



Karoo Hoogland Local Municipality
Annual financial statements
for the year ended 30 June 2022

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Abbreviations used:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts

Karoo Hoogland Local Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are 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 officers 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 officers acknowledge that they are 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 officers 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 officers are 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 officers have reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, they are 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 annual financial statements set out on pages 5 to 90, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:

Mr. A Gibbons
Acting Municipal Manager

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2022.

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 officers are 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 are as follows:

Name	Changes
JJ Fortuin	Resigned Friday, 24 June 2022

Mr. A Gibbons was appointed as Acting Municipal Manager as at 28 June 2022.

5. Secretary

Email - munman@karoohoogland.gov.za.

Telephone number - 053 391 3003.

6. Council members

The Council members of the municipality during the year and to the date of this report are as follows

Name	Changes
VC Wentzel	
J Davids	
G Klazen	Resigned Monday, 08 November 2021
J Jooste	Resigned Monday, 08 November 2021
JJ van der Colff	
JJ Jacobs	Resigned Monday, 08 November 2021
E Oliphant	Appointed Tuesday, 09 November 2021
SA Muller	Appointed Tuesday, 09 November 2021
VT Opperman	Appointed Tuesday, 09 November 2021
RvdM Geel	Appointed Tuesday, 09 November 2021
AS Mietas - Mayor	Appointed Tuesday, 09 November 2021
MJ Chadow	Appointed Tuesday, 09 November 2021
AE Steenkamp	Appointed Tuesday, 09 November 2021
CG Steenkamp	Appointed Tuesday, 09 November 2021
A Januarie	Resigned Monday, 08 November 2021

7. Bankers

The municipality's preferred bankers are:

Standard Bank
Williston
8920

Karoo Hoogland Local Municipality

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Accounting Officer's Report

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:

Williston.
Sutherland.
Fraserburg.
Farm areas.

11. Web Address

www.karoohoogland.goz.za

The annual financial statements set out on pages 5 to 90, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:

Mr. A Gibbons
Acting Municipal Manager

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	3	696 183	489 009
Other receivables from exchange transactions	4	439 935	126 987
Receivables from non-exchange transactions	5	3 395 365	5 207 406
VAT receivable	6	1 642 753	597 224
Receivables from exchange transactions	7	9 617 501	9 526 751
Cash and cash equivalents	8	2 953 250	8 588 339
		18 744 987	24 535 716
Non-Current Assets			
Investment property	9	38 795 261	39 069 611
Property, plant and equipment	10	266 671 804	252 681 332
Intangible assets	11	234 031	292 920
		305 701 096	292 043 863
Total Assets		324 446 083	316 579 579
Liabilities			
Current Liabilities			
Other financial liabilities	12	245 678	233 737
Finance lease obligation	13	63 979	112 941
Payables from exchange transactions	14	6 968 107	9 340 723
Consumer deposits	15	435 510	368 197
Employee benefit obligation	16	379 000	690 000
Unspent conditional grants and receipts	17	152 762	4 175 570
		8 245 036	14 921 168
Non-Current Liabilities			
Other financial liabilities	12	962 894	1 208 527
Finance lease obligation	13	-	63 858
Employee benefit obligation	16	3 680 000	3 644 000
Provisions	18	32 205 862	26 274 847
		36 848 756	31 191 232
Total Liabilities		45 093 792	46 112 400
Net Assets		279 352 291	270 467 179
Accumulated surplus		279 352 291	270 467 179
Total Net Assets		279 352 291	270 467 179

* See Note 38

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance for the year ended 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	21 195 741	20 529 497
Rental of facilities and equipment	20	579 997	621 604
Interest received (trading)		2 496 130	2 033 916
Agency services		82 152	99 496
Other income	21	960 347	1 413 654
Interest received - investment	22	416 151	198 717
Total revenue from exchange transactions		25 730 518	24 896 884
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	7 023 861	6 850 411
Property rates - Interest received	23	604 220	583 559
Transfer revenue			
Government grants & subsidies	24	54 073 474	42 073 600
Public contributions and donations	25	246	8 057 381
Fines, Penalties and Forfeits		28 359	3 540
Total revenue from non-exchange transactions		61 730 160	57 568 491
Total revenue		87 460 678	82 465 375
Expenditure			
Employee related costs	26	(26 862 931)	(26 882 229)
Remuneration of councillors	27	(3 812 861)	(2 650 645)
Depreciation and amortisation	32	(10 700 187)	(10 962 954)
Finance costs	28	(3 730 835)	(2 965 771)
Debt Impairment	29	(6 280 978)	(6 229 142)
Bad debts written off		(783 207)	(907 012)
Bulk purchases	30	(10 904 885)	(10 163 283)
Contracted services	31	(934 980)	(1 390 882)
Water inventory consumed		(4 398 557)	(4 568 159)
Water losses		(289 466)	(389 194)
Operating cost	33	(13 304 704)	(12 021 116)
Total expenditure		(82 003 591)	(79 130 387)
Operating surplus		5 457 087	3 334 988
Profit/(Loss) on derecognition of asset		(1 643)	(105 555)
Actuarial gains/(losses)	16	392 521	343 824
Gain on water inventory		3 037 147	2 978 260
		3 428 025	3 216 529
Surplus for the year		8 885 112	6 551 517

* See Note 38

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets for the year ended 30 June 2022

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	263 768 840	263 768 840
Adjustments		
Correction of errors note 38	146 824	146 824
Balance at 01 July 2020 as restated*	263 915 662	263 915 662
Changes in net assets		
Deficit for the year	6 551 517	6 551 517
Total changes	6 551 517	6 551 517
Opening balance as previously reported	263 889 953	263 889 953
Adjustments		
Correction of errors note 38	6 577 226	6 577 226
Restated* Balance at 01 July 2021 as restated*	270 467 179	270 467 179
Changes in net assets		
Surplus for the year	8 885 112	8 885 112
Total changes	8 885 112	8 885 112
Balance at 30 June 2022	279 352 291	279 352 291

* See Note 38

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Taxation		6 076 615	5 422 069
Service charges		17 554 820	16 755 035
Grants		51 450 666	44 394 766
Interest income		416 151	198 717
Interest earned - outstanding debtos		2 014 407	1 884 300
Property rates - interest received		550 103	380 311
		<u>78 062 762</u>	<u>69 035 198</u>
Payments			
Employee costs		(31 980 672)	(30 490 656)
Suppliers		(28 668 198)	(24 110 972)
Finance costs		(92 385)	(15 452)
Taxes		(1 045 529)	(397 773)
		<u>(61 786 784)</u>	<u>(55 014 853)</u>
Net cash flows from operating activities	39	<u>16 275 978</u>	<u>14 020 345</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(21 472 474)	(9 213 866)
Purchase of other intangible assets	11	(7 284)	(16 482)
Net cash flows from investing activities		<u>(21 479 758)</u>	<u>(9 230 348)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(300 551)	(300 638)
Finance lease payments		(130 759)	(175 550)
Net cash flows from financing activities		<u>(431 310)</u>	<u>(476 188)</u>
Net increase/(decrease) in cash and cash equivalents		(5 635 090)	4 313 809
Cash and cash equivalents at the beginning of the year		8 588 339	4 274 532
Cash and cash equivalents at the end of the year	8	<u>2 953 250</u>	<u>8 588 339</u>

* See Note 38

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between actual amounts and final budget.	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	22 808 103	690 323	23 498 426	21 195 741	(2 302 685)	50
Rental of facilities and equipment	506 801	80 000	586 801	579 997	(6 804)	50
Interest received (trading)	2 678 000	250 000	2 928 000	2 496 130	(431 870)	50
Agency services	52 100	-	52 100	82 152	30 052	50
Other income	1 160 401	(540 000)	620 401	960 347	339 946	50
Interest received - investment	305 101	90 000	395 101	416 151	21 050	50
Total revenue from exchange transactions	27 510 506	570 323	28 080 829	25 730 518	(2 350 311)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7 824 283	(300 272)	7 524 011	7 023 861	(500 150)	50
Property rates - interest received	-	-	-	604 220	604 220	50
Transfer revenue						
Government grants & subsidies	47 753 304	-	47 753 304	54 073 474	6 320 170	50
Public contributions and donations	-	-	-	246	246	50
Fines, Penalties and Forfeits	12 600	30 000	42 600	28 359	(14 241)	50
Total revenue from non-exchange transactions	55 590 187	(270 272)	55 319 915	61 730 160	6 410 245	
Total revenue	83 100 693	300 051	83 400 744	87 460 678	4 059 934	
Expenditure						
Personnel	(28 375 067)	199 000	(28 176 067)	(26 862 931)	1 313 136	50
Remuneration of councillors	(4 119 100)	119 400	(3 999 700)	(3 812 861)	186 839	50
Depreciation and amortisation	(9 500 001)	-	(9 500 001)	(10 700 187)	(1 200 186)	50
Finance costs	(90 001)	(15 000)	(105 001)	(3 730 835)	(3 625 834)	50
Debt Impairment	-	-	-	(6 280 978)	(6 280 978)	50
Bad debts written off	(3 935 601)	-	(3 935 601)	(783 207)	3 152 394	50
Bulk purchases	(10 811 015)	200 000	(10 611 015)	(10 904 885)	(293 870)	50
Contracted Services	(6 747 402)	(619 995)	(7 367 397)	(934 980)	6 432 417	50
Water inventory consumed	-	-	-	(4 398 557)	(4 398 557)	
Water losses	-	-	-	(289 466)	(289 466)	
Operating cost	(9 238 005)	134 504	(9 103 501)	(13 304 704)	(4 201 203)	50
Total expenditure	(72 816 192)	17 909	(72 798 283)	(82 003 591)	(9 205 308)	
Operating surplus	10 284 501	317 960	10 602 461	5 457 087	(5 145 374)	
Derecognition of assets	-	-	-	(1 643)	(1 643)	50
Actuarial gains/losses	-	-	-	392 521	392 521	50
Gain on water inventory	-	-	-	3 037 147	3 037 147	
	-	-	-	3 428 025	3 428 025	

