



Karoo Hoogland Local Municipality
Annual financial statements
for the year ended June 30, 2024

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
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

Annual Financial Statements for the year ended June 30, 2024

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2025 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The annual financial statements set out on pages 6 to 101, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2024 and were signed on its behalf by:

Mr. J Jonkers
Municipal Manager

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2024.

1. Incorporation

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

2. Going concern

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

3. Subsequent events

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

4. Accounting Officer

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

Mr. A Gibbons was appointed as Acting Municipal Manager from 1 July 2023 until 31 October 2023..

J Jonkers was appointed as Municipal Manager from 1 November 2023.

5. Secretary

Email - munman@karoohoogland.gov.za.

Telephone number - 053 285 0998.

6. Council members

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

All members were elected and appointed 9 November 2021. No changes occurred during the year.

Name

VC Wentzel

JE Davids

A Steenkamp

JJ van der Colff

E Oliphant

SA Muller

VT Opperman - Speaker

RvdM Geel

AS Mietas - Mayor

MJ Chadow

CG Steenkamp

7. Bankers

The municipality's preferred bankers are:

Standard Bank of South Africa Limited

Williston

8920

8. Auditors

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Officer's Report

9. Lawyers

Van de Wall Incorporated.

10. Relevant legislation

Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Municipal Planning and Performance Management Regulations
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Basic Conditions of Employment Act (Act no 75 of 1997)
Unemployment Insurance Act (Act no 30 of 1966)
Supply Chain Management Regulations, 2005
Collective Agreements
SALBC Leave Regulations
Municipal Budget and Reporting Regulations
mSCOA Regulations
Municipal Cost Containment Regulations, 2019
Employment Equity Act (Act no 55 of 1998)
Local Government: Municipal Staff Regulations
The Constitution of the Republic of South Africa Act 108, 1996

11. Jurisdiction

The Karoo Hoogland Local Municipality includes the following areas:

Williston.
Sutherland.
Fraserburg.

12. Web Address

www.karoohoogland.gov.za

The annual financial statements set out on pages 6 to 101, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2024 and were signed on its behalf by:

Mr. J Jonkers
Municipal Manager

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Financial Position as at June 30, 2024

Figures in Rand	Note(s)	2024	2023 Restated*
Assets			
Current Assets			
Inventories	3	963,821	1,060,510
Other receivables from exchange transactions	4	1,410,930	787,219
Receivables from non-exchange transactions	5	2,771,975	5,262,108
Receivables from exchange transactions	6	4,441,492	3,981,144
VAT receivable	7	3,347,503	1,650,156
Cash and cash equivalents	8	18,331,628	13,994,788
		31,267,349	26,735,925
Non-Current Assets			
Receivables from non-exchange transactions	5	19,282	-
Receivables from exchange transactions	6	66,043	-
Investment property	9	38,372,675	38,651,233
Property, plant and equipment	10	283,635,627	276,016,151
Intangible assets	11	126,592	188,374
		322,220,219	314,855,758
Total Assets		353,487,568	341,591,683
Liabilities			
Current Liabilities			
Other financial liabilities	12	271,452	258,107
Finance lease obligation	13	79,939	70,702
Payables from exchange transactions	14	12,670,496	6,998,717
Consumer deposits	15	527,301	480,045
Employee benefit obligation	16	596,000	218,000
Unspent conditional grants and receipts	17	8,429,076	6,205,254
		22,574,264	14,230,825
Non-Current Liabilities			
Other financial liabilities	12	433,359	704,811
Finance lease obligation	13	-	79,939
Employee benefit obligation	16	3,460,000	3,320,000
Provisions	18	38,950,894	36,200,788
		42,844,253	40,305,538
Total Liabilities		65,418,517	54,536,363
Net Assets		288,069,051	287,055,320
Accumulated surplus		288,069,051	287,055,320
Total Net Assets		288,069,051	287,055,320

* See Note 41

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Financial Performance for the year ended 30 June 2024

Figures in Rand	Note(s)	2024	2023 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	21,969,890	20,560,910
Rental of facilities	20	536,608	852,742
Interest received (trading)		3,181,589	3,576,127
Agency services	21	126,874	150,912
Other income	22	731,211	418,969
Interest received - investment	23	1,851,886	879,977
Actuarial gains	23	-	725,425
Total revenue from exchange transactions		28,398,058	27,165,062
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	7,323,068	6,469,836
Property rates - Interest received	24	708,119	708,049
Transfer revenue			
Government grants & subsidies	25	55,941,178	57,861,508
Debt surrendered		336,820	-
Public contributions and donations		-	5,436
Fines, Penalties and Forfeits		1,570	642
Contributed assets	10	-	726,400
Services in kind	26	-	530,366
Total revenue from non-exchange transactions		64,310,755	66,302,237
Total revenue		92,708,813	93,467,299
Expenditure			
Employee related costs	27	(27,961,021)	(25,753,172)
Remuneration of councillors	28	(5,073,621)	(4,782,517)
Depreciation and amortisation	29	(10,227,149)	(10,286,071)
Finance costs	30	(4,336,517)	(4,217,702)
Impairment loss		-	(138,619)
Debt Impairment	31	(8,161,297)	9,803,314
Bad debts written off		(952,415)	(21,461,400)
Actuarial losses		(153,317)	-
Assets transferred to households	32	(2,202,549)	(2,527,430)
Bulk purchases	33	(12,185,754)	(10,252,583)
Contracted services	34	(2,801,215)	(1,392,064)
Water inventory consumed		(2,195,187)	(1,688,537)
Loss on derecognition of asset		-	(321,605)
Operating cost	35	(15,445,042)	(13,926,360)
Total expenditure		(91,695,084)	(86,944,746)
Surplus for the year		1,013,729	6,522,553

* See Note 41

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit
Opening balance as previously reported	280,709,467
Adjustments	
Prior year adjustments - note 41	(498,305)
Balance at July 1, 2022 as restated*	280,211,162
Changes in net assets	
Surplus for the year	6,844,158
Total changes	6,844,158
Restated* Balance at July 1, 2023	287,055,322
Changes in net assets	
Surplus for the year	1,013,729
Total changes	1,013,729
Balance at June 30, 2024	288,069,051

