

Karoo Hoogland Local Municipality
Annual Financial Statements for the year ended 30 June 2021



Karoo Hoogland Local Municipality
Annual financial statements
for the year ended 30 June 2021
Adjusted 17 February 2022

* See Note 38

Karoo Hoogland Local Municipality

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COVID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COVID-19	Coronavirus Disease

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

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

JJ Fortuin
Municipal Manager

Karoo Hoogland Local Municipality

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Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Incorporation

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

2. Going concern

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

3. Subsequent events

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

4. Accounting Officer

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

Name	Nationality
JJ Fortuin	South African

5. Accounting Officer contact details

Email - munman@karoohoogland.gov.za.

Telephone number - 053 391 3003.

6. Council members

VC Wentzel - Mayor.

J Davids.

A Januarie.

G Klazen.

J Jooste.

JJ van der Colff.

JJ Jacobs.

7. Bankers

The municipality's preferred bankers are:

Standard Bank
Williston
8920

8. Auditors

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

9. Lawyers

Van de Wall Incorporated.

10. Jurisdiction

The Karoo Hoogland Local Municipality includes the following areas:

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

Williston.
Sutherland.
Fraserburg.
Farm areas.

11. Web Address

www.karoohoogland.gov.za

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

JJ Fortuin
Municipal Manager

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	183 312	187 632
Other receivables from exchange transactions	4	126 987	122 451
Receivables from non-exchange transactions	5	5 243 504	2 848 725
VAT receivable	6	582 945	199 451
Receivables from exchange transactions	7	9 490 653	9 677 867
Cash and cash equivalents	8	8 588 339	4 274 532
		24 215 740	17 310 658
Non-Current Assets			
Investment property	9	35 107 711	35 382 060
Property, plant and equipment	10	250 142 340	258 564 423
Intangible assets	11	292 920	339 336
Long term receivables	12	-	164 206
		285 542 971	294 450 025
Total Assets		309 758 711	311 760 683
Liabilities			
Current Liabilities			
Other financial liabilities	13	233 737	222 345
Finance lease obligation	14	112 941	144 276
Payables from exchange transactions	15	9 243 904	9 440 610
Consumer deposits	16	368 197	287 577
Employee benefit obligation	17	185 000	304 000
Unspent conditional grants and receipts	18	4 175 570	454 404
Provisions	19	505 000	168 000
		14 824 349	11 021 212
Non-Current Liabilities			
Other financial liabilities	13	1 208 527	1 442 247
Finance lease obligation	14	63 858	176 996
Employee benefit obligation	17	1 989 000	2 301 000
Provisions	19	27 929 847	33 050 384
		31 191 232	36 970 627
Total Liabilities		46 015 581	47 991 839
Net Assets		263 743 130	263 768 844
Accumulated surplus		263 743 130	263 768 844
Total Net Assets		263 743 130	263 768 844

* See Note 38

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	20 529 496	19 059 634
Rental of facilities and equipment	21	621 604	591 464
Interest received (trading)		2 033 916	1 895 870
Agency services		99 496	29 438
Other income	22	1 413 654	482 104
Interest received - investment	23	198 717	269 902
Total revenue from exchange transactions		24 896 883	22 328 412
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	6 850 411	6 999 987
Property rates - interest received	24	583 559	388 553
Transfer revenue			
Government grants & subsidies	25	42 073 600	37 198 049
Public contributions and donations	26	1 487 061	3 585 275
Fines, Penalties and Forfeits		3 540	695
Total revenue from non-exchange transactions		50 998 171	48 172 559
Total revenue		75 895 054	70 500 971
Expenditure			
Employee related costs	27	(27 559 875)	(26 139 730)
Remuneration of councillors	28	(2 650 645)	(2 632 722)
Depreciation and amortisation	10&9&11	(12 198 865)	(12 228 635)
Finance costs	29	(2 965 771)	(3 299 247)
Debt Impairment	30	(6 243 420)	(3 962 017)
Bad debts written off		(907 012)	(177 915)
Bulk purchases	31	(10 163 283)	(9 482 149)
Contracted services	32	(1 390 882)	(1 080 400)
Operating cost	33	(12 079 280)	(10 478 225)
Total expenditure		(76 159 033)	(69 481 040)
Operating (deficit) surplus		(263 979)	1 019 931
Profit/(Loss) on derecognition of asset		(105 555)	(1 315 464)
Actuarial gains/losses	17	343 824	653 692
		238 269	(661 772)
(Deficit) surplus for the year		(25 710)	358 159

* See Note 38

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Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	262 214 467	262 214 467
Adjustments		
Correction of errors	1 196 218	1 196 218
Balance at 01 July 2019 as restated*	263 410 685	263 410 685
Changes in net assets		
Surplus for the year	358 159	358 159
Total changes	358 159	358 159
Opening balance as previously reported	261 246 255	261 246 255
Adjustments		
Correction of errors	2 522 585	2 522 585
Restated* Balance at 01 July 2020 as restated*	263 768 840	263 768 840
Changes in net assets		
Deficit for the year	(25 710)	(25 710)
Total changes	(25 710)	(25 710)
Balance at 30 June 2021	263 743 130	263 743 130

* See Note 38

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Rate payers and other		21 729 341	21 839 644
Grants		44 394 766	36 956 000
Finance income		198 717	269 902
Interest earned - outstanding debtors		2 033 916	1 895 870
Property rates - Interest received		583 559	388 553
Taxes		(383 494)	3 446 612
		<u>68 556 805</u>	<u>64 796 581</u>
Payments			
Employee costs		(30 490 656)	(28 547 267)
Suppliers		(23 773 101)	(25 740 942)
Finance costs		(15 452)	(132 129)
		<u>(54 279 209)</u>	<u>(54 420 338)</u>
Net cash flows from operating activities	48	<u>14 277 596</u>	<u>10 376 243</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(9 551 738)	(11 607 692)
Purchase of other intangible assets	11	(16 482)	(293 210)
Decrease in long term receivables		-	191 783
Net cash flows from investing activities		<u>(9 568 220)</u>	<u>(11 709 119)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(300 638)	(211 261)
Increase in consumer deposits		80 620	57 815
Finance lease payments		(175 550)	(198 380)
Net cash flows from financing activities		<u>(395 568)</u>	<u>(351 826)</u>
Net increase/(decrease) in cash and cash equivalents		4 313 807	(1 684 700)
Cash and cash equivalents at the beginning of the year		4 274 532	5 959 232
Cash and cash equivalents at the end of the year	8	<u>8 588 339</u>	<u>4 274 532</u>

* See Note 38

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	21 593 800	(74 500)	21 519 300	20 529 496	(989 804)	51
Rental of facilities and equipment	788 000	(200 000)	588 000	621 604	33 604	51
Interest received (trading)	1 961 304	600 000	2 561 304	2 033 916	(527 388)	51
Agency services	28 000	-	28 000	99 496	71 496	51
Other income	1 132 000	(600 000)	532 000	1 413 654	881 654	51
Interest received - investment	297 001	(60 000)	237 001	198 717	(38 284)	51
Total revenue from exchange transactions	25 800 105	(334 500)	25 465 605	24 896 883	(568 722)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7 467 600	(120 000)	7 347 600	6 850 411	(497 189)	51
Property rates - interest received	-	-	-	583 559	583 559	51
Transfer revenue						
Government grants & subsidies	33 160 100	(399 100)	32 761 000	42 073 600	9 312 600	51
Public contributions and donations	-	-	-	1 487 061	1 487 061	51
Fines, Penalties and Forfeits	26 700	(20 000)	6 700	3 540	(3 160)	51
Total revenue from non-exchange transactions	40 654 400	(539 100)	40 115 300	50 998 171	10 882 871	
Total revenue	66 454 505	(873 600)	65 580 905	75 895 054	10 314 149	
Expenditure						
Personnel	(28 027 732)	-	(28 027 732)	(27 559 875)	467 857	51
Remuneration of councillors	(2 763 303)	-	(2 763 303)	(2 650 645)	112 658	51
Depreciation and amortisation	(7 500 000)	3	(7 499 997)	(12 198 865)	(4 698 868)	51
Finance costs	(134 400)	-	(134 400)	(2 965 771)	(2 831 371)	51
Debt impairment	(3 738 517)	-	(3 738 517)	(7 150 432)	(3 411 915)	51
Bulk purchases	(10 800 000)	700 000	(10 100 000)	(10 163 283)	(63 283)	51
Contracted Services	(7 458 110)	(25 000)	(7 483 110)	(1 390 882)	6 092 228	51
General Expenses	(12 957 600)	1 190 000	(11 767 600)	(12 079 280)	(311 680)	51
Total expenditure	(73 379 662)	1 865 003	(71 514 659)	(76 159 033)	(4 644 374)	
Operating deficit	(6 925 157)	991 403	(5 933 754)	(263 979)	5 669 775	
Loss on derecognition of asset	-	-	-	(105 555)	(105 555)	51
Actuarial gains/losses	-	-	-	343 824	343 824	51
	-	-	-	238 269	238 269	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(6 925 157)	991 403	(5 933 754)	(25 710)	5 908 044	