Karoo Hoogland Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between actual amounts and final budget.	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	10 284 501	317 960	10 602 461	8 885 112	(1 717 349)	

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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
Notes to the financial statements											
Financial Performance											
Property rates	7 824 283	(300 272)	7 524 011	-	-	7 524 011	7 628 081	-	104 070	101 %	97 %
Service charges	25 486 103	940 323	26 426 426	-	-	26 426 426	23 691 871	-	(2 734 555)	90 %	93 %
Investment revenue	305 101	90 000	395 101	-	-	395 101	416 151	-	21 050	105 %	136 %
Transfers recognised - operational	29 477 304	-	29 477 304	-	-	29 477 304	29 759 768	-	282 464	101 %	101 %
Other own revenue	1 731 903	(430 000)	1 301 903	-	-	1 301 903	5 080 523	-	3 778 620	390 %	293 %
Total revenue (excluding capital transfers and contributions)	64 824 694	300 051	65 124 745	-	-	65 124 745	66 576 394	-	1 451 649	102 %	103 %
Employee costs	(28 375 067)	199 000	(28 176 067)	-	-	(28 176 067)	(26 862 931)	1 313 136	1 313 136	95 %	95 %
Remuneration of councillors	(4 119 100)	119 400	(3 999 700)	-	-	(3 999 700)	(3 812 861)	186 839	186 839	95 %	93 %
Debt impairment	(3 935 601)	-	(3 935 601)	-	-	(3 935 601)	(7 064 185)	(3 128 584)	(3 128 584)	179 %	179 %
Depreciation and asset impairment	(9 500 001)	-	(9 500 001)	-	-	(9 500 001)	(10 700 187)	(1 200 186)	(1 200 186)	113 %	113 %
Finance charges	(90 001)	(15 000)	(105 001)	-	-	(105 001)	(3 730 835)	(3 625 834)	(3 625 834)	3 553 %	4 145 %
Materials and bulk purchases	(10 811 015)	200 000	(10 611 015)	-	-	(10 611 015)	(10 904 885)	(293 870)	(293 870)	103 %	101 %
Water inventory consumed and water losses	-	-	-	-	-	-	(4 688 023)	(4 688 023)	(4 688 023)	DIV/0 %	DIV/0 %
Other expenditure	(15 985 407)	(485 491)	(16 470 898)	-	-	(16 470 898)	(14 241 327)	2 229 571	2 229 571	86 %	89 %
Total expenditure	(72 816 192)	17 909	(72 798 283)	-	-	(72 798 283)	(82 005 234)	(9 206 951)	(9 206 951)	113 %	113 %
Surplus/(Deficit)	(7 991 498)	317 960	(7 673 538)	-	-	(7 673 538)	(15 428 840)	-	(7 755 302)	201 %	193 %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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	18 276 000	-	18 276 000	-		18 276 000	24 313 706		6 037 706	133 %	133 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	246		246	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	10 284 502	317 960	10 602 462	-		10 602 462	8 885 112		(1 717 350)	84 %	86 %
Surplus/(Deficit) for the year	10 284 502	317 960	10 602 462	-		10 602 462	8 885 112		(1 717 350)	84 %	86 %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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 the foreseeable future.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 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 municipality 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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 18 - Provisions.

Useful lives of waste and water network

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 16.

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. Significant judgements applied are as follow.

Additional information is disclosed in Note 52.

1.5 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.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.5 Investment property (continued)

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

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

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

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

Cost model

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

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

Item	Useful life
Property - buildings	30 years

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.

1.6 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.

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1.6 Property, plant and equipment (continued)

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.

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

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

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

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

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.

Karoo Hoogland Local Municipality

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1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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 licences	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).

1.8 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.

Karoo Hoogland Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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.

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1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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.

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Accounting Policies

1.8 Financial instruments (continued)

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	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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, a municipality calibrates the valuation technique and tests 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.

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.

1.9 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;

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Accounting Policies

1.9 Statutory receivables (continued)

- 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).

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, a 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.

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1.9 Statutory receivables (continued)

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.

1.10 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.

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.

1.11 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.

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1.11 Inventories (continued)

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 first-in, first-out (FIFO) 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.

1.12 Employee benefits

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

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

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

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

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

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

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

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

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

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1.12 Employee benefits (continued)

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 entity 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 entity 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 entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

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1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity 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 entity 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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Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity 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 entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

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

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

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

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity 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 entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity 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.

The entity 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.

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Accounting Policies

1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Termination benefits

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

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

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

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

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

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

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

1.13 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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1.13 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

1.13 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.

1.14 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.

1.15 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

1.15 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.

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.

Unallocated 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.

1.16 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.

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.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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.

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.

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1.16 Revenue from non-exchange transactions (continued)

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

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.

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.17 Investment income

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

1.18 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.

1.19 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.

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Accounting Policies

1.19 Accounting by principals and agents (continued)

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.

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 it 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.

1.20 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.

Karoo Hoogland Local Municipality

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Accounting Policies

1.21 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.

1.22 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).

1.23 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);
- 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.

1.24 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 accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2021 to 30/06/2022.

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.

1.25 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.

Karoo Hoogland Local Municipality

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Accounting Policies

1.25 Related parties (continued)

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.

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.

1.26 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 2022

Notes to the Annual Financial Statements

Figures in Rand

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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 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">Guideline: Guideline on Accounting for Landfill Sites	No effective date	No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.
<ul style="list-style-type: none">GRAP 25 (as revised): Employee Benefits	No effective date	The municipality might need to revise the recognition and measurement of employee benefits.
<ul style="list-style-type: none">iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	No effective date	No significant impact is expected as the Municipality does not hold any plan assets.
<ul style="list-style-type: none">Guideline: Guideline on the Application of Materiality to Financial Statements	No effective date	The municipality may have to revise their currently policy on materiality to include additional factors.
<ul style="list-style-type: none">GRAP 104 (as revised): Financial Instruments	01 April 2025	The Municipality might need to revise the categories of financial instruments and the impairment model.
<ul style="list-style-type: none">iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	No significant impact expected as the Municipality's current treatment is already in line with the Interpretation
<ul style="list-style-type: none">GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.
<ul style="list-style-type: none">GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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3. Inventories		
Consumable stores	551 348	331 074
Water	144 835	157 935
	696 183	489 009
Inventory pledged as security		
No inventory was pledged as security for liabilities.		
Water for distribution		
Karoo Hoogland Municipality obtains control over water inventory by pumping water from boreholes into reservoirs.		
No waterboard exist in the area of Karoo Hoogland Municipality from which water may be purchased in the event that no water may further be obtained from boreholes. Management is of the view that water would then be purchased from neighbouring municipalities at arms length transactions.		
4. Other receivables from exchange transactions		
Deposits	264 139	15 000
Expenses Paid in advance	-	101 534
Other debtors	175 796	10 453
	439 935	126 987
Other non-financial asset receivables included in receivables from exchange transactions above are as follows:		
Expenses paid in advance	-	101 534
Financial asset receivables included in receivables from exchange transactions above	439 935	25 453
Total receivables from exchange transactions	439 935	126 987
5. Receivables from non-exchange transactions		
Government grants and subsidies	-	1 400 000
Project Nala	5 193	5 193
Consumer debtors - Rates	3 373 666	3 800 765
Salary overpayments	16 506	1 448
	3 395 365	5 207 406
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Taxes	3 373 666	3 800 765
Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:		
Project Nala	5 193	5 193
Salary overpayments	16 506	1 448
Government grants and subsidies	-	1 400 000
	21 699	1 406 641
Total receivables from non-exchange transactions	3 395 365	5 207 406

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

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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 nor 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)	573 636	533 033
31 - 60 days	294 010	355 986
61 - 90 days	254 347	273 546
91 - 120 days	238 891	225 389
+120 days	10 585 671	9 572 296
	11 946 555	10 960 250

Consumer debtors - Rates Less: Allowances for Impairment

Current (0 - 30 days)	191 596	145 284
31 - 60 days	183 469	139 058
61 - 90 days	175 340	136 701
91 - 120 days	172 027	135 731
+120 days	7 850 458	6 602 711
	8 572 890	7 159 485

Consumer debtors - Rates Net Balances

Current (0 - 30 days)	382 040	387 750
31 - 60 days	110 541	216 928
61 - 90 days	79 008	136 845
91 - 120 days	66 864	89 658
+120 days	2 735 213	2 969 584
	3 373 666	3 800 765

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	3 395 36	5 207 406
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(7 159 485)	(6 456 277)
Provision for impairment	(1 413 404)	(672 909)
Previously moved to long term receivables	-	(30 299)
	(8 572 889)	(7 159 485)

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 customers 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

