 9 years and 11 months

The municipality has entered into a lease agreement with Wild to Mild (Pty)Ltd for the use of a municipal property at R250 per month, no escalation for 5 years.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

42 FINANCIAL INSTRUMENTS

Categories of financial instruments

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

Financial Assets - 2021

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

Receivables from Exchange Transactions
Cash and Cash Equivalents

Financial Liabilities - 2021

Payables from exchange transactions
Unspent conditional grants

Financial Assets - 2020

Receivables from Exchange Transactions
Cash and Cash Equivalents

Financial Liabilities - 2020

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

Payables from exchange transactions
Unspent conditional grants

Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the GRAP's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

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

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

	2021 R	2020 R
At amortised cost		Total
	17 147 544	17 147 544
	3 381 539	3 381 539
	20 529 084	20 529 084
	29 231 901	29 231 901
	(3 702 692)	(3 702 692)
	25 529 209	25 529 209
	19 496 154	19 496 154
	9 916 850	9 916 850
	29 413 004	29 413 004
	31 910 323	31 910 323
	8 619 470	8 619 470
	40 529 793	40 529 793

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

Further quantitative disclosures are included throughout these Annual Financial Statements.

42.1 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Market Risk;
- Liquidity Risk; and
- Credit Risk;

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

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 on going review of future commitments and credit facilities.

The municipality intends to pay creditors within 30 days.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

42.2 Market Risk

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

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

42.3 Liquidity Risk

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

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

42.4 Foreign Currency Risk Management

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

42.5 Interest Rate Risk Management

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

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

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

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

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021 R	2020 R
Long-term Receivables and Other Debtors are individually evaluated annually at Reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.		

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

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

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out below:

Cash and Cash Equivalents

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

This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

Bank balance held with Absa bank Limited is R 3 354 923 (2019: R9 916 230).

KOU-KAMMA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021	2020
R	R

42.6 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

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

Investments/Bank, Cash and Cash Equivalents

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

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing 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, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an on going customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

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

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing.

Financial assets exposed to credit risk at year end were as follows:

Trade and other receivables from exchange transactions
 Cash and cash equivalents

	2021 R	2020 R
	17 147 544	19 496 154
	3 381 539	9 916 850
	20 529 084	29 413 004

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021
R

2020
R

43 IN-KIND DONATIONS AND ASSISTANCE

The municipality received no in-kind donations and assistance during the 2020/21 financial year, with the exception of asset transferred from JoJo Solutions

44 CONTINGENT LIABILITIES

SAMWU obo Julius & Floors

Employees instituted legal proceedings against the municipality with regards to changes in working conditions 75% possibility that this matter will be successful. Council will not benefit from any revenue/ refund
Estimated Legal costs associated with this case

643 630
150 000

643 630

Tamboer & Others

These employees are employed by the municipality and are claiming benefits which according to them are due and payable, were stopped.
Officials matter incorporated in this case, outcome per official will vary. The amount is unknown
Estimated Legal costs associated with this case

531 460
150 000

531 460
150 000

Ibhabathane CC

Application to review tender No 6/2020. Application scrapped from the roll with costs
Estimated Legal costs associated with this case

None
180 000

Ejection of Unlawful occupants from Twee Riviere

Unlawful occupants were ejected from Koukamma property.
Estimated Legal costs associated with this case

None
30 000

45 RELATED PARTY TRANSACTIONS

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

45.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with the municipality, which is limited to their employment:

Name of Related Person	Designation
Members of key management	
Municipal Manager	P.M. Kate Appointed 11 April 2017
Chief Financial Officer	N Venter Appointed 27 January 2017
Manager: Director: Community & Technical Services	M. Galaba M Appointed 1 July 2020
Manager: Corporate Services	T. Tom Appointed 1 December 2017
Mayor	Vuso MS
Councillors	Goliath. G.G.M. Herman F.E. Krige J Plaatjes J. Pullen H.P. Smith K

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

Strydom F.
Yake F.J.
Rheaders C (Deceased 12 November 2020)
Plaatjies W.(Appointed 21 January 2021)
Jansen J.

Compensation to key management as per note 26

46 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the year under review.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021
R

2020
R

47 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

47.1 Non-Compliance with the Municipal Finance Management Act

Instance of non-compliance with the MFMA relate to Irregular, Fruitless and Wasteful Expenditure.

47.2 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 39 of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Year 2020/21

CLASSIFICATION OF DEVIATIONS IN TERMS OF SECTION 36 OF THE SCM REGULATIONS	NUMBER OF INCIDENTS	AMOUNTS
Impractical to obtain quotations	219	R 4 866 511
Emergency	40	R 931 083
		R 5 797 594

48 GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

There are a number of other events and conditions that individually or collectively may cast significant doubt on the going concern assumption and place the municipality's financial sustainability under threat. These indicators include amongst others:

Certain suppliers only provide services on the cash basis now due to problems receiving payments in the past.