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Property rates	7 467 600	(120 000)	7 347 600	-		7 347 600	7 433 970		86 370	101 %	100 %
Service charges	23 555 104	525 500	24 080 604	-		24 080 604	22 563 412		(1 517 192)	94 %	96 %
Investment revenue	297 001	(60 000)	237 001	-		237 001	198 717		(38 284)	84 %	67 %
Transfers recognised - operational	33 160 100	(399 100)	32 761 000	-		32 761 000	33 092 702		331 702	101 %	100 %
Other own revenue	1 974 700	(820 000)	1 154 700	-		1 154 700	2 482 118		1 327 418	215 %	126 %
Total revenue (excluding capital transfers and contributions)	66 454 505	(873 600)	65 580 905	-		65 580 905	65 770 919		190 014	100 %	99 %
Employee costs	(28 027 732)	-	(28 027 732)	-	-	(28 027 732)	(27 559 875)	-	467 857	98 %	98 %
Remuneration of councillors	(2 763 303)	-	(2 763 303)	-	-	(2 763 303)	(2 650 645)	-	112 658	96 %	96 %
Debt impairment	(3 738 517)	-	(3 738 517)			(3 738 517)	(7 150 432)	(3 411 915)	(3 411 915)	191 %	191 %
Depreciation and asset impairment	(7 500 000)	3	(7 499 997)			(7 499 997)	(12 198 865)	(4 698 868)	(4 698 868)	163 %	163 %
Finance charges	(134 400)	-	(134 400)	-	-	(134 400)	(2 965 771)	(2 831 371)	(2 831 371)	2 207 %	2 207 %
Materials and bulk purchases	(10 800 000)	700 000	(10 100 000)	-	-	(10 100 000)	(10 163 283)	(63 283)	(63 283)	101 %	94 %
Other expenditure	(20 415 710)	1 165 000	(19 250 710)	-	-	(19 250 710)	(13 575 717)	-	5 674 993	71 %	66 %
Total expenditure	(73 379 662)	1 865 003	(71 514 659)	-	-	(71 514 659)	(76 264 588)	(11 005 437)	(4 749 929)	107 %	104 %
Surplus/(Deficit)	(6 925 157)	991 403	(5 933 754)	-		(5 933 754)	(10 493 669)		(4 559 915)	177 %	152 %

Karoo Hoogland Local Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-	-	-	8 980 898	-	8 980 898	100 %	100 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	1 487 061	-	1 487 061	100 %	100 %
Surplus (Deficit) after capital transfers and contributions	(6 925 157)	991 403	(5 933 754)	-	-	(5 933 754)	(25 710)	-	5 908 044	- %	- %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

The annual financial statements have been rounded to the nearest Rand.

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

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

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

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

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Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Allowance for doubtful debts

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

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships.

Additional information is disclosed in Note 53.

1.4 Investment property

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

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

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

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

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

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

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

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Accounting Policies

1.4 Investment property (continued)

Cost model

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

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

Item	Useful life
Property - buildings	30 years

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

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

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	20 - 35 years
Infrastructure assets	Straight-line	2 - 80 years
Capital restoration cost	Straight-line	1 - 20 years
Other assets	Straight-line	3 - 20 years
Leased assets	Straight-line	3 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

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

Land and buildings are recognised according to the systems Deedsweb. Deedsweb is a search function to extract information from the deeds office.

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.6 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software	Straight-line	5 years
Computer software licenses	Straight-line	5 years

Intangible assets are derecognised:

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

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

1.7 Financial instruments

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

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

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

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

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

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class

Receivables from exchange transactions
Receivables from non-exchange transactions
Cash and cash equivalents
Long term receivables

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost

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

Class

Other financial liabilities
Finance lease obligation
Trade and other payables
Consumer deposits

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Initial recognition

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Financial instruments (continued)

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities.

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

The entity measures a financial asset and financial liability initially at its fair value.

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.7 Financial instruments (continued)

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount at the end of the reporting period and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

Financial assets measured at cost.

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

Presentation

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

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

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

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

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

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.8 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.

Every effort is made to ensure compliance with the standard, but due to the risk of omission of some items due to a lack of experience with implementing this standard the municipality is utilising the transitional provision contained within Directive 4 that grant the municipality a period of three years in order to finalise the classification and measurement for Statutory Receivables.

The transitional period commences from 1 June 2019 and will be utilised until the period ending 30 June 2022.

Recognition

The municipality 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 municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality 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 municipality 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 municipality 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).

Karoo Hoogland Local Municipality

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Accounting Policies

1.8 Statutory receivables (continued)

Impairment losses

The municipality 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 municipality 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 municipality 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 municipality 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 municipality 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 municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, 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:
 - derecognise the receivable; and
 - 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.

1.9 Leases

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

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

1.10 Inventories

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

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

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

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

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

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

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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

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

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Accounting Policies

1.11 Employee benefits

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

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

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

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

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

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

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1.11 Employee benefits (continued)

Post-employment benefits

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

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

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

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

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1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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1.11 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Termination benefits

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

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

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

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

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

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

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

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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1.12 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.12 Provisions and contingencies (continued)

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

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

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

1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Sale of goods

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

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

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

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

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

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

Unclaimed deposits

All unclaimed deposits are initially recognised as a liability until 12 months expires when all unclaimed deposits into the Municipality's bank account will be treated as revenue as historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore, the substance of these transactions indicated that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after twelve months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after twelve months.

1.15 Revenue from non-exchange transactions

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Measurement

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

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Taxes

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

Transfers

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

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.16 Investment income

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

1.17 Borrowing costs

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

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

1.18 Accounting by principals 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 municipality 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 a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality 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.

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1.18 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

When the municipality 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 municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality 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 municipality 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 is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.20 Fruitless and wasteful expenditure

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

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.21 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), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.22 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

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Accounting Policies

1.22 Segment information (continued)

- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Management identifies reportable segments in accordance with the monthly section 71 report, which are regularly reviewed by management. Management reviews the performance on an aggregated basis of total revenue and total expenditure.

The municipality manages its assets and liability as a whole and are not reviewed on a segregated basis for each town. Segment reporting per geographical area is not deemed relevant.

The measurement basis per the monthly reports is the same as the annual financial statements.

On the first-time adoption of GRAP 18, comparative segment information is not required in terms of the transitional provisions.

1.23 Budget information

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

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

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

The approved budget covers the fiscal period from 01/07/2020 to 30/06/2021.

The budget for the economic entity includes all the entities approved budgets under its control.

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.24 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 municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.24 Related parties (continued)

The municipality 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 municipality 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 municipality is exempt from the disclosures in accordance with the above, the municipality 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.

1.25 Events after reporting date

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

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

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

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2021	Impact is currently being assessed
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2021	Unlikely there will be a material impact

The Guideline on Accounting for Landfill sites will become effective on 1 July 2021. Standards that have no impact on the operations and annual financial reporting of the municipality are not included.

3. Inventories

Consumable stores	87 433	101 260
Water	95 879	86 372
	<u>183 312</u>	<u>187 632</u>

4. Other receivables from exchange transactions

Deposits	15 000	15 000
Expense Paid in advance	101 534	107 451
Other debtors	10 453	-
	<u>126 987</u>	<u>122 451</u>

Expenses paid in advance relates to insurance paid in advance until 30 September 2021.