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
6. VAT receivable		
VAT	1 642 753	597 224
<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 (Act 89 of 1991).</p> <p>VAT is payable on the receipt 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	3 622 288	3 182 672
Water	14 341 490	12 345 933
Sewerage	13 059 179	11 244 367
Refuse	10 701 988	9 106 191
Housing rental	488 914	467 737
Other	6 272 513	6 451 013
	48 486 372	42 797 913
Less: Allowance for impairment		
Electricity	(2 232 381)	(1 192 783)
Water	(11 341 189)	(9 927 903)
Sewerage	(10 578 425)	(9 198 110)
Refuse	(9 155 407)	(7 960 651)
Housing rental	(336 796)	(269 266)
Other	(5 224 673)	(4 722 449)
	(38 868 871)	(33 271 162)
Net balance		
Electricity	1 389 907	1 989 889
Water	3 000 301	2 418 030
Sewerage	2 480 754	2 046 257
Refuse	1 546 581	1 145 540
Housing rental	152 118	198 471
Other	1 047 840	1 728 564
	9 617 501	9 526 751
Electricity		
Current (0 -30 days)	376 758	352 190
31 - 60 days	56 843	80 656
61 - 90 days	34 788	234 260
91 - 120 days	39 100	81 554
+ 120 days	882 419	1 241 229
	1 389 908	1 989 889
Water		
Current (0 -30 days)	223 780	205 268
31 - 60 days	117 040	86 427
61 - 90 days	89 222	60 352
91 - 120 days	104 539	68 257
+ 120 days	2 465 720	1 997 726
	3 000 301	2 418 030

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
7. Receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	204 524	208 291
31 - 60 days	89 449	73 359
61 - 90 days	83 057	66 338
91 - 120 days	69 775	56 851
+120 days	2 033 949	1 641 418
	2 480 754	2 046 257
Refuse		
Current (0 -30 days)	142 529	128 079
31 - 60 days	67 685	40 883
61 - 90 days	57 417	30 158
91 - 120 days	53 654	26 689
+120 days	1 225 296	919 731
	1 546 581	1 145 540
Housing rental		
Current (0 -30 days)	17 424	16 774
31 - 60 days	7 702	5 275
61 - 90 days	5 365	4 165
91 - 120 days	4 589	1 442
+120 days	117 038	170 815
	152 118	198 471
Other		
Current (0 -30 days)	11 826	143 640
31 - 60 days	2 936	13 857
61 - 90 days	2 698	9 448
91 - 120 days	1 662	10 628
+120 days	1 028 718	1 550 991
	1 047 840	1 728 564
Reconciliation of allowance for impairment		
Balance at beginning of the year	(33 271 162)	(26 499 782)
Contributions to allowance	(5 597 709)	(6 380 650)
Previously moved to long term receivables	-	(390 730)
	(38 868 871)	(33 271 162)
Consumer debtors pledged as security		
No receivables from exchange transactions were pledged as security for any liabilities.		
Value of consumer debtors		
Consumer debtors	9 617 501	9 526 751
8. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	2 700	2 700
Bank balances	2 950 550	8 585 639
	2 953 250	8 588 339

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
Standard Bank - Account number 08 321 2442 (Primary bank account)	1 524 272	5 951 599	91 037	1 524 272	5 951 599	91 037
ABSA Bank - Account number 24 9000 0065 (Secondary bank account)	814 476	932 153	949 549	814 476	966 368	967 542
Standard Bank Fixed deposit - Account number 28 864 1922	54 361	1 116 223	2 666 182	54 361	1 116 223	2 666 182
Eskom Investment account - Account number 92 9194 4935	18 050	18 050	18 050	18 050	18 050	18 050
FMG Call Account - Account number 28 8644 204	1 000	1 000	1 000	1 000	1 000	1 000
ABSA INEG - Account number 92 8398 9339	-	-	1 000	-	-	1 000
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	503 641	497 649	492 271	503 641	497 649	492 271
Total	2 950 550	8 551 424	4 253 839	2 950 550	8 585 639	4 271 832

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 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

9. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	42 965 674	(4 170 413)	38 795 261	42 965 674	(3 896 063)	39 069 611

Reconciliation of investment property - Notes to the financial statements

	Opening balance	Depreciation	Total
Investment property	39 069 611	(274 350)	38 795 261

Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Investment property	39 343 960	(274 349)	39 069 611

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
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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.

RDP houses is no longer part of Karoo Hoogland Municipality's assets as the municipality is no longer exercising control over the assets. The transfer of ownership is still in process due to the backlog in the administration process of the deeds office.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2022			2021		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	6 635 050	(1 906 914)	4 728 136	6 625 996	(1 760 759)	4 865 237
Community	19 653 310	(3 328 071)	16 325 239	19 631 458	(2 910 839)	16 720 619
Furniture and fixtures	1 701 585	(934 794)	766 791	1 812 734	(1 103 622)	709 112
IT equipment	1 701 540	(1 024 470)	677 070	1 753 623	(950 930)	802 693
Infrastructure	305 211 761	(82 982 060)	222 229 701	283 828 964	(74 724 999)	209 103 965
Land	2 098 500	-	2 098 500	2 098 500	-	2 098 500
Landfill site	21 073 304	(6 701 200)	14 372 104	18 339 941	(6 042 935)	12 297 006
Leased Assets	230 377	(176 609)	53 768	452 974	(296 304)	156 670
Motor vehicles	5 462 244	(1 799 572)	3 662 672	5 462 244	(1 485 747)	3 976 497
Office equipment	287 187	(153 812)	133 375	389 088	(202 812)	186 276
Other property, plant and equipment	49 914	(35 958)	13 956	49 914	(32 971)	16 943
Plant and machinery	519 992	(356 445)	163 547	523 442	(337 323)	186 119
Solar panels	1 669 133	(255 462)	1 413 671	1 690 985	(168 570)	1 522 415
Tools and loose gear	99 792	(66 518)	33 274	103 185	(63 905)	39 280
Total	366 393 689	(99 721 885)	266 671 804	342 763 048	(90 081 716)	252 681 332

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Notes to the financial statements

	Opening balance	Additions	WIP Additions	Disposals	Transfers to assets	Transfer from WIP	Change in estimate	Depreciation	Carrying value
Buildings	4 865 237	-	-	-	-	-	-	(137 101)	4 728 136
Community	16 720 619	-	-	-	-	-	-	(395 380)	16 325 239
Furniture and fixtures	709 112	133 225	20 760	(350)	-	-	-	(95 956)	766 791
IT equipment	802 693	37 592	-	(621)	-	-	-	(162 594)	677 070
Infrastructure	209 103 965	9 585 969	12 675 531	-	9 011 779	(9 182 962)	-	(8 964 581)	222 229 701
Land	2 098 500	-	-	-	-	-	-	-	2 098 500
Landfill site	12 297 006	-	-	-	-	-	2 733 364	(658 266)	14 372 104
Leased Assets	156 670	-	-	-	-	-	-	(102 902)	53 768
Motor vehicles	3 976 497	-	-	-	-	-	-	(313 825)	3 662 672
Office equipment	186 276	6 532	-	(556)	-	-	-	(58 877)	133 375
Other property, plant and equipment	16 943	-	-	-	-	-	-	(2 987)	13 956
Plant and machinery	186 119	-	-	(7)	-	-	-	(22 565)	163 547
Solar Panels	1 522 415	-	-	-	-	-	-	(108 744)	1 413 671
Tools and loose gear	39 280	-	-	(16)	-	-	-	(5 990)	33 274
	252 681 332	9 763 318	12 696 291	(1 550)	9 011 779	(9 182 962)	2 733 364	(11 029 768)	266 671 804

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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	Carrying value
Buildings	4 883 274	115 629	-	-	-	-	-	-	(133 666)	4 865 237
Community	16 922 648	194 000	-	-	(5 000)	-	-	-	(391 029)	16 720 619
Furniture and fixtures	778 149	18 025	-	-	-	-	-	-	(87 062)	709 112
IT equipment	886 898	75 115	-	-	-	-	-	-	(159 320)	802 693
Infrastructure	202 580 869	14 733 211	1 431 020	(105 555)	-	6 938 754	(6 938 754)	-	(9 535 580)	209 103 965
Land	2 093 500	-	-	-	5 000	-	-	-	-	2 098 500
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	1 631 159	-	-	-	-	-	-	-	(108 744)	1 522 415
Tools and loose gear	45 278	-	-	-	-	-	-	-	(5 998)	39 280
	254 601 659	16 177 862	1 431 020	(105 555)	-	6 938 754	(6 938 754)	(7 493 470)	(11 930 184)	252 681 332

Pledged as security

Carrying value of assets pledged as security:

Leased assets	53 768	156 670
Sebata Connect PBX	-	23 325

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress Notes to the financial statements

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	1 431 020	176 736	-	1 607 756
Additions/capital expenditure	12 675 531	-	20 760	12 696 291
Transfer to inventory	(171 183)	-	-	(171 183)
Transferred to completed items	(9 011 778)	-	-	(9 011 778)
	4 923 590	176 736	20 760	5 121 086

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

Project for Fraserburg driving licence testing centres included withing community assets has been halted due to limited funding available.

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	934 980	1 390 882
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Restoration cost is financed by way of a provision. Refer to note 18 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.