The low debtors collection rate

Economic impact of Covid 19, which affects the ability of consumers to pay their municipal accounts

Due to cash flow challenges the municipality is unable to pay creditor within 30 days.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis as it is off the opinion that with the current belt-tightening processes and revenue collection programme, 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. In addition to this, there is no indication that there is political will to amalgamate or discontinue operations of the municipality.

KOU-KAMMA MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021
R

2020
R

The Municipality has, despite the COVID- 19 Lockdown and adopting numerous COVID-19 protocols to avoid the spread of the virus, continued to provide essential services to the various communities in the municipal area.

Considering the uncertainty of how the COVID-19 pandemic will resolve itself and long-term financial plan, the municipality has adopted the following mitigating strategies:

- Monitor the cash flow daily and limit spending to the actual cash inflow, irrespective of budget.
 - Reduce the capital investment programme annually, for the next three financial years, to the level of capital investment funded by capital grants only.
 - Avoid giving rate payers and customers relief measures that will significantly reduce the cash inflow to the municipality. Where relief is granted, it should be in the form of delayed payments granted and no debt forgiveness should be considered.
 - Be cognisant of the highly sensitive impact collection rate has on liquidity of the municipality and prioritise decisions and actions that will support and strengthen the collection rate, without a loss of income or undue increases in expenditure.
- Based on the long-term liquidity forecasts and projections, management believe that there is a reasonable basis to conclude that the municipality will be able to continue with its service delivery operations and to meet its financial commitments in the medium and long term.

The municipality also obtains significant amounts of government grants annually to finance operating and capital expenditure.

Accordingly, it is appropriate for the municipality to adopt the going concern basis.

SEGMENT INFORMATION

General information

Identification of segments

The municipality is organised and reports to management on the basis of 4 major functional areas : Community and public safety, Economic and environmental services, Municipal governance and administration and Trading services. The segments were organised around the type of service delivered. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Aggregated segments

The municipality operates throughout the Eastern Cape Province. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Eastern Cape were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment

Community and Public Safety

Economic and Environmental Services

Municipal Governance and Administration

Trading Services

Service or activity that is performed by the municipality for the benefit of the public or its institutions.

Helps the municipality to make better decisions by identifying resources, understanding the needs of the public and formulate plans to promote local economic development

Management, cohesive policies, guidance, processes and decision-rights

Providing a service to customers at a tariff determined to "recover cost".

	Community and public safety	Economic and environmental services	Trading services	Governance and administration	Total
REVENUE					
Revenue from Non-exchange Transactions					
Property Rates				(17 816 326)	(17 816 326)
Fines	(2 212 156)				(2 212 156)
Income for Agency Services		(2 563 348)			(2 563 348)
Government Grants and Subsidies Received	(3 056 823)	(1 093 092)	(64 410 358)	(26 532 204)	(95 092 478)
Other Revenue				(731 366)	(731 366)
Revenue from Exchange Transactions					
Service Charges			(33 169 847)		(33 169 847)
Rental of Facilities and Equipment	(27 782)			(69 439)	(97 221)
Interest Earned - External Investments				(290 103)	(290 103)
Interest Earned - Outstanding Debtors				(16 290 928)	(16 290 928)
Other Revenue	(141 117)	(444 418)		(2 576 682)	(3 162 217)
Gain on disposal of Property, Plant and Equipment					
Total Segment Revenue	(5 437 878)	(4 100 858)	(97 580 205)	(64 307 048)	(171 425 990)
EXPENDITURE					
Employee Related Costs	10 634 893	4 865 747	18 609 305	24 573 699	58 683 643
Remuneration of Councillors				3 732 724	3 732 724
Depreciation and Amortisation	2 652 503	15 198 130	3334095,16	945 463	22 130 191
Bad debts	5 850 346		27 031 998	22 264 261	55 146 605
Finance Costs				1 191 415	1 191 415
Bulk Purchases			4 723 539		4 723 539
Contracted Services	827 046	342 850	1 671 733	6 665 580	9 507 209
General Expenses	801 871	76 387	9 986 867	9 474 331	20 339 456
Impairment losses					0
Loss on Disposal of Property, Plant and Equipment				252 551	252 551
Loss on fair value adjustment				220 000	220 000
Total Segment Expenditure	20 766 659	20 483 113	65 357 538	69 320 024	175 927 334
SURPLUS/ (DEFICIT) FOR THE YEAR	15 328 781	16 382 255	(32 222 667)	5 012 976	4 501 344

The municipality does not disclose segment assets and liabilities as they are not regularly reported on and reviewed by management.

Information about geographical areas

The municipality's operations are in the Eastern Cape Province.

The reason for non disclosure of geographical areas is because it is considered to be irrelevant for decision making purposes. The municipality's geographical areas of operation are considered as a single geographical area for decision making purposes.

KOUKAMMA MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

On available for cash flow of the year ended 30 June 2011.

100

of resources Revenue is appropriated between exchange and non-exchange revenue, and

safety, waste management, water management, road transport, water.

Problems

100