5. Receivables from non-exchange transactions

Government grants and subsidies	1 400 000	-
Project Nala	5 193	5 193
Consumer debtors - Rates	3 836 863	2 841 122
Salary overpayments	1 448	2 410
	<u>5 243 504</u>	<u>2 848 725</u>

Statutory receivables included in receivables from non-exchange transactions above are as follows:

Taxes	<u>3 836 863</u>	<u>2 841 122</u>
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Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:

Project Nala	5 193	5 193
Salary overpayments	1 448	2 410
Government grants and subsidies	1 400 000	-
	<u>1 406 641</u>	<u>7 603</u>

Total receivables from non-exchange transactions	<u>5 243 504</u>	<u>2 848 725</u>
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Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

5. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions

Consumer debtors - Rates Gross Balances

Current (0 - 30 days)	547 575	532 392
31 - 60 days	363 444	367 370
61 - 90 days	279 966	253 732
91 - 120 days	231 214	272 603
+120 days	9 683 617	7 871 301
	11 105 816	9 297 398

Consumer debtors - Rates Less: Allowances for impairment

Current (0 - 30 days)	150 670	132 886
31 - 60 days	143 715	127 103
61 - 90 days	141 202	124 009
91 - days	140 197	156 328
+120 days	6 693 168	5 915 951
	7 268 952	6 456 277

Consumer debtors - Rates Net Balances

Current (0 - 30 days)	396 905	399 506
31 - 60 days	219 730	240 267
61 - 90 days	138 764	129 723
91 - 120 days	91 016	116 275
+120 days	2 990 448	1 955 351
	3 836 863	2 841 122

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

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

Rand	5 242 189	2 848 725
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(6 456 277)	(4 575 808)
Provision for impairment	(782 377)	(1 880 469)
Previously moved to long term receivables	(30 299)	-
	(7 268 953)	(6 456 277)

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

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

Karoo Hoogland Local Municipality

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Figures in Rand	2021	2020
6. VAT receivable		
VAT	582 945	199 451
<p>The value added tax recoverable from, or payable to, the taxation authority presented in this note and the Statement of Financial Position is on the accrual basis while the municipality is registered on cash basis according to section 15 of the Value-added Tax Act, 1991 (Act89 of 1991).</p> <p>VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.</p> <p>VAT is receivable on the payment basis. VAT is claimed from SARS only once payment is made to suppliers.</p>		
7. Receivables from exchange transactions		
Gross balances		
Electricity	3 037 106	2 415 129
Water	12 345 933	10 077 707
Sewerage	11 244 367	9 103 472
Refuse	9 106 191	7 873 075
Housing rental	467 737	425 653
Other	6 451 013	6 282 613
	42 652 347	36 177 649
Less: Allowance for impairment		
Electricity	(1 083 315)	(1 097 381)
Water	(9 927 903)	(7 608 398)
Sewerage	(9 198 110)	(6 795 271)
Refuse	(7 960 651)	(6 200 440)
Housing rental	(269 266)	(332 612)
Other	(4 722 449)	(4 465 680)
	(33 161 694)	(26 499 782)
Net balance		
Electricity	1 953 791	1 317 748
Water	2 418 030	2 469 309
Sewerage	2 046 257	2 308 201
Refuse	1 145 540	1 672 635
Housing rental	198 471	93 041
Other	1 728 564	1 816 933
	9 490 653	9 677 867
Electricity		
Current (0 -30 days)	343 035	305 205
31 - 60 days	77 855	62 710
61 - 90 days	232 340	89 106
91 - 120 days	80 196	80 677
+ 120 days	1 220 365	780 050
	1 953 791	1 317 748

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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Figures in Rand	2021	2020
7. Receivables from exchange transactions (continued)		
Water		
Current (0 -30 days)	205 268	154 201
31 - 60 days	86 427	94 788
61 - 90 days	60 352	69 855
91 - 120 days	68 257	84 384
+ 120 days	1 997 726	2 066 081
	2 418 030	2 469 309
Sewerage		
Current (0 -30 days)	208 291	152 261
31 - 60 days	73 359	70 271
61 - 90 days	66 338	61 105
91 - 120 days	56 851	67 724
+ 120 days	1 641 418	1 956 840
	2 046 257	2 308 201
Refuse		
Current (0 -30 days)	128 079	130 655
31 - 60 days	40 883	50 854
61 - 90 days	30 158	41 238
91 - 120 days	26 689	45 491
+ 120 days	919 731	1 404 397
	1 145 540	1 672 635
Housing rental		
Current (0 -30 days)	16 774	23 474
31 - 60 days	5 275	7 075
61 - 90 days	4 165	4 878
91 - 120 days	1 442	5 693
+ 120 days	170 815	51 921
	198 471	93 041
Other		
Current (0 -30 days)	143 640	53 425
31 - 60 days	13 857	22 511
61 - 90 days	9 448	25 687
91 - 120 day	10 628	73 565
+ 120 days	1 550 991	1 641 745
	1 728 564	1 816 933
Reconciliation of allowance for impairment		
Balance at beginning of the year	(26 499 782)	(23 790 724)
Contributions to allowance	(6 271 182)	(2 709 058)
Previously moved to long term receivables	(390 730)	-
	(33 161 694)	(26 499 782)
Consumer debtors pledged as security		
No receivables from exchange transactions were pledged as security for any liabilities.		

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
7. Receivables from exchange transactions (continued)		
Fair value of consumer debtors		
Consumer debtors	<u>9 490 653</u>	<u>9 677 867</u>
The carrying value of receivables from exchange transactions approximate their fair values.		
The carrying amount of consumer debtors are denominated in the following currencies:		
Rand	9 490 653	9 677 867
8. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	2 700	2 700
Bank balances	<u>8 585 639</u>	<u>4 271 832</u>
	<u>8 588 339</u>	<u>4 274 532</u>
Credit quality of cash at bank and short term deposits, excluding cash on hand		
The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:		
Credit rating		
BB	<u>8 551 424</u>	<u>4 253 839</u>

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Standard Bank - Account number 08 321 2442 (Primary bank account)	5 951 599	91 037	1 236 155	5 951 599	91 037	1 236 155
ABSA Bank - Account number 24 9000 0065 (Secondary bank account)	932 153	949 549	4 101 497	966 368	967 542	4 101 497
Standard Bank Fixed deposit - number 28 864 1922	1 116 223	2 666 182	13	1 116 223	2 666 182	13
Eskom Investment account - Account number 92 9194 4935	18 050	18 050	18 050	18 050	18 050	18 050
Standard Bank E-natis Account number - 08 311 6192	-	-	82 174	-	-	82 174
FMG Call Account - Account number 28 8644 204	1 000	1 000	1 000	1 000	1 000	1 000
ABSA MSIG Call Account - Account number 92 8398 9884	-	-	1 000	-	-	1 000
Standard Bank MIG Call Account - Account number 28 864 4220	-	-	1 000	-	-	1 000
Standard Bank Library Account - Account number 28 864 4247	-	-	1 000	-	-	1 000
Standard Bank EPWP - Account number 28 864 4239	-	-	1 000	-	-	1 000
ABSA INEG - Account number 92 8398 9339	-	1 000	1 004	-	1 000	1 004
Standard Bank money market - Account number 2886 4192 2003	-	-	4 080	-	-	4 080
Standard Bank fixed deposit Eskom - Account number 2886 4192 2005	34 750	34 750	34 750	34 750	34 750	34 750
Employee Leave Fund - Account number 405 435 2064	497 649	492 271	473 809	497 649	492 271	473 809
Total	8 551 424	4 253 839	5 956 532	8 585 639	4 271 832	5 956 532

A limited general session on Call Account 92 9194 4935 exist for R18 000.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

9. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	39 003 774	(3 896 063)	35 107 711	39 003 774	(3 621 714)	35 382 060

Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Investment property	35 382 060	(274 349)	35 107 711

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	35 656 409	(274 349)	35 382 060

Pledged as security

Carrying value of assets pledged as security:

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

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

Land appointed in terms of legislation which entity controls without legal ownership or custodianship

Carrying value of land included in the carrying value of Investment property 2 650 000 2 650 000

The farm number 265 Verjaagfontein farm situated in the Fraserburg region was transferred to the Karoo Hoogland Municipality during the amalgamation process in 2001.

The property was never registered in Karoo Hoogland Municipality name and therefore Namakwa District Municipality undertake to rectify this and transferred the property in question to the Karoo Hoogland Municipality as soon as possible.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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Figures in Rand

2021

2020

10. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	6 625 996	(1 760 759)	4 865 237	6 528 770	(1 645 496)	4 883 274
Motor vehicles	5 462 244	(1 485 747)	3 976 497	4 456 764	(1 190 741)	3 266 023
Community	19 937 388	(2 910 839)	17 026 549	19 748 388	(2 497 957)	17 250 431
Infrastructure	277 258 644	(74 655 571)	202 603 073	269 746 209	(67 164 477)	202 581 732
Furniture and fixtures	1 812 734	(1 103 622)	709 112	1 597 924	(819 775)	778 149
Other property, plant and equipment	49 914	(32 971)	16 943	131 592	(110 530)	21 062
IT equipment	1 753 623	(950 930)	802 693	1 678 508	(791 610)	886 898
Land	6 060 400	-	6 060 400	6 055 400	-	6 055 400
Landfill site	18 339 941	(6 042 935)	12 297 006	25 833 411	(5 053 410)	20 780 001
Leased Assets	452 974	(296 304)	156 670	452 974	(150 748)	302 226
Office equipment	389 088	(202 812)	186 276	377 776	(149 800)	227 976
Plant and machinery	523 442	(337 323)	186 119	489 002	(306 406)	182 596
Solar panels	1 385 055	(168 570)	1 216 485	1 385 055	(81 678)	1 303 377
Tools and loose gear	103 185	(63 905)	39 280	103 185	(57 907)	45 278
Total	340 154 628	(90 012 288)	250 142 340	338 584 958	(80 020 535)	258 564 423