* See Note 41

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Cash Flow Statement

Figures in Rand	Note(s)	2024	2023 Restated*
Cash flows from operating activities			
Receipts			
Property rates		6,656,189	5,690,319
Service charges		14,053,321	14,356,466
Grants		58,165,000	63,914,000
Interest earned - investments		1,851,886	879,977
Interest earned - outstanding debtors		3,639,053	4,765,957
Property rates - interest received		818,134	1,035,995
Other receipts		1,397,127	747,928
		<u>86,580,710</u>	<u>91,390,642</u>
Payments			
Employee costs		(33,263,416)	(30,593,783)
Suppliers		(33,962,971)	(29,496,123)
Finance costs		(107,397)	(78,211)
Value added tax		(927,309)	(1,019,371)
		<u>(68,261,093)</u>	<u>(61,187,488)</u>
Net cash flows from operating activities	36	<u>18,319,617</u>	<u>30,203,154</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10&37	(13,604,510)	(18,551,851)
Purchase of investment property	9	-	(134,665)
Purchase of other intangible assets	11	-	(20,137)
Net cash flows from investing activities		<u>(13,604,510)</u>	<u>(18,706,653)</u>
Cash flows from financing activities			
Repayment of other financial liabilities	12	(258,133)	(245,653)
Finance costs	12&13	(49,430)	(82,797)
Finance lease payments	13	(70,702)	(126,513)
Net cash flows from financing activities		<u>(378,265)</u>	<u>(454,963)</u>
Net increase/(decrease) in cash and cash equivalents		4,336,842	11,041,538
Cash and cash equivalents at the beginning of the year		13,994,788	2,953,250
Cash and cash equivalents at the end of the year	8	<u>18,331,628</u>	<u>13,994,788</u>

* See Note 41

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	29,960,115	(6,160,115)	23,800,000	21,969,890	(1,830,110)	Note 52.1
Rental of facilities and equipment	654,026	(149,026)	505,000	536,608	31,608	Note 52.2
Interest received (trading)	3,780,249	(612,249)	3,168,000	3,181,589	13,589	Note 52.3
Agency services	63,000	2,000	65,000	126,874	61,874	Note 52.4
Other income	661,475	185,525	847,000	731,211	(115,789)	Note 52.5
Interest received - investment	685,062	639,938	1,325,000	1,851,886	526,886	Note 52.6
Total revenue from exchange transactions	35,803,927	(6,093,927)	29,710,000	28,398,058	(1,311,942)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7,432,223	267,777	7,700,000	7,323,068	(376,932)	Note 52.7
Property rates - penalties imposed	971,080	(221,080)	750,000	708,119	(41,881)	Note 52.8
Surcharges and Taxes	1,485,000	715,000	2,200,000	-	(2,200,000)	Note 52.9
Transfer revenue						
Government grants & subsidies	59,501,278	(584,278)	58,917,000	55,941,178	(2,975,822)	Note 52.10
Debt surrendered	-	-	-	336,820	336,820	Note 52.11
Fines, Penalties and Forfeits	12,377	(2,377)	10,000	1,570	(8,430)	Note 52.12
Total revenue from non-exchange transactions	69,401,958	175,042	69,577,000	64,310,755	(5,266,245)	
Total revenue	105,205,885	(5,918,885)	99,287,000	92,708,813	(6,578,187)	
Expenditure						
Personnel	(29,573,587)	(700,447)	(30,274,034)	(27,961,021)	2,313,013	Note 52.13
Remuneration of councillors	(4,780,666)	(319,468)	(5,100,134)	(5,073,621)	26,513	Note 52.13
Transfers and subsidies	(86,478)	-	(86,478)	(2,202,549)	(2,116,071)	Note 52.14
Depreciation and amortisation	(10,399,996)	(4)	(10,400,000)	(10,227,149)	172,851	Note 52.15
Finance costs	(130,000)	35,000	(95,000)	(4,336,517)	(4,241,517)	Note 52.16
Debt Impairment	-	(4,187,020)	(4,187,020)	-	4,187,020	Note 52.17
Bad debts written off	(5,400,000)	4,600,000	(800,000)	(952,415)	(152,415)	Note 52.18
Collection costs	-	-	-	(153,317)	(153,317)	
Bulk purchases	(13,600,000)	1,400,000	(12,200,000)	(12,185,754)	14,246	Note 52.19
Contracted Services	(9,183,843)	(496,511)	(9,680,354)	(2,801,215)	6,879,139	Note 52.20
Water inventory consumed	(1,665,773)	(1,112,227)	(2,778,000)	(2,195,187)	582,813	Note 52.21
Water losses	(1)	1	-	-	-	
Loss on disposal of assets	(1)	1	-	-	-	
General Expenses	(12,028,839)	1,369,442	(10,659,397)	(15,445,042)	(4,785,645)	Note 52.22
Total expenditure	(86,849,184)	588,767	(86,260,417)	(83,533,787)	2,726,630	
Surplus before taxation	18,356,701	(5,330,118)	13,026,583	9,175,026	(3,851,557)	
Actual Amount on Comparable Basis	18,356,701	(5,330,118)	13,026,583	9,175,026	(3,851,557)	