Change in residual values

Assets	Residual value 2022	Residual value 2021	Change
Nissan NP300 2,5D SC-K40	75 000	45 000	30 000
Nissan UD85B	70 000	120 000	(50 000)
Mitsubishi canter pick-up 1982	3 000	12 971	(9 971)
UD Croner Vacuum Tank	375 000	435 000	(60 000)
	523 000	612 971	(89 971)

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

Effect of changes in accounting estimates

Change in estimate	2022 (1 293 624)	2023 (878 683)	2024 413 242
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The Municipality has reassessed the useful lives and residual values of Property, plant and equipment. This resulted in change in depreciation charge, accumulated depreciation charge and the carrying value of Property, Plant and Equipment.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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10. Property, plant and equipment (continued)

Contractual commitments for acquisition of Property, Plant and Equipment

Contractual commitments for acquisition of Property, Plant and Equipment refer to note 35.

11. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	470 854	(236 823)	234 031	480 068	(187 148)	292 920

Reconciliation of intangible assets - Notes to the financial statements

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	292 920	7 377	(93)	(66 173)	234 031

Reconciliation of intangible assets - 2021

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

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 indefinite useful life.

12. Other financial liabilities

At amortised cost

Bank loan	1 208 572	1 442 264
Terms and conditions		

Non-current liabilities

At amortised cost	962 894	1 208 527
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Current liabilities

At amortised cost	245 678	233 737
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Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
13. Finance lease obligation		
Minimum lease payments due		
- within one year	68 999	129 607
- in second to fifth year inclusive	-	68 413
	<u>68 999</u>	<u>198 020</u>
less: future finance charges	(5 020)	(21 221)
Present value of minimum lease payments	<u>63 979</u>	<u>176 799</u>
Present value of minimum lease payments due		
- within one year	63 979	112 941
- in second to fifth year inclusive	-	63 858
	<u>63 979</u>	<u>176 799</u>
Non-current liabilities	-	63 858
Current liabilities	63 979	112 941
	<u>63 979</u>	<u>176 799</u>

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

The average lease term was 3 years and the average effective borrowing rate was 1% (2021: 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	63 979	176 799
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For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 40.

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

14. Payables from exchange transactions

Trade payables	2 819 151	5 144 433
Payments received in advanced	360 346	470 326
Accrued leave pay	1 938 095	2 137 296
Accrued bonus	728 427	714 154
Deposits received	138 862	142 917
Prepaid sales in advance	92 857	213 223
Unidentified deposits	38 851	140 256
Retentions	826 116	337 872
Payroll Creditors	25 402	40 246
	<u>6 968 107</u>	<u>9 340 723</u>

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
14. Payables from exchange transactions (continued)		
All payables are unsecured.		
15. Consumer deposits		
Electricity	57 887	60 547
Water	377 623	307 650
	435 510	368 197

16. Employee benefit obligations

16.1 Post-employment medical aid

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 dependents 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 2022 and performed by independent professional valuers. The next actuarial valuation is expected to be performed on 30 June 2023.

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(2 228 000)	(2 174 000)
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In-service members:

The average in-service member liability has increased by 20% since the last valuation due to the following factors:

The total liability has increased by 20% 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 (less discounting)
- an increase in the average past service;
- an increase in the average post-employment subsidy.

These impacts were partially offset by increases in the net discount rates.

Continuation members:

The average continuation member liability has decreased by 3% since the last valuation due to increases in the net discount rates, and increase in the average age.

The total continuation member liability has also decreased by 3% due to the above, combined with a decrease in the number of continuation members.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Figures in Rand	2022	2021
16. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	2 174 000	2 605 000
Net expense recognised in the statement of financial performance	54 000	(431 000)
	2 228 000	2 174 000
Net expense recognised in the statement of financial performance		
Current service cost	18 000	14 000
Interest cost	186 000	206 000
Actuarial (gains) losses	35 000	(347 000)
Settlement	(185 000)	(304 000)
	54 000	(431 000)
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Obligation	35 000	(347 000)

The Current-service Cost for the ensuing year is estimated to be R22 000 whereas the Interest Cost for the next year is estimated to be R227 000.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Figures in Rand	2022	2021
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16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,66 %	8,95 %
Health care cost inflation rate	7,53 %	6,25 %
Net-of-health-care-cost-inflation discount rate	2,91 %	2,45 %

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 10.66% per annum has been used. The corresponding index-linked yield at this term is 3.89%. 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 17 June 2022.

These yields were obtained by calculating the duration of the total liability and then taking the fixed-interest and index-linked yields from the respective yield curves at that duration using an iterative process (because the yields depend on the duration, which in turn depends on the liability).. The two main components of the liability are as follows:

- Employees post-employment subsidy liability
- 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 7.53% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.03%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 2.91% which derives from $((1+10.66\%)/(1+7.53\%))-1$.

The expected inflation assumption of 6.03% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.89%) and those of fixed interest bonds (10.66%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+10.66\%-0.50\%)/(1+3.89\%))-1$.

The next contribution increase was assumed to occur with effect from 1 January 2023.

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:

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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16. Employee benefit obligations (continued)

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.

Karoo Hoogland Local Municipality

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16. Employee benefit obligations (continued)

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	264 000	233 000
Effect on defined benefit obligation	2 234 000	2 187 000

Amounts for the current and previous four years are as follows:

	2022	2021	2020	2019	2018
Defined benefit obligation	2 228 000	2 174 000	2 605 000	2 995 000	2 545 000
Experience adjustments on plan liabilities	128 000	(345 000)	(63 000)	184 000	(770 000)

Sensitivity Analysis on the Accrued Liability as at 30 June 2022

Assumption	Change	In-Service Members	Continuation Members	Total	% Change
Central assumptions	-	605 000	1 623 000	2 228 000	-
Health care inflation rate	1	655 000	1 687 000	2 342 000	5 %
Health care inflation rate	(1)%	543 000	1 552 000	2 095 000	(6)%
Discount rate	1 %	534 000	1 528 000	2 062 000	(7)%
Discount rate	(1)%	690 000	1 729 000	2 419 000	9 %
Post-employment mortality	1 %	591 000	1 552 000	2 143 000	(4)%
Post-employment mortality	(1)%	618 000	1 695 000	2 313 000	4 %
Average retirement age	(1)%	662 000	1 623 000	2 285 000	3 %
Membership continuation	(10)%	545 000	1 623 000	2 168 000	(3)%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2022

Assumption	Change	Current- Service Cost	Interest Cost	Total	% Change
Central assumptions	-	18 000	186 000	204 000	-
Health care inflation rate	1 %	21 000	199 000	220 000	8 %
Health care inflation rate	(1)%	16 000	173 000	189 000	(7)%
Discount rate	1 %	16 000	190 000	206 000	1 %
Discount rate	(1)%	21 000	181 000	202 000	(1)%
Post-employment mort.	(1)	19 000	194 000	213 000	4 %
Average retirement age	(1)%	20 000	190 000	210 000	3 %
Average retirement age	(10)%	17 000	182 000	199 000	(2)%

Karoo Hoogland Local Municipality

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Figures in Rand 2022 2021

16. Employee benefit obligations (continued)

16.2 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.

The Current-service Cost for the ensuing year is estimated to be R160 000 whereas the Interest Cost for the next year is estimated to be R202 000.

Carrying value

Present value of the defined benefit obligation-wholly unfunded	1 831 000	2 160 000
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2 160 000	1 950 000
Net expense recognised in the statement of financial performance	(329 000)	210 000
	1 831 000	2 160 000

Net expense recognised in the statement of financial performance

Current service cost	160 000	152 000
Interest cost	170 000	135 000
Actuarial (gains) losses	(427 521)	3 176
Settlement	(231 479)	(80 176)
	(329 000)	210 000

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(427 521)	3 176
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Key Assumptions used

Discount rate	10,60 %	8,89 %
General Salary Inflation (long-term)	7,04 %	5,71 %
Net effective discount rate	3,33 %	3,01 %

The earnings disclosed above and used in the valuation include an increase of 4.90% as at 1 July 2022, as per the SALGBC Circular No: 01/2022.

Sensitivity Analysis on the Accrued Liability as at 30 June 2022

Assumption	Change	Liability	% Change
Central assumptions	-	1 831 000	-
General earnings inflation rate	1 %	1 941 000	6 %
General earnings inflation rate	(1)%	1 729 000	(5)%
Discount rate	1 %	1 727 000	(5)%
Discount rate	(1)%	1 945 000	6 %
Average retirement age (yrs)	2	1 965 000	7 %
Average retirement age (yrs)	(2)	1 675 000	(12)%
Withdrawal rates (multiply)	2	1 469 000	(19)%
Withdrawal rates (multiply)	0,5	2 073 000	13 %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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Figures in Rand 2022 2021

16. Employee benefit obligations (continued)

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30 June 2022

Assumption	Change	Current Service Cost	Interest Cost	Total	% Change
Central assumptions	-	160 000	170 000	330 000	-
General earnings inflation rate	1 %	172 000	180 000	352 000	7 %
General earnings inflation rate	(1)%	149 000	161 000	310 000	(6)%
Discount rate	1 %	150 000	178 000	328 000	(1)%
Discount rate	(1)%	171 000	161 000	332 000	1 %
Average retirement age (yrs)	2	169 000	181 000	350 000	6 %
Average retirement age (yrs)	(2)	147 000	150 000	297 000	(10)%
Withdrawal rates (multiply)	2	117 000	136 000	253 000	(23)%
Withdrawal rates (multiply)	0,5	192 000	193 000	385 000	17 %

Amounts for the current and previous four years are as follows:

	2022	2021	2020	2019	2018
Long service awards obligation	1 831 000	2 160 000	1 950 000	2 086 000	1 965 000
Experience adjustments on plan liabilities	(108 000)	85 000	(56 101)	48 511	439 165

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

Non-current liabilities	3 680 000	3 644 000
Current liabilities	379 000	690 000
	4 059 000	4 334 000

17. 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	152 762	190 468
	152 762	4 175 570

See note 24 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.