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	WIP additions	Disposals	Transfers	Transfers to assets	Transfer from WIP	Change in estimate	Depreciation	Total
Buildings	4 883 274	115 629	-	-	-	-	-	-	(133 666)	4 865 237
Community	17 250 431	194 000	-	-	(5 000)	-	-	-	(412 882)	17 026 549
Furniture and fixtures	778 149	18 025	-	-	-	-	-	-	(87 062)	709 112
IT equipment	886 898	75 115	-	-	-	-	-	-	(159 320)	802 693
Infrastructure	202 581 732	8 162 891	1 431 020	(105 555)	-	6 938 754	(6 938 754)	-	(9 467 015)	202 603 073
Land	6 055 400	-	-	-	5 000	-	-	-	-	6 060 400
Landfill site	20 780 001	-	-	-	-	-	-	(7 493 470)	(989 525)	12 297 006
Leased assets	302 226	-	-	-	-	-	-	-	(145 556)	156 670
Motor vehicles	3 266 023	1 005 480	-	-	-	-	-	-	(295 006)	3 976 497
Office equipment	227 976	11 312	-	-	-	-	-	-	(53 012)	186 276
Other property, plant and equipment	21 062	-	-	-	-	-	-	-	(4 119)	16 943
Plant and machinery	182 596	25 090	-	-	-	-	-	-	(21 567)	186 119
Solar panels	1 303 377	-	-	-	-	-	-	-	(86 892)	1 216 485
Tools and loose gear	45 278	-	-	-	-	-	-	-	(5 998)	39 280
	258 564 423	9 607 542	1 431 020	(105 555)	-	6 938 754	(6 938 754)	(7 493 470)	(11 861 620)	250 142 340

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP additions	Disposals	Transfers to assets	Transfer from WIP	Change in estimate	Depreciation	Total
Buildings	5 008 230	-	1 215	-	81 976	(81 976)	-	(126 171)	4 883 274
Community	17 337 914	-	286 599	-	453 024	(453 024)	-	(374 082)	17 250 431
Furniture and fixtures	778 665	85 502	-	-	-	-	-	(86 018)	778 149
IT equipment	989 111	87 546	-	-	-	-	-	(189 759)	886 898
Infrastructure	198 941 211	2 910 071	10 353 385	(1 298 464)	51 847 375	(51 847 375)	-	(8 324 471)	202 581 732
Land	6 072 400	-	-	(17 000)	-	-	-	-	6 055 400
Landfill site	27 865 647	-	-	-	-	-	(4 955 185)	(2 130 461)	20 780 001
Leased assets	272 284	214 668	-	-	-	-	-	(184 726)	302 226
Motor vehicles	2 950 895	613 137	-	-	-	-	-	(298 009)	3 266 023
Office equipment	137 390	151 170	-	-	-	-	-	(60 584)	227 976
Other property, plant and equipment	20 536	5 691	-	-	-	-	-	(5 165)	21 062
Plant and machinery	205 797	-	-	-	-	-	-	(23 201)	182 596
Solar panels	1 364 526	-	20 529	-	1 385 055	(1 385 055)	-	(81 678)	1 303 377
Tools and loose gear	49 323	2 913	-	-	-	-	-	(6 958)	45 278
	261 993 929	4 070 698	10 661 728	(1 315 464)	53 767 430	(53 767 430)	(4 955 185)	(11 891 283)	258 564 423

Karoo Hoogland Local Municipality

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Figures in Rand 2021 2020

10. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

Leased assets	156 670	302 226
Sebata Connect PBX	23 325	36 900

Work in progress where construction has been halted

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	6 938 754	176 736	7 115 490
Additions/capital expenditure	1 431 019	-	1 431 019
Transferred to completed items	(6 938 753)	-	(6 938 753)
	1 431 020	176 736	1 607 756

Reconciliation of Work-in-Progress 2020

Heading	Included within Infrastructure	Included within Community	Included within Other PPE	Included within Buildings	Total
Opening balance	48 432 744	343 160	1 361 526	80 761	50 218 191
Additions/capital expenditure	10 353 385	286 600	20 529	1 215	10 661 729
Transferred to completed items	(51 847 375)	(453 024)	(1 382 055)	(81 976)	(53 764 430)
	6 938 754	176 736	-	-	7 115 490

Restoration cost is financed by way of a provision. Refer to note 19 for further detail.

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.

Land appointed in terms of legislation which entity controls without legal ownership or custodianship

Change in residual values

Assets	Residual value 2020	Residual value 2021	Change
Nissan NP300 2.5D SC -K40	32 000	45 000	13 000
Hino 300 714 LWB 5M 11	95 000	75 000	(20 000)
Nissan UD85B	189 950	120 000	(69 950)
Isuzu kb - white 200i 2008	40 043	35 000	(5 043)
Massey ferguson mf 240 2009	45 000	40 000	(5 000)
Hino 300 714 LWB 5M 11	95 000	75 000	(20 000)
	496 993	390 000	(106 993)

Change in residual values are due to the change in the current selling price for the above vehicles.

Karoo Hoogland Local Municipality

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11. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	480 068	(187 148)	292 920	463 585	(124 249)	339 336

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software	339 336	16 482	(62 898)	292 920

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	109 127	293 210	(63 001)	339 336

Pledged as security

No intangible assets were pledged as security for liabilities:

Restricted title

There are no intangible assets whose title is restricted.

Other information

There are no internally generated intangible assets at year end.

No intangible assets were assessed having an indefinite useful life.

12. Long term receivables

Long term receivables	-	585 237
Provision for impairment	-	(421 030)
	<u>-</u>	<u>164 207</u>

Reconciliation of provision for impairment

Opening balance	-	(651 186)
Provision for impairment	-	230 156
	<u>-</u>	<u>(421 030)</u>

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

All arrangements have been terminated during the 2021 financial period.

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
13. Other financial liabilities		
At amortised cost		
Development Bank of South Africa	1 442 264	1 664 592
The loan to DBSA is payable in equal instalments of R25 076. Interest is levied at 5% per annum. The last loan repayment will be on 31 December 2026.		
Non-current liabilities		
At amortised cost	1 208 527	1 442 247
Current liabilities		
At amortised cost	233 737	222 345
14. Finance lease obligation		
Minimum lease payments due		
- within one year	129 607	175 452
- in second to fifth year inclusive	68 413	199 284
	198 020	374 736
less: future finance charges	(21 221)	(53 464)
Present value of minimum lease payments	176 799	321 272
Non-current liabilities	63 858	176 996
Current liabilities	112 941	144 276
	176 799	321 272

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

The average lease term was 3 years and the average effective borrowing rate was 1% (2020: 1%).

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

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

Market risk

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

Rand	176 799	321 272
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For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 39.

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

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
15. Payables from exchange transactions		
Trade payables	5 144 432	3 322 023
Payments received in advance	470 326	454 941
Accrued leave pay	2 137 296	1 852 778
Accrued bonus	714 154	700 379
Deposits received	142 917	137 742
Prepaid sales in advance	213 223	216 799
Unidentified deposits	43 438	829 261
Retentions	337 872	1 526 187
Payroll Creditors	40 246	400 500
	9 243 904	9 440 610

Payables are being recognised net of any discounts.

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

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

All payables are unsecured.

16. Consumer deposits

Electricity	60 547	63 665
Water	307 650	223 912
	368 197	287 577

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

17. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

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

Contribution Rate Structure

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

Subsidy Policy

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

The effective date of the actuarial valuation of the post employment medical benefit obligation was the 30 June 2021 and performed by independent professional valuers. The next actuarial valuation is expected to be performed on 30 June 2022.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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17. Employee benefit obligations (continued)

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(2 174 000)	(2 605 000)
Non-current liabilities	(1 989 000)	(2 301 000)
Current liabilities	(185 000)	(304 000)
	<u>(2 174 000)</u>	<u>(2 605 000)</u>

In-service members:

The average in-service member liability has increased by 34% since the last valuation due to the following factors:

The total liability has increased by 34% since the last valuation due to the following facts, and because there was no change in the number of in-service members:

- an increase in the average age which means members are closer to retirement;
- an increase in the average past service;
- an increase in the average post-employment subsidy; and
- a decrease in the net-of-health-care-cost-inflation discount rate.

These impacts were partially offset by:

- a decrease in the net-of-health-care-cost-inflation discount rate;
- a decrease in the average age; and
- increases in the medical aid contribution rates.

The total in-service member liability has also increased by 4% due to the above, and because there was no change in the number of in-service members.