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	668,655	392,767	1,061,422	963,821	(97,601)	Note 52.1
Other receivables from exchange transactions	945,131	(152,719)	792,412	1,410,930	618,518	Note 52.2
Receivables from non-exchange transactions	5,915,005	108,394	6,023,399	2,771,975	(3,251,424)	Note 52.3
VAT receivable	2,045,375	13,299,993	15,345,368	20,358,239	5,012,871	Note 52.4
Receivables from exchange transactions	16,678,003	(12,384,603)	4,293,400	4,441,492	148,092	Note 52
Cash and cash equivalents	(70,215,360)	75,626,602	5,411,242	18,331,628	12,920,386	Note 52.6
	(43,963,191)	76,890,434	32,927,243	48,278,085	15,350,842	
Non-Current Assets						
Investment property	34,833,361	3,817,872	38,651,233	38,372,675	(278,558)	Note 52.7
Property, plant and equipment	305,917,342	(19,671,958)	286,245,384	283,635,627	(2,609,757)	Note 52.8
Intangible assets	234,031	(45,657)	188,374	126,592	(61,782)	Note 52.9
Other receivables from exchange transactions	-	-	-	19,282	19,282	Note 52.10
Receivables from non-exchange transactions	-	-	-	66,043	66,043	Note 52.10
	340,984,734	(15,899,743)	325,084,991	322,220,219	(2,864,772)	
Total Assets	297,021,543	60,990,691	358,012,234	370,498,304	12,486,070	
Liabilities						
Current Liabilities						
Other financial liabilities	258,450	(230,641)	27,809	271,452	243,643	Note 52.11
Finance lease obligation	185,001	(185,001)	-	79,939	79,939	Note 52.12
Payables from exchange transactions	(65,300,955)	141,900,984	76,600,029	12,670,496	(63,929,533)	Note 52.13
VAT payable	(453,966)	13,720,776	13,266,810	(17,010,736)	(30,277,546)	Note 52.14
Consumer deposits	458,592	172,952	631,544	527,301	(104,243)	Note 52.15
Employee benefit obligation	-	-	-	596,000	596,000	Note 52.16
Unspent conditional grants and receipts	3	6,205,249	6,205,252	8,429,076	2,223,824	Note 52.17
Provisions	989,822	3,539,234	4,529,056	-	(4,529,056)	Note 52.18
	(63,863,053)	165,123,553	101,260,500	5,563,528	(95,696,972)	
Non-Current Liabilities						
Other financial liabilities	802,871	(18,123)	784,748	433,359	(351,389)	Note 52.19
Employee benefit obligation	2,043,000	(257,000)	1,786,000	3,460,000	1,674,000	Note 52.20
Provisions	34,872,384	3,135,580	38,007,964	38,950,894	942,930	Note 52.21
	37,718,255	2,860,457	40,578,712	42,844,253	2,265,541	
Total Liabilities	(26,144,798)	167,984,010	141,839,212	48,407,781	(93,431,431)	
Net Assets	323,166,341	(106,993,319)	216,173,022	322,090,523	105,917,501	

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	321,840,044	(23,378,940)	298,461,104	288,069,050	(10,392,054)	Note 52.22

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	5,688,800	(154,040)	5,534,760	6,656,189	1,121,429	Note 52.1
Sale of goods and services	21,018,158	2,694,001	23,712,159	15,450,448	(8,261,711)	Note 52.2
Grants	(15,938,999)	37,087,999	21,149,000	58,165,000	37,016,000	Note 52.3
Interest income	4,465,000	(1,387,078)	3,077,922	6,309,073	3,231,151	Note 52.4
	15,232,959	38,240,882	53,473,841	86,580,710	33,106,869	
Payments						
Suppliers and employees	(142,371,441)	71,689,034	(70,682,407)	(60,421,862)	10,260,545	Note 52.5
Finance costs	(130,003)	35,003	(95,000)	(107,397)	(12,397)	Note 52.6
Transfers and grants	-	(86,478)	(86,478)	(2,202,549)	(2,116,071)	Note 52.7
	(142,501,444)	71,637,559	(70,863,885)	(62,731,808)	8,132,077	
Net cash flows from operating activities	(127,268,485)	109,878,441	(17,390,044)	23,848,902	41,238,946	
Cash flows from investing activities						
Purchase of property, plant and equipment	(21,733,000)	(8,271,000)	(30,004,000)	(13,604,510)	16,399,490	Note 52.8
Cash flows from financing activities						
Repayment of other financial liabilities	-	(301,000)	(301,000)	(258,133)	42,867	Note 52.9
Repayment of finance lease obligation	-	-	-	(70,702)	(70,702)	Note 52.10
Net cash flows from financing activities	-	(301,000)	(301,000)	(328,835)	(27,835)	
Net increase/(decrease) in cash and cash equivalents	(149,001,485)	101,306,441	(47,695,044)	9,915,557	57,610,601	
Cash and cash equivalents at the beginning of the year	2,953,253	11,041,535	13,994,788	13,994,788	-	Total of above variances
Cash and cash equivalents at the end of the year	(146,048,232)	112,347,976	(33,700,256)	23,910,345	57,610,601	

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

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
2024											
Financial Performance											
	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
Property rates	7,432,223	267,777	7,700,000	-	-	7,700,000	8,031,187	-	331,187	104 %	108 %
Service charges	29,960,115	(6,160,115)	23,800,000	-	-	23,800,000	25,151,479	-	1,351,479	106 %	84 %
Investment revenue	685,062	639,938	1,325,000	-	-	1,325,000	1,851,886	-	526,886	140 %	270 %
Transfers recognised - operational	37,768,278	(278)	37,768,000	-	-	37,768,000	37,518,000	-	(250,000)	99 %	99 %
Other own revenue	7,627,207	(82,207)	7,545,000	-	-	7,545,000	1,733,083	-	(5,811,917)	23 %	23 %
Total revenue (excluding capital transfers and contributions)	83,472,885	(5,334,885)	78,138,000	-	-	78,138,000	74,285,635	-	(3,852,365)	95 %	89 %
Employee costs	(29,573,587)	(700,447)	(30,274,034)	-	-	(30,274,034)	(27,961,021)	-	2,313,013	92 %	95 %
Remuneration of councillors	(4,780,666)	(319,468)	(5,100,134)	-	-	(5,100,134)	(5,073,621)	-	26,513	99 %	106 %
Debt impairment	(5,400,000)	412,980	(4,987,020)	-	-	(4,987,020)	(952,415)	-	4,034,605	19 %	18 %
Depreciation and asset impairment	(10,399,996)	(4)	(10,400,000)	-	-	(10,400,000)	(10,227,149)	-	172,851	98 %	98 %
Finance charges	(130,000)	35,000	(95,000)	-	-	(95,000)	(4,336,517)	-	(4,241,517)	4,565 %	3,336 %
Materials and bulk purchases	(15,265,773)	287,773	(14,978,000)	-	-	(14,978,000)	(12,185,754)	-	2,792,246	81 %	80 %
Transfers and grants	(86,478)	-	(86,478)	-	-	(86,478)	(2,202,549)	-	(2,116,071)	2,547 %	2,547 %
Other expenditure	(21,212,684)	872,933	(20,339,751)	-	-	(20,339,751)	(20,089,156)	-	250,595	99 %	95 %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Appropriation Statement