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

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18. Provisions

Reconciliation of provisions - Notes to the financial statements

	Opening Balance	Change in estimate	Change in discount factor	Total
Environmental rehabilitation	26 274 847	2 733 363	3 197 652	32 205 862

Reconciliation of provisions - 2021

	Opening Balance	Change in estimate	Change in discount factor	Total
Environmental rehabilitation	31 268 384	(7 493 469)	2 499 932	26 274 847

Restructuring provision

In terms of the licencing of the landfill-sites, the municipality will incur licensing and rehabilitation costs of R186 246 024 (2021: R194 072 839) 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 - 2031	12 583 838	6 382 041
Sutherland - 2041	11 845 697	11 963 319
Williston - 2041	7 776 325	7 929 486
	32 205 860	26 274 846

Material Assumptions used

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
18. Provisions (continued)		
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.		
19. Service charges		
Sale of electricity	11 259 381	10 932 619
Sale of water	5 133 038	4 838 749
Sewerage and sanitation charges	4 889 013	4 755 196
Refuse removal	4 036 758	3 821 821
Revenue forgone	(4 122 449)	(3 818 888)
	21 195 741	20 529 497
20. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	579 997	621 604
21. Other income		
LG Seta Skills development	126 983	96 449
Sundry income	789 927	519 464
Unallocated deposits recognised	43 437	797 741
	960 347	1 413 654
22. Interest received - investment		
Interest revenue		
Bank	416 151	198 717

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
23. Property rates		
Rates received		
Residential, commercial property, state and farms	8 966 462	8 413 176
Less: Revenue forgone	(1 942 601)	(1 562 765)
	<u>7 023 861</u>	<u>6 850 411</u>
Property rates - interest received	604 220	583 559
	<u>7 628 081</u>	<u>7 433 970</u>
Valuations		
Residential	280 513 000	280 317 000
Commercial	93 151 000	93 701 000
State	1 850 000	1 850 000
Municipal	36 905 000	36 905 000
Small holdings and farms	3 719 228 500	3 721 228 500
Public Service Infrastructure (Zero Rated)	731 000	731 000
Public Benefit Organisations	18 472 000	18 472 000
Vacant land	23 223 500	23 019 500
Public Service Property	46 318 000	46 078 000
	<u>4 220 392 000</u>	<u>4 222 302 000</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 R0.011905 (2021: 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.

The new general valuation will be implemented on 01 July 2023.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
24. Government grants & subsidies		
Operating grants		
Equitable share	25 216 102	27 301 000
Local Government Financial Management Grant	2 650 000	2 800 000
Expanded Public Works Program	-	1 000 000
Library Development Grant	1 500 000	1 400 000
National Treasury assistance	393 666	327 766
	29 759 768	32 828 766
Capital grants		
Municipal Infrastructure Grant	14 276 000	8 980 898
Library Development Grant	37 706	263 936
Water Services Infrastructure Grant	10 000 000	-
	24 313 706	9 244 834
	54 073 474	42 073 600
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	28 857 372	14 772 600
Unconditional grants received	25 216 102	27 301 000
	54 073 474	42 073 600
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		
Balance unspent at beginning of year	3 985 102	-
Current-year receipts	14 276 000	12 966 000
Conditions met - transferred to revenue	(14 276 000)	(8 980 898)
Paid back/With held from Equitable share	(3 985 102)	-
	-	3 985 102
Conditions still to be met - remain liabilities (see note 17).		
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	2 650 000	2 800 000
Conditions met - transferred to revenue	(2 650 000)	(2 800 000)
	-	-
Conditions still to be met - remain liabilities (see note 17).		
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).		

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
24. Government grants & subsidies (continued)		
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 17).		
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.		
Library Development Grant		
Balance unspent at beginning of year	(1 209 532)	454 404
Current-year receipts	1 500 000	-
Prior year allocation received	1 400 000	-
Conditions met - transferred to revenue	(1 537 706)	(263 936)
Unpaid grant and subsidies	-	(1 400 000)
	<u>152 762</u>	<u>(1 209 532)</u>
Conditions still to be met - remain liabilities (see note 17).		
The grant is being used to support library services.		
National Treasury assistance		
Current-year receipts	393 666	327 766
Conditions met - transferred to revenue	(393 666)	(327 766)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 17).		
This grant relates to audit fees that were paid by National Treasury on behalf of the municipality.		
Water Services Infrastructure Grant		
Current-year receipts	10 000 000	-
Conditions met - transferred to revenue	(10 000 000)	-
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 17).		
The purpose of this grant is to develop infrastructure required to connect or augment a water resource, to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area with the municipality.		
25. Public contributions and donations		
Public contributions and donations	246	238
Donated Property, Plant and equipment	-	8 057 143
	<u>246</u>	<u>8 057 381</u>

Karoo Hoogland Local Municipality

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Figures in Rand	2022	2021
26. Employee related costs		
Bargaining council contributions	10 455	10 663
Basic	20 732 110	20 958 636
Bonus	1 774 696	1 815 533
Contributions for UIF, Pension and Medical Aids	1 512 143	1 610 770
Leave pay provision charge	237 849	422 797
Long-service awards	160 000	152 000
Overtime payments	1 000 607	512 390
Post retirement medical aid expenses	18 000	14 000
SDL	259 270	209 249
Travel, motor car, accommodation, subsistence and other allowances	1 157 801	1 176 191
	26 862 931	26 882 229
Remuneration of the Municipal Manager: JJ Fortuin		
Annual Remuneration	943 033	873 990
Car Allowance	207 027	191 853
Performance Bonuses	139 589	142 576
Cell phone allowance	23 578	24 000
Danger allowance	-	4 500
Leave payout	148 709	-
	1 461 936	1 236 919
Remuneration of the Director Financial Services: SJ Myburgh		
Annual Remuneration	831 417	834 273
Car Allowance	234 504	235 310
Performance Bonuses	127 911	143 077
Cell phone allowance	24 000	24 000
Danger allowance	-	4 500
Leave payout	170 846	-
	1 388 678	1 241 160
Remuneration of the Director Technical Services: FJ Lotter		
Annual Remuneration	684 653	687 005
Car Allowance	130 410	130 858
Performance Bonuses	97 808	109 404
Cell phone allowance	24 000	24 000
Danger allowance	-	4 500
	936 871	955 767
27. Remuneration of councillors		
Major Councillors	793 702	853 050
	3 019 159	1 797 595
	3 812 861	2 650 645

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Figures in Rand	2022	2021
27. Remuneration of councillors (continued)		
VC Wentzel - (Resigned as Mayor 8 November 2021)		
Basic salary	432 584	727 785
Cell phone allowance	44 400	44 400
Vehicle allowance	48 667	80 865
	525 651	853 050
JJ van der Colff		
Basic salary	274 342	231 789
Cell phone allowance	44 400	44 400
Vehicle allowance	30 482	25 591
	349 224	301 780
J Davids		
Basic salary	274 342	231 789
Cell phone allowance	44 400	44 400
Vehicle allowance	30 482	25 591
	349 224	301 780
A Januarie		
Basic salary	90 621	255 909
Cell phone allowance	14 494	40 800
	105 115	296 709
G Klazen		
Basic salary	90 621	255 909
Cell phone allowance	15 773	44 400
	106 394	300 309
J Jooste		
Basic Salary	90 621	255 909
Cell phone allowance	14 494	40 800
	105 115	296 709
JJ Jacobs		
Basic salary	90 621	255 909
Cell phone allowance	15 773	44 400
	106 394	300 309
E Oliphant		
Basic salary	164 178	-
Cell phone allowance	28 576	-
	192 754	-
SA Muller		
Basic salary	164 178	-
Cell phone allowance	28 576	-
	192 754	-

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
27. Remuneration of councillors (continued)		
VT Opperman		
Basic salary	213 911	-
Cell phone allowance	28 576	-
	242 487	-
Rvd Merwe Geel		
Basic salary	164 178	-
Cell phone allowance	28 576	-
	192 754	-
AS Mietas - (Appointed as Mayor 9 November 2021)		
Basic salary	497 656	-
Cell phone allowance	28 576	-
	526 232	-
M.J Chadow (Appointed as Speaker 9 November 2021)		
Basic salary	404 669	-
Cell phone allowance	28 576	-
	433 245	-
AE Steenkamp		
Basic salary	164 178	-
Cell phone allowance	28 576	-
	192 754	-
CG Steenkamp		
Basic salary	164 178	-
Cell phone allowance	28 576	-
	192 754	-

The accounting officer certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

28. Finance costs

Actuarial interest	356 000	341 000
Long term borrowings	84 798	109 387
Provision for the rehabilitation of landfill sites	3 197 652	2 499 932
Trade and other payables	92 385	15 452
	3 730 835	2 965 771

29. Debt impairment

Debt impairment	6 280 978	6 229 142
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30. Bulk purchases