Continuation members:

The average continuation member liability has decreased by 6% since the last valuation due to the application of a maximum subsidy; and a decrease in the proportion of members with a spouse dependent.

The total continuation member liability has also decreased by 25% due to the above, combined with a decrease in the number of continuation members.

Karoo Hoogland Local Municipality

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Figures in Rand	2021	2020
17. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	2 605 000	2 995 131
Net expense recognised in the statement of financial performance	(431 000)	(390 131)
	2 174 000	2 605 000
Net expense recognised in the statement of financial performance		
Current service cost	14 000	14 110
Interest cost	206 000	238 847
Actuarial (gains) losses	(347 000)	(333 421)
Settlement	(304 000)	(309 667)
	(431 000)	(390 131)
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Obligation	(347 000)	(333 421)

Karoo Hoogland Local Municipality

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2021

2020

17. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,95 %	8,38 %
Expected rate of return on assets	6,25 %	4,81 %
Expected rate of return on reimbursement rights	2,45 %	3,41 %

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

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.95% per annum has been used. The corresponding index-linked yield at this term is 3.52%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Johannesburg Stock Exchange after the market close on 30 June 2021.

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

- In-service members' retirement liability;
- Death-in-service liability; and
- Continuation members' liability.

Health Care Cost Inflation Rate:

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

A health care cost inflation rate of 6.25% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 4.75%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 2.54% which derives from $((1+8.95\%)/(1+6.25\%))-1$.

The expected inflation assumption of 4.75% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.52%) and those of fixed interest bonds (8.95%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+8.95\%-0.50\%)/(1+3.52\%))-1$.

The next contribution increase was assumed to occur with effect from 1 January 2022.

Mortality During Employment:

The SA 85-90 ultimate table, adjusted for female lives.

Post-Employment Mortality:

The PA 90 ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year. In the year thereafter, we expect 1.99% fewer people to die i.e 1.99% is derived from $[1 - (1 - 1\%)]$, and so on.

Average retirement age:

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2021 2020

17. Employee benefit obligations (continued)

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62, which then implicitly allows for expected rates of early and ill-health retirement and early retirement.

Continuation of Membership:

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

Withdrawal from Service:

If an in-service member leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. Since the remaining in-service member is above the age of 55, it is assumed that he will not withdraw before retirement.

Family Profile:

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, it was assumed that the remaining eligible in-service member will still have a spouse dependant on his medical aid at retirement. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Other assumptions

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

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	240 000	202 000
Effect on defined benefit obligation	2 194 000	2 156 000

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	3 985 102	-
Library Development Grant	190 468	454 404
	4 175 570	454 404

See note 25 for reconciliation of grants from National/Provincial Government.

The Unspent Grants are cash-backed by available funds in the bank accounts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year - ends.

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Notes to the Annual Financial Statements

Figures in Rand 2021 2020

19. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	31 268 384	2 499 932	-	(7 493 469)	26 274 847
Long service award	1 950 000	155 176	(80 176)	135 000	2 160 000
	33 218 384	2 655 108	(80 176)	(7 358 469)	28 434 847

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	33 450 449	2 773 120	-	-	(4 955 185)	31 268 384
Long service award	2 085 801	-	(138 140)	(152 811)	155 150	1 950 000
	35 536 250	2 773 120	(138 140)	(152 811)	(4 800 035)	33 218 384

Non-current liabilities	27 929 847	33 050 384
Current liabilities	505 000	168 000
	28 434 847	33 218 384

Restructuring provision

In terms of the licencing of the landfill-sites, the municipality will incur licencing and rehabilitation costs of R194 072 839 (2020: R128 265 801) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the government bond rate that reflects the risk for the liability as the municipality is a government institution.

Environmental rehabilitation provision

The municipality has an obligation to rehabilitate the following landfill sites at the end of the expected useful life of the asset.

Details of the sites are as follows:

Location and estimated decommission date

Fraserburg - 2041	6 382 041	12 022 456
Sutherland - 2041	11 963 319	11 990 034
Williston - 2041	7 929 486	7 255 894
	26 274 846	31 268 384

Material Assumptions used

Discount Rate used:

The discount rate used to calculate the present value of the rehabilitation costs at each reporting period is based on a calculated rate as determined by the municipality. Provision has been made for the net present value of the future cost, using the government bond rate that reflects the risk for the liability as the municipality is a government institution.

Long Service Awards

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

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
19. Provisions (continued)		
Material Assumptions used		
- Discount rate: 8.89% (2020: 7.21%);		
- General Salary Inflation (long-term): 5.71% (2020: 3.89%);		
- Net effective discount rate: 3.01% (2020: 3.20%).		
The 1 July 2021 general earnings increase was still under consideration at the time of finalising the calculations. According to Circular 23 of 2021, the increase is expected to be between 3.5% and 4.5%. Therefore, an assumed increase of 4% as at 1 July 2021 has been included in the earnings.		
The average retirement age was presumed as 62 years to allow for potential early retirements.		
20. Service charges		
Sale of electricity	10 918 369	10 666 875
Sale of water	3 692 890	3 223 996
Sewerage and sanitation charges	3 367 703	2 887 106
Refuse removal	2 550 534	2 281 657
	20 529 496	19 059 634
21. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	621 604	591 464
22. Other income		
LG Seta Skills development	96 449	74 451
Sundry income	519 464	407 653
Unallocated deposits recognised	797 741	-
	1 413 654	482 104
23. Investment revenue		
Interest revenue		
Bank	198 717	269 902

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
24. Property rates		
Rates received		
Residential, commercial property, state and farms	8 413 176	8 784 119
Less: Rebates	(1 562 765)	(1 784 132)
	<u>6 850 411</u>	<u>6 999 987</u>
Property rates - interest received	583 559	388 553
	<u>7 433 970</u>	<u>7 388 540</u>
Valuations		
Residential	280 317 000	279 931 000
Commercial	93 701 000	93 648 000
State	1 850 000	-
Municipal	36 905 000	38 810 000
Small holdings and farms	3 721 228 500	3 754 091 500
Public Service Infrastructure (Zero Rated)	731 000	731 000
Public Benefit Organisations	18 472 000	18 472 000
Multiple purpose	-	16 281 000
Vacant land	23 019 500	22 948 500
Public Service Property	46 078 000	46 933 000
	<u>4 222 302 000</u>	<u>4 271 846 000</u>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.011393 (2020: R0.011393) is applied to property valuations to determine assessment rates. Properties used for domestic purposes and consisting of both land and improvements are subject to a R15 000 rebate. There are also different rebates and phased in tariffs for different sectors of the community.

Council approved no tariff increase due to Covid Lockdown.

The new general valuation will be implemented on 01 July 2022.

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
25. Government grants and subsidies		
Operating grants		
Equitable share	27 301 000	22 416 000
Local Government Financial Management Grant	2 800 000	2 435 000
Expanded Public Works Program	1 000 000	-
Library Development Grant	1 663 936	1 739 049
National Treasury assistance	327 766	500 000
Disaster relief grant	-	21 000
	33 092 702	27 111 049
Capital grants		
Municipal Infrastructure Grant	8 980 898	8 087 000
Integrated National Electrification Programme	-	2 000 000
	8 980 898	10 087 000
	42 073 600	37 198 049
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	14 758 112	14 782 049
Unconditional grants received	27 301 000	22 416 000
	42 059 112	37 198 049
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
Municipal Infrastructure Grant		
Current-year receipts	12 966 000	8 087 000
Conditions met - transferred to revenue	(8 980 898)	(8 087 000)
	3 985 102	-
Conditions still to be met - remain liabilities (see note 18).		
This grant was used to construct municipal infrastructure to provide basic services for the benefit of the poor households..		
Local Government Financial Management Grant		
Current-year receipts	2 800 000	2 435 000
Conditions met - transferred to revenue	(2 800 000)	(2 435 000)
	-	-
Conditions still to be met - remain liabilities (see note 18).		
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).		
Integrated National Electrification Programme		

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
25. Government grants and subsidies (continued)		
Current-year receipts	-	2 000 000
Conditions met - transferred to revenue	-	(2 000 000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

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

Expanded Public Works Program

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 000 000)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

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

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
25. Government grants and subsidies (continued)		
Library Development Grant		
Balance unspent at beginning of year	454 404	696 453
Current-year receipts	-	1 497 000
Conditions met - transferred to revenue	(263 936)	(1 739 049)
Unpaid grant and subsidies	(1 400 000)	-
	<u>(1 209 532)</u>	<u>454 404</u>
Conditions still to be met - remain liabilities (see note 18).		
The grant is being used to support library services..		
National Treasury assistance		
Current-year receipts	327 766	500 000
Conditions met - transferred to revenue	(327 766)	(500 000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
This grant relates to audit fees that were paid by National Treasury on behalf of the municipality.		
Disater relief grant		
Current-year receipts	-	21 000
Conditions met - transferred to revenue	-	(21 000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
Funding of COVID-19 related expenditure.		
Changes in level of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2021), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
26. Public contributions and donations		
Public contributions and donations	238	432 515
Donated Property, Plant and equipment	1 486 823	3 152 760
	<u>1 487 061</u>	<u>3 585 275</u>