Figures in Rand

							Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome	
Total expenditure	(86,849,184)	588,767	(86,260,417)	-	-	(86,260,417)	(83,028,182)	-	3,232,235	96 %	96 %
Surplus/(Deficit)	(3,376,299)	(4,746,118)	(8,122,417)	-		(8,122,417)	(8,742,547)		(620,130)	108 %	259 %
Transfers recognised - capital	21,733,000	(584,000)	21,149,000	-		21,149,000	18,423,178		(2,725,822)	87 %	85 %
Surplus (Deficit) after capital transfers and contributions	18,356,701	(5,330,118)	13,026,583	-		13,026,583	9,680,631		(3,345,952)	74 %	53 %
Surplus/(Deficit) for the year	18,356,701	(5,330,118)	13,026,583	-		13,026,583	9,680,631		(3,345,952)	74 %	53 %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

Figures in Rand	Note(s)	2024	2023
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1. Presentation of Annual Financial Statements

The annual financial statements have been prepared and are in compliance 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.

1.1 Presentation currency

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

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

1.2 Going concern assumption

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

1.3 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 receivables

The municipality assesses its trade receivables, held to maturity investments 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 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.

Trade receivables are disclosed in note 6 and note 5.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

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. 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 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 and other assets

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

Change in estimates due to change in useful lives are disclosed in note 42.

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.

Trade receivables are disclosed in note 6 and note 5.

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 follows:

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

Additional information is disclosed in Note 21.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

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.

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

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

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

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

Cost model

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

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

Item	Useful life
Property - buildings	30 years

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 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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

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.

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
Office equipment	Straight-line	1 - 8 years
IT equipment	Straight-line	1 - 6 years
Community	Straight-line	7 - 77 years
Furniture and fixtures	Straight-line	1 - 17 years
Landfill site	Straight-line	9 - 19 years
Motor vehicles	Straight-line	1 - 6 years
Plant and machinery	Straight-line	1 - 6 years
Solar panels	Straight-line	12 years
Tools and loose gear	Straight-line	1 - 11 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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.6 Property, plant and equipment (continued)

Land and buildings are recognised according to the systems Deedsweb. Deedsweb is a search function to extract information from the deeds office. The municipality applies the principle of substance over the legal form in the recognition and derecognition of land. For these purposes, land is recognised when the following criteria is satisfied:

- The municipality controls the land as a result of a past event; and
- Future economic benefits or service potential is expected to flow to the municipality; and
- The value of the land can be measured accurately.

Control over land is evidenced by:

- Legal ownership, and/or
- The right to direct access to land, and to restrict or deny access of others to the land

The municipality assesses at the end of every reporting date whether any changes occurred which may impact its assessment of control.

1.7 Intangible assets

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.

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).

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.8 Financial instruments

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 amortised cost.

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

Gains and losses

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

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

Dividends or similar distributions relating to a financial instruments 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.

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;
- 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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.9 Statutory receivables (continued)

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.

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.9 Statutory receivables (continued)

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.

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

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

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.11 Inventories (continued)

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.

- 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.

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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.

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

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

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

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

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

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

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

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

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

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

Karoo Hoogland Local Municipality

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Accounting Policies

1.12 Employee benefits (continued)

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.

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 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Karoo Hoogland Local Municipality

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Accounting Policies

1.13 Tax (continued)

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

1.14 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.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.15 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.

1.16 Revenue from exchange transactions

Measurement

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.16 Revenue from exchange transactions (continued)

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.

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 unallocated 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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.17 Impairment of cash-generating assets

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

- Does the asset generate positive cashflows or is the intention to generate positive cashflows?
- Is the asset held in order to generate a commercial return?
- Is the objective of holding the asset to generate positive cashflows (from continuing use and its ultimate disposal) that are significantly higher than its cost?

1.18 Revenue from non-exchange transactions

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

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

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

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

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

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

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

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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related 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.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Investment income

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

1.20 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.

1.21 Accounting by principals and agents

Identification

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.

Karoo Hoogland Local Municipality

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Accounting Policies

1.21 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that 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.

1.22 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.

1.23 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.

1.24 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).

1.25 Segment information

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.

Karoo Hoogland Local Municipality

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Accounting Policies

1.25 Segment information (continued)

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.

1.26 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 01/07/2023 to 30/06/2024.

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.

Variances between actual and budgeted amounts below 10% are considered acceptable with no explanation provided.

Comparative information is not required.

1.27 Related parties

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.

1.28 Events after 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 June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 25 (as revised): Employee Benefits

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14@) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions have not yet been set. April 1, 2023.

The municipality has adopted the revisions for the first time in the 2023/2024 annual financial statements.

The adoption of this revisions has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

IGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions have not yet been set. April 1, 2023.

The municipality has adopted the revisions for the first time in the 2023/2024 April 1, 2023.

The impact of the revisions is not material.

GRAP 2020: Improvements to the Standards of GRAP 2020

Every three years, the Accounting Standards Board undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters.

Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.