Electricity - Eskom	10 904 885	10 163 283
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Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
31. Contracted services		
Contractors		
Maintenance of Equipment	934 980	1 390 882
32. Depreciation and amortisation		
Property, plant and equipment	10 359 665	10 625 706
Investment property	274 349	274 349
Intangible assets	66 173	62 899
	10 700 187	10 962 954
33. Operating cost		
Advertising	90 182	57 474
Audit committee	71 168	66 445
Auditors remuneration	3 144 857	2 788 655
Bank charges	276 982	326 497
Commission paid	268 582	252 501
Consulting and professional fees	1 954 056	2 742 391
Consumables	700 976	128 017
Donations	60 000	174 649
Entertainment	24 852	10 898
Fuel and oil	908 819	574 892
Insurance	333 938	399 371
Internal audit	7 190	5 757
Library projects	39 969	38 776
Membership fees	508 705	508 250
Other expenses	94 486	74 864
Postage and courier	4 095	766
Printing and stationery	435 817	496 487
Research and development costs	32 822	16 333
Security	55 661	40 478
Software expenses	2 549 889	1 861 690
Staff welfare	48 387	157 273
Telephone and fax	560 955	583 579
Title deed search fees	18 591	21 804
Training	145 603	47 500
Travel - local	968 122	645 769
	13 304 704	12 021 116
34. Financial instruments disclosure		
Categories of financial instruments		
Notes to the financial statements		
Financial assets		
	At amortised cost	Total
Other receivables from exchange transactions	439 935	439 935
Receivables from exchange transactions	9 617 501	9 617 501
Cash and cash equivalents	2 953 250	2 953 250
	13 010 686	13 010 686
Financial liabilities		

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34. Financial instruments disclosure (continued)

	At amortised cost	Total
Other financial liabilities	1 208 572	1 208 572
Finance lease liability	63 979	63 979
Trade and other payables from exchange transactions	4 276 183	4 276 183
Consumer deposits	435 510	435 510
	5 984 244	5 984 244

2021

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	25 453	25 453
Receivables from exchange transactions	9 526 751	9 526 751
Cash and cash equivalents	8 588 339	8 588 339
	18 140 543	18 140 543

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1 442 264	1 442 264
Finance lease liability	176 799	176 799
Trade and other payables from exchange transactions	6 449 027	6 449 027
Consumer deposits	368 197	368 197
	8 436 287	8 436 287

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	89 739	-
---------------------------------	--------	---

Total capital commitments

Already contracted for but not provided for	89 739	-
---	--------	---

Total commitments

Total commitments

Authorised capital expenditure	89 739	-
--------------------------------	--------	---

This committed expenditure relates to 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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36. Contingencies

2022:

Contingent liabilities

KHM vs JK Malho.

Review the application on the arbitration award ordering the reinstatement of JK Malho. The estimate of the financial exposure amounts to R200 000.

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.

Contingent assets

2022:

KHM vs L Nothnagel.

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

2021:

KHM vs L Nothnagel.

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

Karoo Hoogland Local Municipality

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37. Related parties

Relationships

Accounting Officers District Municipality Members of key management	Refer to accounting officers' report Namakwa District Municipality S Myburgh F Lotter JJ Fortuin (Resigned, 24 June 2022) VC Wentzel J Davids A Januarie (Resigned, 08 November 2021) G Klazen (Resigned, 08 November 2021) J Jooste (Resigned, 08 November 2021) JJ van der Colff JJ Jacobs (Resigned, 08 November 2021) E Oliphant (Appointed, 09 November 2021) SA Muller (Appointed, 09 November 2021) VT Opperman (Appointed, 09 November 2021) RvdM Geel (Appointed, 09 November 2021) AS Mietas (Appointed as Mayor, 09 November 2021) MJ Chadow (Appointed, 09 November 2021) AE Steenkamp (Appointed, 09 November 2021) CG Steenkamp (Appointed, 09 November 2021)
Members of Council	

Related party balances

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

SM Davids	454	435
VC Wentzel	469	482
A Januarie	-	544
G Klazen	-	465
J Jooste	-	507
JJ Jacobs	-	471
JJ van der Colff	891	792
FJ Lotter	-	1 088
SA Muller	441	-
VT Opperman	744	-
AE Steenkamp	674	-
CG Steenkamp	1 076	-
AS Mietas	1 929	-
MJ Chadow	484	-
Rvd Merwe Geel	3 155	-

Related party transactions

Rates levied to Councillors 1 July to 30 June

G Klazen	-	549
AM Januarie	-	499
J Jooste	-	1 048
SM Davids	188	183
JJ Jacobs	-	613
JJ van der Colff	3 567	3 407
SA Muller	66	-
VT Opperman	139	-
AE Steenkamp	1 444	-
CG Steenkamp	3 857	-
AS Mietas	7 883	-
MJ Chadow	719	-
Rvd Merwe Geel	6 876	-

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37. Related parties (continued)		
Service charges to Councillors levied 1 July to 30 June		
G Klazen	-	5 033
AM Januarie	-	5 856
J Jooste	-	5 523
SM Davids	5 430	5 033
VC Wentzel	6 554	6 005
JJ Jacobs	-	5 033
SA Muller	2 751	-
VT Opperman	2 486	-
AE Steenkamp	4 049	-
CG Steenkamp	5 090	-
AS Mietas	5 292	-
MJ Chadow	3 507	-
Rvd Merwe Geel	15 735	-
Rates levied to Key Management		
FJ Lotter	5 218	5 996
Services levied to Key Management		
FJ Lotter	6 700	8 456

Key management information

Remuneration of management

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

Remuneration of councillors

Remuneration of councillors refer to note 27 of the annual financial statements.

38. Prior period errors

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2021

	As previously reported	Correction of error	Restated
Inventories	183 312	305 697	489 009
Receivables from non-exchange transactions	5 243 504	(36 098)	5 207 406
Vat receivable	582 945	14 279	597 224
Receivables from exchange transactions	9 490 653	36 098	9 526 751
Investment property	35 107 711	3 961 900	39 069 611
Property, plant and equipment	250 142 340	2 538 992	252 681 332
Payables from exchange transactions	(9 243 904)	(96 818)	(9 340 722)
Employee benefit obligation - current portion	(185 000)	(505 000)	(690 000)
Provisions - current portion	(505 000)	505 000	-
Employee benefit obligation - non-current portion	(1 989 000)	(1 655 000)	(3 644 000)
Provisions - Non-current portion	(27 929 847)	1 655 000	(26 274 847)
Opening balance accumulated surplus	(263 768 840)	(146 824)	(263 915 664)
	(2 871 126)	6 577 226	3 706 100

Statement of financial performance

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
38. Prior period errors (continued)			
2021			
	As previously reported	Correction of error	Restated
Government grants & subsidies operating grants	1 663 936	(263 936)	1 400 000
Government grants & subsidies capital grants	-	263 936	263 936
Public contributions and donations	1 487 061	6 570 320	8 057 381
Debt impairment	(6 243 420)	14 278	(6 229 142)
Depreciation and amortisation	(12 198 865)	1 235 911	(10 962 954)
Employee related costs	(27 559 875)	677 646	(26 882 229)
Water inventory consumed	-	(4 568 159)	(4 568 159)
Water losses	-	(389 194)	(389 194)
Operating cost	(12 079 280)	58 164	(12 021 116)
Gain on water inventory	-	2 978 260	2 978 260
Surplus for the year	(54 930 443)	6 577 226	(48 353 217)

Notes to the financial statements

	As previously reported	Correction of error	Restated
Financial instruments - Receivables from exchange transactions	9 490 653	36 098	9 526 751
Statutory receivables	3 836 863	(36 098)	3 800 765
Financial instruments - Other receivables from exchange transactions	126 987	(101 534)	25 453
Unauthorised expenditure	11 005 437	5 986 310	16 991 747
Surplus for the year	24 459 940	5 884 776	30 344 716

The correction of the notes to the annual financial statements as stated above are the net effect after reclassifying instandhoudings debtor category from property rates to electricity debtor control account and the provision for impairment on the instandhoudings debtor category.

Removing expenses paid in advance as it does not form part of financial instruments.

Correcting the calculation of unauthorised expenditure per municipal vote classification.

Cash flow statement

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
38. Prior period errors (continued)			
2021			
	As previously reported	Correction of error	Restated
Cash flow from operating activities			
Cash receipts from customers	21 729 341	(4 974 306)	16 755 035
Taxation	-	5 422 069	5 422 069
Interest earned - outstanding debtors	2 033 916	(149 616)	1 884 300
Property rates - interest received	583 559	(203 248)	380 311
Suppliers	(23 773 102)	(337 871)	(24 110 973)
Taxes	(383 494)	(14 279)	(397 773)
	190 220	(257 251)	(67 031)
Cash flow from investing activities			
Purchase of property, plant and equipment	(9 551 737)	337 871	(9 213 866)
Cash flow from financing activities			
Consumer deposits	80 620	(80 620)	-

The corrections on the cashflow statement are a result of:

Reclassifying instandhoudings debtor category from property rates to electricity debtor control account and the provision for impairment on the instandhoudings debtor category

Correctly allocating the debt impairment between receivables from exchange and receivables from non-exchange transactions.

The application of the FAQ point 4.18.

Reclassification of cash items as per finding raised by the Auditor general.

Errors

The following prior period errors adjustments occurred:

Inventories

First time recognition of inventory previously not accounted for by the municipality.