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
27. Employee related costs		
Bargaining council contributions	10 663	10 103
Basic	21 636 282	20 408 507
Bonus	1 815 533	1 777 254
Contributions for UIF, Pensions and Medical Aids	1 610 770	1 268 408
Leave pay provision charge	422 797	295 693
Long-service awards	152 000	167 460
Overtime payments	512 390	514 987
Post retirement medical aid expenses	14 000	14 110
SDL	209 249	230 326
Travel, motor car, accommodation, subsistence and other allowances	1 176 191	1 452 882
	27 559 875	26 139 730
Remuneration of the Municipal Manager: JJ Fortuin		
Annual Remuneration	873 990	868 006
Car allowance	191 853	190 539
Performance Bonuses	142 576	142 576
Cell phone allowance	24 000	14 000
Danger allowance	4 500	4 500
	1 236 919	1 219 621
Remuneration of the Director Financial Services: SJ Myburgh		
Annual Remuneration	834 273	828 561
Car allowance	235 310	233 698
Performance Bonuses	143 077	143 077
Cell phone allowance	24 000	14 000
Danger allowance	4 500	4 500
	1 241 160	1 223 836
Remuneration of the Director Technical Services: FJ Lotter		
Annual Remuneration	687 005	682 301
Car allowance	130 858	129 962
Performance Bonuses	109 404	109 404
Cell phone allowance	24 000	14 000
Danger allowance	4 500	4 500
	955 767	940 167
28. Remuneration of councillors		
Mayor	853 050	847 882
Councillors	1 797 595	1 784 840
	2 650 645	2 632 722

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Figures in Rand	2021	2020
28. Remuneration of councillors (continued)		
VC Wentzel - Mayor		
Basic salary	727 785	723 134
Cell phone allowance	44 400	44 400
Vehicle allowance	80 865	80 348
	853 050	847 882
JJ van der Colff		
Basic salary	231 789	228 846
Cell phone allowance	44 400	44 400
Vehicle allowance	25 591	25 427
	301 780	298 673
J Davids		
Basic salary	231 789	228 846
Cell phone allowance	44 400	44 400
Vehicle allowance	25 591	25 427
	301 780	298 673
A Januarie		
Basic salary	255 909	254 273
Cell phone allowance	40 800	40 800
	296 709	295 073
G Klazen		
Basic salary	255 909	254 273
Cell phone allowance	44 400	44 400
	300 309	298 673
J Jooste		
Basic Salary	255 909	254 273
Cell phone allowance	40 800	40 800
	296 709	295 073
JJ Jacobs		
Basic salary	255 909	254 273
Cell phone allowance	44 400	44 400
	300 309	298 673
29. Finance costs		
Actuarial interest	341 000	393 997
Long term borrowings	109 387	115 053
Provision for the rehabilitation of landfill sites	2 499 932	2 773 121
Trade and other payables	15 452	17 076
	2 965 771	3 299 247
30. Debt impairment		
Debt impairment	6 243 420	3 962 017

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
31. Bulk purchases		
Electricity - Eskom	10 163 283	9 482 149
32. Contracted services		
Contractors		
Maintenance of Equipment	1 390 882	1 080 400
33. Operating cost		
Advertising	57 474	5 715
Audit committee	66 445	14 027
Auditors remuneration	2 788 655	2 263 750
Bank charges	326 497	244 707
Commission paid	252 501	245 391
Consultant fees	2 742 391	2 127 959
Consumables	128 017	179 123
Donations	174 649	134 409
Entertainment	10 898	6 234
Fuel and oil	584 175	612 721
Insurance	399 371	320 206
Internal audit	5 757	-
Library projects	38 776	27 355
Membership fees	508 250	507 705
Other expenses	74 864	28 118
Postage and courier	766	252
Printing and stationary	496 487	472 974
Refuse	-	123 068
Research and development costs	65 214	44 963
Security	40 478	30 558
Software expenses	1 861 690	1 616 916
Staff welfare	157 273	111 964
Telephone and fax	583 579	372 807
Title deed search fees	21 804	22 298
Training	47 500	87 800
Travel - local	645 769	877 205
	12 079 280	10 478 225

34. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	126 987	126 987
Receivables from exchange transactions	9 490 653	9 490 653
Cash and cash equivalents	8 588 339	8 588 339
	18 205 979	18 205 979

Financial liabilities

At amortised cost	Total
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Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
34. Financial instruments disclosure (continued)		
Other financial liabilities	1 442 264	1 442 264
Finance lease liability	176 799	176 799
Trade and other payables from exchange transactions	6 352 208	6 352 208
Consumer deposits	368 197	368 197
	8 339 468	8 339 468
2020		
Financial assets		
	At amortised cost	Total
Other receivables from exchange transactions	122 451	122 451
Receivables from exchange transactions	9 677 867	9 677 867
Cash and cash equivalents	4 274 532	4 274 532
Long term receivables	164 206	164 206
	14 239 056	14 239 056
Financial liabilities		
	At amortised cost	Total
Other financial liabilities	1 664 592	1 664 592
Finance lease liabilities	321 272	321 272
Payables from exchange transactions	6 486 953	6 486 953
Consumer deposits	287 577	287 577
	8 760 394	8 760 394
35. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	-	6 233 000
Total capital commitments		
Already contracted for but not provided for	-	6 233 000
Total commitments		
Total commitments		
Authorised capital expenditure	-	6 233 000

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

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

2021

2020

36. Contingencies

2021:

KHM vs SF Keyser.

Mr Keyser instituted a counterclaim against the municipality for an amount of R230 000 for alleged damage he suffered in respect of alleged wrongful conduct with regards to the transfer of Erf 1114, Fraserburg.

KHM vs SAMWU.

Review of application to appoint the Municipal Manager amounting to R240 000.

2020:

KHM vs Ngethuba Cleaning Services (Pty) LTD.

A claim against Karoo Hoogland Municipality relating payments resulting from the award of a tender costs amounting to R693 056.

Contingent assets

2021.

KHM vs L Nothnagel.

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

2020:

KHM vs L Nothnagel.

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

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Notes to the Annual Financial Statements

Figures in Rand 2021 2020

37. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
District Municipality	Namakwa District Municipality
Members of key management	S Myburgh F Lotter JJ Fortuin
Members of Council	VC Wentzel - Mayor J Davids A Januarie G Klazen J Jooste JJ van der Colff JJ Jacobs

Related party balances

Amounts included in Trade receivables (Trade Payable) regarding related parties

SM Davids	435	411
VC Wentzel	482	395
A Januarie	544	439
G Klazen	465	444
J Jooste	507	563
JJ Jacobs	471	450
JJ van der Colff	792	403
FJ Lotter	1 088	1 371

Amounts included in receivables from non-exchange transactions

Salary overpayment - FJ Lotter	-	965
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Related party transactions

Rates levied to Councillors 1 July to 30 June

G Klazen	549	543
AM Januarie	499	493
J Jooste	1 048	1 048
SM Davids	183	180
JJ Jacobs	613	608
JJ van der Colff	3 407	3 419

Service charges to Councillors levied 1 July to 30 June

G Klazen	5 033	4 740
AM Januarie	5 856	4 741
J Jooste	5 523	5 376
SM Davids	5 033	5 055
VC Wentzel	6 005	4 740
JJ Jacobs	5 033	4 740

Rates levied to Key Management

FJ Lotter	5 996	5 992
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Services levied to Key Management

FJ Lotter	8 456	7 933
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Remuneration of key management refer to note 27 of the annual financial statements.

38. Prior period errors

Accounting for danger allowance accrued to employees for the period April, May and June 2020.

Karoo Hoogland Local Municipality

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38. Prior period errors (continued)

Reclassifying Instandhoudings paaie ment to service charges as it relates to street lights.

Accounting for first time recognition of assets in 2021.

Capitalising Verjaagfontein farm according to IGRAP 18 to Investment Property from the date when control were exercised.

An adjustment was made on other receivables from exchange transactions in the prior year. The amount on the financial instruments disclosure note was not amended to reflect the adjustment passed.

Capitalisation of projects donated by Public works.