Amendments include,

GRAP 5 – Borrowing Costs

- For general borrowings, borrowing costs eligible for capitalisation determined by applying a capitalisation rate
 - Clarify that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until substantially all the activities necessary to prepare asset for intended use or sale are complete

GRAP 13 – Leases

- Operating leases & Sale and leaseback transactions are currently assessed for impairment in accordance with GRAP 26
- Clarify that these arrangements may also be assessed in accordance with GRAP 21

GRAP 16 – Investment Property

- Clarify that GRAP 21 may be applied to assess investment property for impairment
- Include heading “Classification of property as investment property” (par 6 and 7) & delete existing headings
- Investment property under construction (within scope of GRAP 16)
 - Added heading “Guidance on initially measuring self-constructed investment property at fair value”
 - Added clarification that investment property is measured at fair value at earliest of:
 - o completion of construction or development; or
 - o when fair value becomes reliably measurable
- Clarify requirements on transfers to and from Investment property
 - Change in use involves an assessment on whether:
 - o property meets, or ceases to meet definition of investment property and
 - o evidence exists that a change in use has occurred
 - List of examples of a change in use is regarded as non-exhaustive

GRAP 17 – Property, Plant and Equipment

- Delete example indicating that quarries and land used for landfill may be depreciated in certain instances
 - Land has an unlimited useful life and cannot be consumed through its use

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 20 – Related Party Disclosures

- Clarify that entity, or any member of a group of which it is part, providing management services to reporting entity (or controlling entity of reporting entity) is a related party
 - Disclose amounts incurred by the entity for the provision of management services that are provided by a separate management entity
 - If an entity obtains management services from another entity ("the management entity") the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity's employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions
 - Management services are services where employees of management entity perform functions as "management" as defined

GRAP 24 – Presentation of Budget Information in Financial Statements

- Terminology amended
 - Primary financial statements amended to "financial statements" or "face of the financial statements"

GRAP 31 – Intangible Assets

- Extend requirement to consider whether reassessing useful life of intangible asset as finite rather as indefinite indicates that asset may be impaired
 - Both under cost model or revaluation model

GRAP 32 – Service Concession Arrangements: Grantor

- Clarify disclosure requirement for service concession assets
 - Disclose carrying amount of each material service concession asset recognised at the reporting date

GRAP 37 – Joint Arrangements

- Application guidance clarified
 - When party obtains joint control in a joint operation where activity of joint operation constitutes a function (GRAP 105 or GRAP 106), previous held interest in joint operation is not remeasured

GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

- When party obtains control of joint operation and entity had rights to assets, or obligations to liabilities before acquisition date, it comprises an acquisition received in stages
 - Apply the requirements for an acquisition achieved in stages, including remeasuring previously held interest in joint operation

Directive 7 – The Application of Deemed Cost

- Clarify that bearer plants within scope of Directive

The effective date of these improvements is April 1, 2023.

The municipality has adopted the improvements for the first time in the 2023/2024 annual financial statements.

The impact of the improvements is not material.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after April 1, 2023.

The municipality has adopted the guideline for the first time in the 2023/2024 annual financial statements.

The impact of the standard is not material.

GRAP 1 (amended): Presentation of Financial Statements (Materiality)

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after April 1, 2025.

The municipality expects to adopt the amendment for the first time in the 2024/2025 annual financial statements.

The impact of the amendment is not material.

GRAP 1 (amended): Presentation of Financial Statements (Going Concern)

The Board undertook a project in 2021 to consider the guidance and disclosure requirements on going concern in the relevant Standards of GRAP. As an outcome of this project, the Board agreed to include additional guidance and disclosures on going concern in this Standard. Consequential amendments are also made to the Standard of GRAP on Events After the Reporting Date.

Applicability of going concern in the public sector

An entity prepares its financial statements on a going concern basis unless there is an intention to liquidate the entity, to cease operating, or if there is no realistic alternative but to do so. A liquidation or cessation of an entity's operations will result in the termination of all its functions.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

In South Africa, specific legislative requirements need to be followed before a decision is taken to liquidate a public sector entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities. The “intention” to liquidate an entity, to cease or scale back its operations, to transfer some or all of its functions to another entity, or to merge one or more entities needs to be established. This intention can be reflected in a number of ways and may encompass legislation passed in Parliament or a provincial legislature, cabinet decision, ministerial order, a decision made by a municipal council, board, council or equivalent, a regulation or a notice, or other official means.

The liquidation or cessation of a public sector entity’s operations is rare, and only in the case of dissolution without any continuation of the entity’s operations will the going concern basis cease to apply. When all, or some of the functions of an entity are transferred to another entity, or when a decision is taken to merge one or more entities, the application of the going concern basis remains appropriate. This is because the entity’s functions will continue to be provided in a modified form, even though they are executed by another entity.

The Board agreed to include explanatory guidance in this Standard on the application of the going concern assumption by public sector entities.

Where some of an entity’s functions are transferred in a transfer of functions, and the remaining functions are discontinued, there are two separate transactions. The Board concluded that management should assess these transactions separately based on the functions transferred, those to be discontinued (if any), and those that may be retained and continued (if any), to determine if preparing the entity’s financial statements on a going concern basis remains appropriate.

Disclosure on going concern

The Board’s project highlighted a need for specific disclosures on going concern, material uncertainties relating to going concern, and actions taken by management to mitigate these uncertainties. Consideration was also given to the practices, guidance and requirements in other countries and/or from other standard-setting bodies on these matters.

To address the diversity in the information disclosed on going concern, the Board agreed to expand the disclosure requirements in this Standard to ensure that consistent disclosures are provided.

The effective date of these revisions have not yet been set.

It is unlikely that the standard will have a material impact on the municipality’s annual financial statements.

GRAP 103 (as revised): Heritage Assets

Background

The Accounting Standards Board (the Board) completed its post-implementation review of the Standard of GRAP on Heritage Assets (GRAP 103) (hereafter referred to as “the review”) in 2020. Based on the feedback received as part of the review, the Board agreed to reconsider certain principles in GRAP 103.

The objective of the project was to revise and clarify principles in GRAP 103 following feedback received from the review and actions agreed by the Board.

Key amendments to GRAP 103

The Board agreed that the definition of a heritage asset in GRAP 103 should be reconsidered to better align it with the legislative explanation of a heritage resource in the National Heritage Resources Act, 1999, and the classification by the South African Heritage Resources Agency.