Accounting for water inventory as per the FAQ.

Balance as previously reported	183 312
Correction of error - FTR	243 641
Correction of error - FAQ	62 056
Restated balance	489 009

Receivables from non-exchange transactions

The error is the net effect after reclassifying instandhoudings debtor category from property rates to electricity debtor control account and the provision for impairment on the instandhoudings debtor category.

Balance as previously reported	5 243 504
Correction of error	(36 098)
Restated balance	5 207 406

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
38. Prior period errors (continued)		
Vat receivable		
Correction of the Vat component on the impairment after reclassifying instandhoudings debtor category from property rates to electricity debtor control account.		
Balance as previously reported	582 945	
Correction of error	14 279	
Restated balance	597 224	
Receivables from exchange transactions		
The error is the net effect after reclassifying instandhoudings debtor category from property rates to electricity debtor control account and the provision for impairment on the instandhoudings debtor category.		
Balance as previously reported	9 490 653	
Correction of error	36 098	
Restated balance	9 526 751	
Investment property		
Reclassification of vacant land from Property, plant and equipment to Investment property.		
Balance as previously reported	35 107 711	
Correction of error	3 961 900	
Restated balance	39 069 611	
Property, plant and equipment		
Reclassification of vacant land from Property, plant and equipment to Investment property.		
Capitalisation of donated ppe on completion date.		
Balance as previously reported	250 142 340	
Correction of error - Investment property	(3 961 900)	
Correction of error - Donated ppe	6 500 892	
Restated balance	252 681 332	

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Figures in Rand 2022 2021

38. Prior period errors (continued)

Payables from exchange transactions

Payment received from SKA in December 2019 was incorrectly received as a direct income. The payment were queried by SKA in September 2021. The receipt were therefore corrected to unallocated receipts to be allocated to the debtor account.

Balance as previously reported	(9 243 904)
Correction of error	(96 818)
Restated balance	<u><u>(9 340 722)</u></u>

Employee benefit obligation - Current portion

Reclassifying Long service awards from provisions to employee benefit obligations.

Balance as previously reported	(185 000)
Correction of error	(505 000)
Restated balance	<u><u>(690 000)</u></u>

Provisions - Current portion

Reclassifying Long service awards from provisions to employee benefit obligations.

Balance as previously reported	(505 000)
Correction of error	505 000
Restated balance	<u><u>-</u></u>

Employee benefit obligation - Non-current portion

Reclassifying Long service awards from provisions to employee benefit obligations.

Balance as previously reported	(1 989 000)
Correction of error	(1 655 000)
Restated balance	<u><u>(3 644 000)</u></u>

Provisions - Non-current portion

Reclassifying Long service awards from provisions to employee benefit obligations.

Balance as previously reported	(27 929 847)
Correction of error	1 655 000
Restated balance	<u><u>(26 274 847)</u></u>

Accumulated surplus (Opening balance)

Payment received from SKA in December 2019 was incorrectly received as a direct income. The payment were queried by SKA in September 2021. The receipt were therefore corrected to unallocated receipts to be allocated to the debtor account.

First time recognition of inventory previously not accounted for by the municipality.

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Figures in Rand	2022	2021
38. Prior period errors (continued)		
Balance as previously reported		(263 768 840)
Correction of error Payables		96 818
Correction of error Inventories		(243 641)
Restated balance		(263 915 663)
Debt impairment		
The error is the net effect after reclassifying instandhoudings debtor category from property rates to electricity debtor control account and the provision for impairment on the instandhoudings debtor category.		
Balance as previously reported		(6 243 420)
Correction of error		14 278
Restated balance		(6 229 142)
Government grants & subsidies operating grants		
Correctly classifying the capital portion of the Library Development grant to capital grants, which was previously disclosed as operating grants.		
Balance as previously reported		1 663 936
Correction of error		(263 936)
Restated balance		1 400 000
Government grants & subsidies capital grants		
Correctly classifying the capital portion of the Library Development grant to capital grants, which was previously disclosed as operating grants.		
Correction of error		263 936
Public contributions and donations		
Capitalisation of donated ppe on completion date.		
Balance as previously reported		1 487 061
Correction of error		6 570 320
Restated balance		8 057 381
Depreciation and amortisation		
Effect on deprecation of donated ppe capitalised on completion date.		
Accounting for water inventory based on the FAQ.		
Balance as previously reported		(12 198 865)
Correction of error - Donated PPE		(69 429)
Correction or error - FAQ		1 305 340
Restated balance		(10 962 954)
Employee related costs		
Accounting for water inventory based on the FAQ.		
Balance as previously reported		(27 559 875)

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Figures in Rand	2022	2021
38. Prior period errors (continued)		
Correction of error		677 646
Restated balance		(26 882 229)
Water inventory consumed		
Accounting for water inventory based on the FAQ.		
Correction of error		(4 568 159)
Water losses		
Accounting for water inventory based on the FAQ.		
Correction of error		(389 194)
Gain on water inventory		
Accounting for water inventory based on the FAQ.		
Correction of error		2 978 260
39. Cash generated from operations		
Surplus	8 885 112	6 551 517
Adjustments for:		
Depreciation and amortisation	11 370 286	12 268 294
(Profit) / loss on disposal of property, plant and equipment	1 643	105 555
Finance costs	84 798	109 387
Debt impairment	6 280 978	6 229 142
Bad debts written off	783 207	907 012
Movements in retirement benefit assets and liabilities	117 521	(87 176)
Movements in provisions	3 197 652	2 709 933
Actuarial gain	(392 521)	(343 824)
Other income	-	(8 057 143)
Changes in working capital:		
Inventories	(207 174)	(57 736)
Other receivables from exchange transactions	(312 948)	(4 536)
Consumer debtors	(5 741 531)	(6 312 129)
Other receivables from non-exchange transactions	398 637	(3 031 590)
Long term debtors	-	164 206
Payables from exchange transactions	(3 188 658)	(534 580)
VAT	(1 045 529)	(397 773)
Unspent conditional grants and receipts	(4 022 808)	3 721 166
Consumer deposits	67 313	80 620
	16 275 978	14 020 345

40. 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.

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40. 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 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	245 678	258 134	704 662	-
Finance lease obligation	63 979	-	-	-
Payables from exchange transactions	4 276 183	-	-	-
Consumer deposits	435 510	-	-	-

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	233 720	245 678	962 796	-
Finance lease obligation	112 941	63 858	-	-
Payables from exchange transactions	6 449 027	-	-	-
Consumer deposits	368 197	-	-	-

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	2022	2021
Cash and cash equivalents	2 953 250	8 588 339
Receivables from exchange transactions	9 617 501	9 526 751
Other receivables from non-exchange transactions	439 935	25 453

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40. Risk management (continued)

Market risk

Interest rate risk

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

The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on post-tax surplus of a 0.1% shift would be a maximum increase of R12 726 (2021: R16 190) or decrease of R12 726 (2021: R16 190), respectively. The simulation is done on a quarterly basis to verify that the maximum deficit potential is within the limit given by the management.

41. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer 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.

42. 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:

43. Unauthorised expenditure

Opening balance as previously reported	145 195 358	128 203 611
Add: Unauthorised expenditure - current	13 732 410	16 991 747
Closing balance	158 927 768	145 195 358

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

Non-cash	9 618 807	15 623 230
Cash	4 113 603	1 368 517
	13 732 410	16 991 747

Operating unauthorised expenditure: Budget overspending – per municipal department:

Vote 1 - Executive and Council	301 343	-
Vote 2 - Directorate Corporate Services	38 703	4 133 411
Vote 3 - Directorate Financial Services	-	2 392 264
Vote 4 - Directorate Infrastructure Services	9 278 761	7 195 043
Vote 5 - Community & Social Services	-	1 965 794
	9 618 807	15 686 512

Capital unauthorised expenditure: Budget overspending – per municipal department:

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43. Unauthorised expenditure (continued)		
Vote 1 - Executive and Council	88 685	21 762
Vote 3 - Directorate Financial Services	39 418	62 732
Vote 4 - Directorate Infrastructure Services	3 985 500	989 750
Vote 5 - Community & Social Services	-	230 990
	4 113 603	1 305 234

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44. Fruitless and wasteful expenditure		
Opening balance as previously reported	2 357 975	2 356 875
Add: Fruitless and wasteful expenditure identified - current	92 640	1 100
Closing balance	2 450 615	2 357 975

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings		
Akkerdam Bed & Breakfast	None	-	1 100
Interest - late payments to suppliers	None	92 640	-
		92 640	1 100

Amounts recoverable

None of the above amounts identified as recoverable.

Amount written-off

No amounts were written-off.