The following symbols will be used to indicate the change in accounts:

Assets: Decrease (-) Increase (+)

Liabilities: Decrease (+) Increase (-)

Income: Decrease(+) Increase (-)

Expense: Decrease (-) Increase (+)

Equity: Decrease (+) Increase (-):

Statement of financial position

Property, plant and equipment	-	1 469 303
Payables from exchange transactions	-	(400 500)
Investment property	-	2 650 000
Opening Accumulated Surplus or Deficit	-	(1 196 218)

Statement of financial performance

Service charges	-	(168 756)
Property rates	-	168 756
Public contributions and donations	-	(2 910 071)
Employee related cost	-	400 500
Depreciation and amortisation	-	(13 014)

Cash flow statement

Changes in working capital

Payables from exchange transaction	-	400 500
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Unauthorised expenditure

Adjustments made	-	(13 014)
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Adjustment made to opening balance of unauthorised expenditure due to the adjustments made on depreciation.

Notes to the financial statements

Financial assets	-	87 837
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39. Risk management

Financial risk management

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

Karoo Hoogland Local Municipality

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2021

2020

39. Risk management (continued)

Liquidity risk

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

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

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

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

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	300 551	300 551	1 051 703	-
Finance lease obligation	112 941	63 858	-	-
Payables from exchange transactions	6 352 208	-	-	-
Consumer deposits	368 197	-	-	-

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	300 551	300 551	1 202 205	450 601
Finance lease obligation	202 631	128 128	-	-
Payables from exchange transactions	6 486 953	-	-	-
Consumer deposits	287 577	-	-	-

Credit risk

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

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

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

Financial instrument	2021	2020
Cash and cash equivalents	8 588 339	4 274 532
Receivables from exchange transactions	9 490 653	9 677 867
Other receivables from non-exchange transactions	126 987	122 451

Market risk

Karoo Hoogland Local Municipality

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Figures in Rand	2021	2020
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39. Risk management (continued)

Interest rate risk

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

At 30 June 2021, if interest rates on Rand-denominated borrowings had been 0.1% higher/lower with all other variables held constant, post-tax surplus for the year would have been R16 190 (2020: R19 858) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of borrowings would have been R16 190 (2020: R19 858) lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

40. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had a surplus of R3 902 125.

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

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

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from Equitable Share allocation in terms of the Division of Revenue Act.

41. Events after the reporting date

No events after the reporting date were identified by management that will affect the operations of the municipality or the results of those operations significantly:

42. Impact of COVID-19 and Financial Sustainability

The Municipality is no way immune to the harsh economic realities as a result of the COVID-19 pandemic. As far as possible, the Municipality factored in the effect of the lock down levels had on its economic environment. At this stage, the uncertainty still remains as to how long the pandemic will remain and how long the economy will take to recover from the lockdown levels.

43. Fruitless and wasteful expenditure

Opening balance as previously reported	2 356 875	2 338 279
Opening balance as restated	2 356 875	2 338 279
Add: Expenditure identified - current	1 100	18 596
Closing balance	2 357 975	2 356 875

Karoo Hoogland Local Municipality

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	2021	2020
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43. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Eskom - Interest and penalties on late payments	None	-	176
SA Post office - Interest and penalties on late payments	None	-	130
Fraserburg Landbou - Interest and penalties on late payments	None	-	38
Auditor General - Interest and penalties on late payments	None	-	17 655
Sutherland Kooperasie - Interest on late payments	None	-	4
Williston	None	-	593
Vleiskooperasie - Interest on late payments			
Akkerdam Bed & Breakfast	None	1 100	-
		1 100	18 596

Amounts recoverable

None of the above amounts identified as recoverable.

Amounts written-off

No amounts were written-off.

44. Irregular expenditure

Opening balance as previously reported	40 810 406	39 705 620
Opening balance as restated	40 810 406	39 705 620
Add: Irregular Expenditure - current	8 557 831	1 104 786
Closing balance	49 368 237	40 810 406

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand		2021	2020
44. Irregular expenditure (continued)			
Incidents/cases identified in the current year include those listed below:			
	Disciplinary steps taken/criminal proceedings		
Tax clearance not obtained	None	-	15 000
Procurement process not followed	None	133 833	121 001
The request for quotations was not advertised for at least (7) days	None	-	92 920
Salary increase not approved	None	-	109 659
Proper recruitment procedures not followed	None	-	56 458
Supplier not on CSD	None	-	4 640
Tender advertised for less than prescribed period	None	61 230	705 108
PPPFA process not followed	None	6 371 759	-
Vacancy not on organogram	None	2 572	-
Appointment not approved by council	None	166 777	-
Work performed without a contract		1 821 660	-
		8 557 831	1 104 786

Cases under investigation

There are currently no cases under investigation.

Amounts recoverable

None of the above amounts identified as recoverable.

Amounts written-off

No amounts were written-off.

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 817 267	1 817 267
Current year subscription / fee	508 250	507 705
Amount paid - current year	(8 250)	-
Amount paid - previous years	(500 000)	(507 705)
	1 817 267	1 817 267

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

Distribution losses

Electricity distribution losses:

2021:

-Units purchased (Kwh)	5 585 919
-Units lost during distribution (Kwh)	496 891
-Percentage lost during distribution	8.90%

2020:

-Units purchased (Kwh)	5 521 750
-Units lost during distribution (Kwh)	545 862
-Percentage lost during distribution	9.89%

Water distribution losses:

2021:

-Kilo litres raw water input	341 982
-Kilo liters lost during distribution	27 378
-Percentage lost during distribution	8.01%

2020:

-Kilo litres raw water input	296 168
-Kilo liters lost during distribution	19 638
-Percentage lost during distribution	6.63%

The electricity energy losses can be classified into non-technical losses during the 2020/2021 financial year.

The entity's non-technical losses decreased 9.89% (2020: R545 862) to 8.90% (2021: R496 891). The non-technical losses are attributable mainly to the following:

- Theft and bypass of meters;
- Illegal decalibration of meters;
- Damaged meters and faulty voltage and current transformers; and
- Customers without meters.

Audit fees

Opening balance	1 134 593	457 439
Current year subscription / fee	3 254 241	2 689 077
Amount paid - previous years	(1 116 939)	(453 626)
Amount paid - current years	(765 000)	(986 374)
Amount settled by National Treasury	(285 014)	(434 783)
Amount written off	(76 641)	(137 140)
	<u>2 145 240</u>	<u>1 134 593</u>

PAYE and UIF

Current year subscription / fee	5 076 510	4 342 029
Amount paid - current year	(5 076 510)	(4 342 029)
	<u>-</u>	<u>-</u>

Karoo Hoogland Local Municipality

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Figures in Rand 2021 2020

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

Pension and Medical Aid Deductions

Current year subscription / fee	3 713 236	3 632 192
Amount paid - current year	(3 713 236)	(3 632 192)
	<u>-</u>	<u>-</u>

VAT

VAT receivable	<u>582 945</u>	<u>199 451</u>
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VAT output payables and VAT input receivables are shown in note .

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
G Klazen	465	-	465
AM Januarie	544	-	544
J Jooste	507	-	507
SM Davids	435	-	435
VC Wentzel - Mayor	482	-	482
M Jacobs	471	-	471
JJ van der Colff	792	-	792
	<u>3 696</u>	<u>-</u>	<u>3 696</u>

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
G Klazen	444	-	444
AM January	440	-	440
J Jooste	563	-	563
SM Davids	411	-	411
VC Wentzel - Mayor	395	-	395
M Jacobs	450	-	450
JJ van der Colff	403	-	403
	<u>3 106</u>	<u>-</u>	<u>3 106</u>

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46. Deviation from supply chain management regulations		
Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.		
Paragraph 36 of the same gazette states that the Council may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.		
Reason for deviation		
Sole suppliers	637 449	723 843
Emergency	789 924	507 554
Impractical	1 029 338	1 087 728
	2 456 711	2 319 125
47. Awards to close family members of persons in the service of the state		
Awards		
JME Projects	-	110 292
R&S Karoo (Pty) Ltd	177 850	95 915
Amandelboom CDC	600	30 500
Soek `n slapie guesthouse	2 000	-
	180 450	236 707
Mr. S. J van Schalkwyk, BTO Officer of the municipality's spouse is the director of R&S Karoo (Pty) Ltd and Soek `n Slapie guesthouse.		
48. Cash generated from operations		
(Deficit) surplus	(25 710)	358 159
Adjustments for:		
Depreciation and amortisation	12 198 865	12 228 635
Loss on disposal of property, plant and equipment	105 555	1 315 464
Finance costs	109 387	3 167 118
Debt impairment	6 243 420	3 962 017
Bad debts written off	907 012	177 915
Movements in retirement benefit assets and liabilities	(87 176)	(1 117 549)
Movements in provisions	2 709 933	(456 073)
Actuarial gain	(343 824)	653 692
Other income	(1 486 823)	(2 910 072)
Changes in working capital:		
Inventories	4 320	34 746
Other receivables from exchange transactions	(4 536)	(66 439)
Receivables from exchange transactions	(6 963 218)	(3 301 561)
Other receivables from non-exchange transactions	(2 394 779)	(2 630 881)
Long term receivables	164 206	-
Payables from exchange transactions	(196 708)	(4 243 491)
VAT	(383 494)	3 446 612
Unspent conditional grants and receipts	3 721 166	(242 049)
	14 277 596	10 376 243
49. Unauthorised expenditure		
Opening balance as previously reported	128 203 611	118 736 370
Opening balance as restated	128 203 611	118 736 370
Add: Expenditure identified - current	11 005 437	9 467 241
Closing balance	139 209 048	128 203 611