The proposed definition focuses on assets that have “cultural significance” and defines a heritage asset as “an asset that has cultural significance, and is held indefinitely for the benefit of present and future generations”. “Cultural significance” has also been defined and described in GRAP 103 based on legislation.

The characteristics displayed by heritage assets, and the range of assets that could be heritage assets, have also been aligned with legislation.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The amendments further relate to the Classification of dual purpose heritage assets, Determining a reliable value for a heritage asset, Protective rights imposed on heritage assets, Re-assessing if a reliable value becomes available subsequently, Aggregation of individually insignificant heritage assets, Impairment of heritage assets, Mandatory disclosures of heritage assets borrowed or on loan.

The effective date of these revisions have not yet been set.

The effective date of the standard is for years beginning on or after April 1, 2023.

The municipality has adopted the standard for the first time in the 2023/2024 annual financial statements.

The impact of this standard is currently being assessed.

iGRAP 22 Foreign Currency Transactions and Advance Consideration

Background

Paragraph .21 of the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates (GRAP 4) requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph .22 of GRAP 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with the Standards of GRAP.

When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or revenue. The related asset, expense or revenue (or part of it) is the amount recognised applying the relevant Standard of GRAP, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

A question arose asking how to determine “the date of the transaction” applying paragraphs .21 and .22 of GRAP 4 when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. It was further noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, it was decided to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue when an entity has received or paid advance consideration in a foreign currency.

Issue

This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

Consensus

Applying paragraphs .21 and .22 of GRAP 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

The effective date of this interpretation is for years beginning on or after April 1, 2025.

The municipality expects to adopt the standard for the first time in the 2024/2025 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104 (as revised): Financial Instruments

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the revisions is not yet set by the Minister of Finance.

The municipality expects to adopt the revisions for the first time when the Minister sets the effective date for the revisions.

The impact of this standard is currently being assessed.

3. Inventories

Consumable stores	901,301	902,566
Water	62,520	157,944
	963,821	1,060,510

Inventories recognised as an expense during the year

Water inventory consumed	2,195,187	1,688,537
Write-down to net realisable value	-	129,760
Consumables	459,454	828,475

Inventory pledged as security

No inventory was pledged as security for liabilities.

Karoo Hoogland Municipality obtains control over water inventory by pumping water from boreholes into reservoirs.

Consumable stores were written down to current replacement cost by an amount of R0 (2023: R121 936).

4. Other receivables from exchange transactions

Deposits	1,409,869	787,219
Licence fees - Department of transport	1,061	-
	1,410,930	787,219

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
5. Receivables from non-exchange transactions		
Project Nala	5,193	5,193
Consumer debtors - Rates	2,311,064	4,781,915
Prepayments - SALGA	475,000	475,000
	2,791,257	5,262,108
Non-current assets	19,282	-
Current assets	2,771,975	5,262,108
	2,791,257	5,262,108
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Taxes	2,311,064	4,928,152
Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:		
Project Nala	5,193	5,193
Financial asset receivables included in receivables from non-exchange transactions above	475,000	-
Total receivables from non-exchange transactions	2,791,257	4,933,345

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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5. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

Non-exchange receivables represent consumers with payment arrangements deferring the payments by more than 12 months. The amount presented is net of impairment loss.

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

Receivables from non-exchange transactions

Consumer debtors - Rates Gross Balances

Current (0 - 30 days)	585,357	855,162
31 - 60 days	342,754	3,487,582
61 - 90 days	302,553	223,318
91 - 120 days	279,791	217,668
+120 days	9,587,860	5,757,721
	11,098,315	10,541,451

Consumer debtors - Rates Less: Allowances for Impairment

Current (0 - 30 days)	463,465	460,842
31 - 60 days	271,380	1,879,439
61 - 90 days	239,551	120,345
91 - 120 days	221,529	117,300
+120 days	7,591,327	3,181,610
	8,787,252	5,759,536

Consumer debtors - Rates Net Balances

Current (0 - 30 days)	121,892	394,320
31 - 60 days	71,374	1,608,143
61 - 90 days	63,002	102,973
91 - 120 days	58,262	100,368
+120 days	1,996,533	2,722,347
	2,311,063	4,928,151

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

Rand	2,791,257	5,262,108
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Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(5,759,535)	(8,565,421)
Provision for impairment	(3,027,717)	2,805,886
	(8,787,252)	(5,759,535)

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 June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
6. Receivables from exchange transactions		
Gross balances		
Electricity	4,613,023	3,828,250
Water	13,497,551	11,415,669
Sewerage	11,934,762	10,063,949
Refuse	9,876,003	8,322,924
Housing rental	633,611	440,751
Other	658,325	711,722
	41,213,275	34,783,265
Less: Allowance for impairment		
Electricity	(3,003,252)	(2,554,440)
Water	(12,522,934)	(10,345,251)
Sewerage	(11,008,011)	(9,357,123)
Refuse	(9,373,648)	(7,809,588)
Housing rental	(570,133)	(388,756)
Other	(227,762)	(346,963)
	(36,705,740)	(30,802,121)
Net balance		
Electricity	1,609,771	1,273,810
Water	974,617	1,070,418
Sewerage	926,751	706,826
Refuse	502,355	513,336
Housing rental	63,478	51,995
Other	430,563	364,759
	4,507,535	3,981,144
 Non-current assets	 66,043	 -
Current assets	4,441,492	-
Electricity		
Current (0 -30 days)	677,784	579,012
31 - 60 days	181,046	97,838
61 - 90 days	108,542	133,298
91 - 120 days	109,693	81,374
121 - 365 days	3,535,959	2,936,728
	4,613,024	3,828,250
 Water		
Current (0 -30 days)	549,950	739,177
31 - 60 days	321,979	289,878
61 - 90 days	295,608	324,004
91 - 120 days	290,981	278,063
121 - 365 days	12,039,034	9,784,547
	13,497,552	11,415,669