45. Irregular expenditure

Opening balance as previously reported	49 368 237	40 810 406
Add: Irregular expenditure - current	1 094 067	8 557 831
Closing balance	50 462 304	49 368 237

Incidents/cases identified/reported in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Procurement process not followed	None	647 238	133 833
Tender advertised for less than prescribed period	None	-	61 230
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	None	-	1 821 660
SCM Processes not followed	None	2 451	-
Not a CSD Supplier	None	4 336	-
Directors have interest in a related company	None	12 169	-
Tender who scored the highest points was not awarded	None	337 873	-
Non-compliance with Section 15 of the MFMA	None	90 000	-
		1 094 067	8 557 831

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45. Irregular expenditure (continued)		
Amounts recoverable		
None of the above amounts identified as recoverable.		
Amount written-off		
No amounts were written-off.		
46. 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	508 705	508 250
Amount paid - current year	(501 500)	(8 250)
Amount paid - previous years	-	(500 000)
	1 824 472	1 817 267
Distribution losses		
Electricity distribution losses		
Units purchased (Kwh)	5 404 061	5 585 919
Units lost during distribution (Kwh)	512 788	496 891
Percentage lost during distribution	9,49 %	8,90 %
Water distribution losses		
Kiloliters raw water input	290 758	341 982
Kiloliters lost during distribution	18 579	27 378
Percentage lost during distribution	6,39 %	8,01 %
The electricity energy losses can be classified into non-technical losses during the 2021/2022 financial year.		
The entity's non-technical losses increased to 9.49% (2022: 512 788) from 8.90% (2021: 496 891). 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	2 145 240	1 134 593
Current year subscription / fee	3 762 144	3 254 241
Amount paid - previous years	(1 800 000)	(1 116 939)
Amount paid - current years	(3 222 919)	(765 000)
Credit note - previous year	(314 187)	-
Amount settled by National Treasury	(393 666)	(285 014)
Amount written off	(86 544)	(76 641)
	90 068	2 145 240

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Notes to the Annual Financial Statements

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

PAYE and UIF

Current year subscription / fee	5 570 876	5 076 510
Amount paid - current year	(5 570 876)	(5 076 510)
	<u>-</u>	<u>-</u>

Pension and Medical Aid Deductions

Current year subscription / fee	3 944 169	3 713 236
Amount paid - current year	(3 944 169)	(3 713 236)
	<u>-</u>	<u>-</u>

VAT

VAT receivable	1 642 753	597 224
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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 2022:

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
SA Muller	441	-	441
VT Opperman	744	-	744
SM Davids	454	-	454
VC Wentzel	469	-	469
AE Steenkamp	674	-	674
JJ van der Colff	891	-	891
CG Steenkamp	1 076	-	1 076
AS Mietas	1 930	-	1 930
MJ Chadow	484	-	484
Rvd Merwe Geel	3 155	-	3 155
	<u>10 318</u>	<u>-</u>	<u>10 318</u>

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>

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47. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that the 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	781 622	637 449
Emergency	1 658 794	789 924
Impractical	775 011	1 029 338
	<u>3 215 427</u>	<u>2 456 711</u>

48. Awards to close family members of persons in the service of the state

Awards

R&S Karoo (Pty) Ltd	14 857	177 850
Amandelboom CDC	-	600
Soek `n slapie guesthouse	43 050	2 000
Manna Restuarant	14 046	-
	<u>71 953</u>	<u>180 450</u>

Mr. S. J van Schalkwyk, BTO Officer of the municipality's spouse is the director of R&S Karoo (Pty) Ltd, Soek `n Slapie guesthouse and Manna Restaurant.

49. 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.

Aggregated segments

The municipality operates in the Namakwa district in the following towns Williston, Fraserburg and Sutherland. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the towns were sufficiently similar to warrant aggregation.

Reportable segments

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

Reportable segment	Goods and/or services
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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49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

Notes to the financial statements

	Directorate Corporate Services	Directorate Financial Services	Directorate Infrastructure Services	Executive and Council	Community and Social Services	Total
Revenue						
Revenue from exchange transactions	1 580	968 078	21 889 188	347 900	27 644	23 234 390
Revenue from exchange transactions - interest	-	59 324	2 399 134	37 672	-	2 496 130
Revenue from non-exchange transactions	1 500 999	12 676 918	44 473 262	2 437 055	37 706	61 125 940
Revenue from non-exchange transactions - interest	-	604 220	-	-	-	604 220
Total segment revenue	1 502 579	14 308 540	68 761 584	2 822 627	65 350	87 460 680
Entity's revenue						87 460 680
Expenditure						
Employee related cost	(997 435)	(8 711 609)	(11 104 888)	(5 433 719)	(615 280)	(26 862 931)
Councillors remuneration	-	-	-	(3 812 861)	-	(3 812 861)
Debt impairment	-	(1 413 404)	(4 867 574)	-	-	(6 280 978)
Depreciation and amortisation	-	(536 731)	(9 345 440)	(498 532)	(319 484)	(10 700 187)
Finance cost	-	(448 385)	(3 282 450)	-	-	(3 730 835)
Bad debts written off	-	(783 207)	-	-	-	(783 207)
Bulk purchases	-	-	(10 904 885)	-	-	(10 904 885)
Contracted Services	(50 889)	(34 272)	(816 062)	-	(33 757)	(934 980)
Water inventory consumed	-	-	(4 398 557)	-	-	(4 398 557)
Water losses	-	-	(289 466)	-	-	(289 466)
Operating cost	(227 868)	(8 361 723)	(2 090 521)	(2 554 010)	(70 582)	(13 304 704)
Total segment expenditure	(1 276 192)	(20 289 331)	(47 099 843)	(12 299 122)	(1 039 103)	(82 003 591)
Total segmental surplus/(deficit)						5 457 089

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	Directorate Corporate Services	Directorate Financial Services	Directorate Infrastructure Services	Executive and Council	Community and Social Services	Total
49. Segment information (continued)						
Profit/(Loss) on derecognition of assets						(1 643)
Actuarial gains/(Losses)						392 521
Gain on water inventory						3 037 147
Entity's surplus (deficit) for the period						8 885 114

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

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49. Segment information (continued)

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	349 196	22 094 950	294 890	10 144	22 862 968
Revenue from exchange transactions - interest	-	39 629	1 973 320	20 967	-	2 033 916
Revenue from non-exchange transactions	-	9 680 210	18 041 262	27 599 206	1 664 254	56 984 932
Revenue from non-exchange transactions - interest	-	583 559	-	-	-	583 559
Total segment revenue	113 788	10 652 594	42 109 532	27 915 063	1 674 398	82 465 375
Municipality's revenue						82 465 375
Expenditure						
Employee related cost	(5 495 598)	(7 251 489)	(11 060 397)	(355 938)	(2 718 807)	(26 882 229)
Councillors remuneration	-	-	-	(2 650 645)	-	(2 650 645)
Debt impairment	-	-	(6 229 142)	-	-	(6 229 142)
Depreciation and amortisation	-	(241 129)	(9 818 874)	(36 162)	(866 788)	(10 962 953)
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)
Water inventory consumed	-	-	(4 568 159)	-	-	(4 568 159)
Water losses	-	-	(389 194)	-	-	(389 194)
Operating cost	(577 020)	(8 551 941)	(1 325 851)	(1 169 168)	(397 137)	(12 021 117)
Total segment expenditure	(6 072 618)	(18 928 370)	(44 944 680)	(5 118 925)	(4 065 794)	(79 130 387)
Total segmental surplus/(deficit)						3 334 988
Profit/(Loss) on derecognition of assets						(105 555)
Actuarial gains/(Losses)						343 824
Gain on water inventory						2 978 260
Municipality's surplus (deficit) for the period						6 551 517

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49. Segment information (continued)

Measurement of segment surplus or deficit, assets and liabilities

Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

50. 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 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

Credit notes received from the Auditor general not budgeted for.

Interest received - investment

Not material variance.

Property rates

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

Government grants & subsidies

Additional allocation was received for the Municipal Infrastructure Grant.

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

Not material variance.

Remuneration of councillors

Not material variance.

Depreciation and amortisation

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50. Budget differences (continued)

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.

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.

Finance costs

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

Bad debts written off

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.

Contracted services

Due to classification differences between mSCOA and Budget Schedules.

Operating cost

Due to classification differences between mSCOA and Budget Schedules

Loss on derecognition of asset

Not material variance.

Actuarial gains/(losses)

Impact of actuarial experts were not budgeted for.

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51. Statutory Receivables		
In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:		
VAT Receivable	1 642 753	597 224
Rates	11 946 555	10 960 250
Total Statutory Receivables	13 589 308	11 557 474
Less: Provision for Debt impairment	(8 572 890)	(7 159 485)
	5 016 418	4 397 989

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

Property Rates: Ageing

Current (0 - 30 days)	573 636	533 033
31 - 60 days	294 010	355 986
61 - 90 days	254 347	273 546
91 - 120 days	238 891	225 389
+120 days	10 585 671	9 572 296
Less: Provision for impairment	(8 572 890)	(7 159 485)
	3 373 665	3 800 765

Reconciliation of Provision for Debt impairment.

Opening balance	(7 159 485)	(6 456 277)
Provision for impairment	(1 413 404)	(672 909)
Previously moved to long term receivables	-	(30 299)
	(8 572 889)	(7 159 485)

52. Accounting by principals and agents

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

Details of the arrangement(s) is|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

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52. Accounting by principals and agents (continued)		
Compensation paid for agency activities		
Fee paid as compensation to the agent	268 582	252 501
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	82 152	99 496
Agency service - 3rd Parties	31 447	26 346
	113 599	125 842

Appendix A

Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at Wednesday, 30 June 2021 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at Thursday, 30 June 2022 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 2022
Cost/Revaluation **Accumulated depreciation**

Appendix B

June 2022

Analysis of property, plant and equipment as at 30 June 2011

Cost/Revaluation	Accumulated depreciation
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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 D

Segmental Statement of Financial Performance for the year ended
Prior Year **Current Year**

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand	Rand	Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-		-	-	-
-	-	-	Total	-	-	-