Karoo Hoogland Local Municipality

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49. Unauthorised expenditure (continued)

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	10 942 154	9 009 092
Cash	63 283	458 149
	<u>11 005 437</u>	<u>9 467 241</u>

Analysed as follows: non-cash

Debt impairment	3 411 915	1 225 232
Depreciation and amortisation	4 531 938	4 728 613
Finance charges	2 831 371	3 055 247
	<u>10 775 224</u>	<u>9 009 092</u>

Analysed as follows: cash

Bulk purchases	<u>63 283</u>	<u>458 149</u>
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50. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of governance and administration, technical and community services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Reportable segments

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

Functional Segments	Reportable Segment
Executive and Council	Governance and Administration
Directorate Corporate Services	Governance and Administration
Directorate Financial Services	Governance and Administration
Directorate Infrastructure Services	Technical Services
Community and Social Services	Community

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50. Segment information (continued)

Segment surplus or deficit

2021

	Directorate Corporate Services	Directorate Financial Services	Directorate Infrastructure Services	Executive and Council	Community and Social Services	Total
Revenue						
Revenue from exchange transactions	113 788	150 479	22 094 950	294 890	10 144	22 664 251
Revenue from exchange transactions - interest	-	238 347	1 973 320	20 967	-	2 232 634
Revenue from non-exchange transactions	-	9 680 210	11 470 941	27 599 206	1 664 254	50 414 611
Revenue from non-exchange transactions - interest	-	583 559	-	-	-	583 559
Total segment revenue	113 788	10 652 595	35 539 211	27 915 063	1 674 398	75 895 055
Municipality's revenue						75 895 055
Expenditure						
Employee related cost	(5 495 598)	(7 251 489)	(11 738 043)	(355 938)	(2 718 807)	(27 559 875)
Councillors remuneration	-	-	-	(2 650 644)	-	(2 650 644)
Debt impairment	-	-	(6 243 420)	-	-	(6 243 420)
Depreciation and amortisation	-	(241 129)	(11 054 786)	(36 162)	(866 788)	(12 198 865)
Finance cost	-	(2 856 384)	(109 387)	-	-	(2 965 771)
Bad debts written off	-	-	-	(907 012)	-	(907 012)
Bulk purchases	-	-	(10 163 283)	-	-	(10 163 283)
Contracted Services	-	(27 427)	(1 280 393)	-	(83 062)	(1 390 882)
Operating cost	(577 020)	(8 551 941)	(1 384 015)	(1 169 168)	(397 137)	(12 079 281)
Total segment expenditure	(6 072 618)	(18 928 370)	(41 973 327)	(5 118 924)	(4 065 794)	(76 159 033)
Total segmental surplus/(deficit)						(263 978)
Profit/(Loss) on derecognition of assets						(105 555)
Actuarial gains/(Losses)						343 824
Municipality's surplus (deficit) for the period						(25 710)

On the first-time adoption of GRAP 18, comparative segment information is not required in terms of the transitional provisions.

Karoo Hoogland Local Municipality

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51. Budget differences

Material differences between budget and actual amounts

Service charges

The actual subsidies on indigent customers are accounted for as a negative income, whilst it has been budgeted for as an expense.

Rental of facilities and equipment

Not a material variance.

Interest received (trading)

Link to the increase in the value of outstanding consumer debtors.

Agency services

Only registration of vehicles are budgeted for and not the Renewals.

Other income

Unclaimed deposits accounted for as own revenue are not budgeted for.

Property rates

Interest received on property rates are budgeted for under property rates.

Government grants and subsidies

Additional allocation was received on MIG.

Public contributions and donations

Did not anticipate donations and therefore not budgeted for.

Fines, Penalties and Forfeits

The budget amount includes penalties for property rates.

Employee related cost

Budget does not take into account AFS adjustments.

Remuneration of councillors

Not a material variance.

Depreciation and amortisation

The municipality cannot budget for the actual amount as this will lead to the municipality budgeting for a deficit which, according to legislation, is not permitted.

Finance cost

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

Debt impairment

The municipality cannot budget for the actual amount as this will lead to the municipality budgeting for a deficit which, according to legislation, is not permitted.

Karoo Hoogland Local Municipality

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51. Budget differences (continued)

Contracted services

Due to classification differences between mSCOA and Budget Schedules.

Bulk purchases

Not a material variance.

General expenses

Due the increase in in the audt fees.

Gain of disposal of Property, plant and equipment

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

52. Statutory Receivables

In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:

VAT Receivable	582 945	199 451
Rates	11 105 816	9 297 398
Total: Statutory Receivables	11 688 761	9 496 849
Less: Provision for Debt impairment	(7 268 952)	(6 456 277)
	4 419 809	3 040 572

Statutory Receivables are initially measured at transaction value, subsequently at cost.

Property Rates: Ageing

Current (0 - 30 days)	547 574	532 392
31 - 60 days	363 445	367 370
61 - 90 days	279 966	253 732
91 - 120 days	231 213	272 603
+120 days	9 683 617	7 871 301
Less: Provision for impairment	(7 268 952)	(6 456 277)
	3 836 863	2 841 121

Reconciliation of Provision for Debt impairment.

Opening balance	(6 456 277)	(4 575 808)
Provision for impairment	(782 377)	(1 880 469)
Previously moved to long term receivables	(30 299)	-
	(7 268 953)	(6 456 277)

53. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

Karoo Hoogland Local Municipality

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53. Accounting by principals and agents (continued)

Details of the arrangement(s) are as follows:

Municipality is the Principal in arrangements with various service providers who sell prepaid electricity on their behalf. Prepaid vendors earn commission on the value of each transaction.

Municipality is the Agent in the Principal-Agent arrangement with the Provincial Department of Transport, and collects licencing fees on behalf of the Provincial Department of Transport. The municipality can retain a portion of the fees collected and the net amount is due to the Provincial Department. The amount retained is recorded as Agency Fees income in the Statement of Financial Performance. The amounts due to the Provincial Department at year end is included in the balances reported as Trade and Other Payables from Exchange Transactions in the Statement of Financial Position.

The municipality does not incur any expenses on behalf of the Provincial Department. No significant risks are noted to arise from the arrangement as the municipality merely collects monies on behalf of the department as part of its existing service offering at the traffic department and municipal cashier collection points. No resources are held on behalf of the Provincial Department (other than the receipts).

Municipality is also the Agent in the Principal-Agent arrangements with various third parties for authorised salary deductions from officials. The municipality receives commission on the total funds deducted on a monthly basis. The amount received is recorded Operational Revenue in the Statement of Financial Performance.

In determining whether the municipality is the agent or if not, by default the principal, in the arrangement is evaluated in terms of the specific criteria set out in GRAP 109. The municipality does not have the power to determine significant terms and conditions of the transaction, does not have the ability to use all, or substantially all of the resources resulting from the transaction for its own benefit and is not exposed to variability in the result of the transaction

Entity as principal

Compensation paid for agency activities

Fee paid as compensation to the agent	252 501	245 391
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Municipality paid 4% commission to various service providers for acting as an agent on its behalf during the financial year.

Entity as agent

Compensation received for agency activities

Municipality received 12% commission from the Provincial Department of Transport for acting as an agent on their behalf during the financial year.

Municipality received 2.5% commission from various third parties for authorised salary deductions from officials.

Agency service - Department of Transport	99 496	29 438
Agency service - 3rd Parties	26 346	22 208
	<u>125 842</u>	<u>51 646</u>

Appendix A

Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at Tuesday, 30 June 2020 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at Wednesday, 30 June 2021 Rand
Development Bank of South Africa					
ANNUITY LOAN	102367/1 31 December 2026	2 626 694	-	176 119	2 450 575
		2 626 694	-	176 119	2 450 575
Total external loans					
Development Bank of South Africa		2 626 694	-	176 119	2 450 575
		2 626 694	-	176 119	2 450 575

Appendix B

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

Yrly Per.
Sort Rows by Mapping Numbers
June 2021

Monthly

Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2010

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

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

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

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