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
6. Receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	384,595	608,918
31 - 60 days	252,286	254,783
61 - 90 days	227,128	246,787
91 - 120 days	241,757	246,519
121 - 365 days	10,828,996	8,706,942
	11,934,762	10,063,949
Refuse		
Current (0 -30 days)	288,668	468,113
31 - 60 days	200,944	211,245
61 - 90 days	183,190	204,950
91 - 120 days	204,573	201,203
121 - 365 days	8,998,628	7,237,413
	9,876,003	8,322,924
Housing rental		
Current (0 -30 days)	45,983	29,554
31 - 60 days	11,111	11,766
61 - 90 days	9,662	5,606
91 - 120 days	9,611	5,595
121 - 365 days	557,244	388,230
	633,611	440,751
Other (specify)		
Current (0 -30 days)	152,697	185,428
31 - 60 days	4,627	58,831
61 - 90 days	5,551	11,957
91 - 120 days	30,561	13,637
121 - 365 days	464,889	441,869
	658,325	711,722
Reconciliation of allowance for impairment		
Balance at beginning of the year	(30,802,121)	(38,849,162)
Contributions to allowance	(5,903,619)	8,047,041
	(36,705,740)	(30,802,121)

Non-exchange receivables represent consumers with payment arrangements deferring the payments by more than 12 months. The amount presented is net of impairment loss.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
7. VAT receivable		
VAT	<u>3,347,503</u>	<u>1,650,156</u>
VAT Payable		
VAT Output in suspense	(3,749,833)	(3,246,376)
Less: Contribution to debt impairment	<u>4,407,222</u>	<u>3,637,184</u>
	<u>657,389</u>	<u>390,808</u>
VAT Receivable		
VAT Input in suspense	1,345,388	527,897
VAT receivable from SARS	<u>1,344,727</u>	<u>731,451</u>
	<u>2,690,115</u>	<u>1,259,348</u>

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).

Disclosure has been updated from the 2023 financial statements based in new requirements.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,200	1,200
Bank balances	18,330,428	13,993,588
	18,331,628	13,994,788

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2024	June 30, 2023	June 30, 2022
Standard Bank - Account number 08 321 2442 (Primary bank account)	5,372,784	256,648	1,524,272	5,372,784	256,648	1,524,272
ABSA Bank - Account number 24 9000 0065 (Secondary bank account)	7,961,805	2,662,901	814,476	7,961,805	2,662,901	814,476
Standard Bank Fixed deposit - Account number 28 864 1922	4,389,037	10,497,824	54,361	4,389,037	10,497,824	54,361
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
Standard Bank fixed deposit	34,750	34,750	34,750	34,750	34,750	34,750
Employee Leave Fund - Account number 405 435 2064	553,001	522,415	503,641	553,001	522,415	503,641
Total	18,330,427	13,993,588	2,950,550	18,330,427	13,993,588	2,950,550

Reconciliation of available cash and investment resources

Cash and Cash Equivalents	18,330,427	13,993,588
Less: Unspent transfers and subsidies	(8,429,076)	(6,205,254)
Net cash resources available for internal distribution	9,901,351	7,788,334

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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9. Investment property

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	43,100,339	(4,727,664)	38,372,675	43,100,339	(4,449,106)	38,651,233

Reconciliation of investment property - 2024

	Opening balance	Depreciation	Total
Investment property	38,651,233	(278,558)	38,372,675

Reconciliation of investment property - 2023

	Opening balance	Additions	Depreciation	Total
Investment property	38,795,261	134,665	(278,693)	38,651,233

Rentals from investment property

Premises	523,029	847,219
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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.

Investment properties can be categorised as follows:

Properties - Carrying amount

Rental purposes	34,410,774	34,689,332
Vacant land - Use to be determined	3,961,900	3,961,900
	38,372,674	38,651,232

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 Local Municipality during the amalgamation process in 2001.

The property was never registered in Karoo Hoogland Local 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 Local 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 June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,098,500	-	2,098,500	2,098,500	-	2,098,500
Buildings	6,635,050	(2,181,116)	4,453,934	6,635,050	(2,044,015)	4,591,035
Plant and machinery	533,641	(414,416)	119,225	533,641	(380,934)	152,707
Furniture and fixtures	1,709,412	(1,100,561)	608,851	1,709,412	(984,744)	724,668
Motor vehicles	5,758,940	(2,238,865)	3,520,075	5,758,940	(1,938,349)	3,820,591
Office equipment	508,826	(335,095)	173,731	470,557	(238,279)	232,278
IT equipment	1,752,489	(1,182,962)	569,527	1,692,983	(1,044,488)	648,495
Infrastructure	336,329,662	(99,568,383)	236,761,279	320,665,937	(91,192,236)	229,473,701
Community	26,671,944	(4,057,700)	22,614,244	22,943,802	(3,659,416)	19,284,386
Other property, plant and equipment	45,101	(36,498)	8,603	45,101	(34,504)	10,597
Solar panels	1,733,378	(537,195)	1,196,183	1,733,378	(428,451)	1,304,927
Tools and loose gear	127,056	(82,910)	44,146	124,221	(74,860)	49,361
Landfill site	21,422,536	(9,955,207)	11,467,329	21,422,536	(7,797,631)	13,624,905
Total	405,326,535	(121,690,908)	283,635,627	385,834,058	(109,817,907)	276,016,151

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	WIP Additions	Transfers to assets	Transfers from WIP	Change in estimate	Depreciation	Total
Buildings	4,591,035	-	-	-	-	-	(137,101)	4,453,934
Community	19,284,386	-	3,728,142	563,826	(563,826)	-	(398,284)	22,614,244
Furniture and fixtures	724,668	-	-	-	-	-	(115,817)	608,851
IT equipment	648,495	59,506	-	-	-	-	(138,474)	569,527
Infrastructure	229,473,701	-	17,895,409	14,180,872	(16,383,421)	-	(8,405,282)	236,761,279
Land	2,098,500	-	-	-	-	-	-	2,098,500
Landfill sites	13,624,905	-	-	-	-	(1,130,929)	(1,026,647)	11,467,329
Motor vehicles	3,820,591	-	-	-	-	-	(300,516)	3,520,075
Office equipment	232,278	38,269	-	-	-	-	(96,816)	173,731
Other property, plant and equipment	10,597	-	-	-	-	-	(1,994)	8,603
Plant and machinery	152,707	-	-	-	-	-	(33,482)	119,225
Solar panels	1,304,927	-	-	-	-	-	(108,744)	1,196,183
Tools and loose gear	49,361	2,835	-	-	-	-	(8,050)	44,146
	276,016,151	100,610	21,623,551	14,744,698	(16,947,247)	(1,130,929)	(10,771,207)	283,635,627

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	WIP Additions	Disposals	Transfers to assets	Transfers from WIP	Change in estimate	Depreciation	Impairment loss	Total
Buildings	4,728,136	-	-	-	-	-	-	(137,101)	-	4,591,035
Community	16,325,238	90,025	3,264,713	-	-	-	-	(395,590)	-	19,284,386
Furniture and fixtures	769,375	108,712	-	(44,998)	-	-	-	(100,516)	(7,905)	724,668
IT equipment	677,070	152,001	-	(20,196)	-	-	-	(159,426)	(954)	648,495
Infrastructure	222,353,305	15,952,931	26,225	(90,921)	4,469,408	(4,949,814)	-	(8,287,433)	-	229,473,701
Land	2,098,500	-	-	-	-	-	-	-	-	2,098,500
Landfill site	14,372,104	-	-	-	-	-	349,232	(1,096,431)	-	13,624,905
Motor vehicles	3,662,672	726,400	-	(163,856)	-	-	-	(404,625)	-	3,820,591
Office equipment	187,142	195,660	-	(1,260)	-	-	-	(149,264)	-	232,278
Other property, plant and equipment	13,956	-	-	(372)	-	-	-	(2,987)	-	10,597
Plant and machinery	163,547	13,649	-	-	-	-	-	(24,489)	-	152,707
Solar panels	1,413,671	-	-	-	-	-	-	(108,744)	-	1,304,927
Tools and loose gear	33,274	24,428	-	-	-	-	-	(8,341)	-	49,361
	266,797,990	17,263,806	3,290,938	(321,603)	4,469,408	(4,949,814)	349,232	(10,874,947)	(8,859)	276,016,151

Pledged as security

Carrying value of assets pledged as security:

Leased assets	61,790	123,580
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Leased assets are classified as office equipment in the summary above.

Karoo Hoogland Local Municipality

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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Community	Total
Opening balance	-	3,441,449	3,441,449
Additions/capital expenditure	17,895,409	3,728,142	21,623,551
Transfer to inventory	(2,202,549)	-	(2,202,549)
Transferred to completed items	(14,180,872)	(563,826)	(14,744,698)
	1,511,988	6,605,765	8,117,753

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	4,923,590	176,736	20,760	5,121,086
Additions/capital expenditure	506,631	3,264,713	-	3,771,344
Transfer to inventory	(480,407)	-	(20,760)	(501,167)
Transferred to completed items	(4,949,814)	-	-	(4,949,814)
	-	3,441,449	-	3,441,449

No slow-moving or halted projects.

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	2,801,215	1,392,064
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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.

Karoo Hoogland Local Municipality

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11. Intangible assets

	2024			2023		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	490,991	(364,399)	126,592	490,991	(302,617)	188,374

Reconciliation of intangible assets - 2024

	Opening balance	Amortisation	Total
Computer software	188,374	(61,782)	126,592

Reconciliation of intangible assets - 2023

	Opening balance	Additions	Amortisation	Total
Computer software	234,031	20,137	(65,794)	188,374

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.

Karoo Hoogland Local Municipality

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Figures in Rand	2024	2023
12. Other financial liabilities		
At amortised cost		
Bank loan	704,811	962,918
Payable monthly in arrears at a 5% interest rate per annum.		
Non-current liabilities		
At amortised cost	433,359	704,811
Current liabilities		
At amortised cost	271,452	258,107
13. Finance lease obligation		
Minimum lease payments due		
- within one year	85,383	85,383
- in second to fifth year inclusive	-	85,383
	85,383	170,766
less: future finance charges	(5,445)	(20,125)
Present value of minimum lease payments	79,938	150,641
Present value of minimum lease payments due		
- within one year	79,938	70,702
- in second to fifth year inclusive	-	79,939
	79,938	150,641
Non-current liabilities	-	79,939
Current liabilities	79,939	70,702
	79,939	150,641

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 12% (2023: 12%).

No escalation clause is included in the contract. The machines will be returned to the lessor upon expiry of the lease, unless the municipality opts to continue on a month-to-month basis. The leases are used by the municipality for the majority of their useful life.

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

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 44.

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

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
14. Payables from exchange transactions		
Trade payables	6,847,438	1,826,516
Payments received in advance	427,932	478,350
Accrued leave pay	2,777,075	2,136,979
Accrued bonus	801,653	709,755
Deposits received	150,816	151,499
Prepaid sales in advance	91,217	117,479
Unidentified deposits	86,537	119,828
Retentions	1,487,828	1,436,832
Payroll Creditors	-	10,122
Licence fees - Department of transport	-	11,357
	12,670,496	6,998,717

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.

Included within Financial liabilities - Note 38

Trade payables	6,847,438	1,826,517
Deposits received	150,816	151,499
Retentions	1,487,828	1,436,832
Payroll Creditors	-	10,122
Licence fees - Department of transport	-	11,357
	8,486,082	3,436,327

15. Consumer deposits

Electricity	56,304	57,677
Water	470,997	422,368
	527,301	480,045

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
16. Employee benefit obligations		
Defined benefit plan		
Karoo Hoogland Municipality has the following defined benefit plans in place. Actuarial valuations of these plans were performed at 30 June 2024. Details of the plans are disclosed below:		
Current liabilities		
Post retirement medical aid plan	207,000	143,000
Long service award	389,000	75,000
	596,000	218,000
Non-current liabilities		
Post retirement medical aid plan	1,790,000	1,643,000
Long service award	1,670,000	1,677,000
	3,460,000	3,320,000
Total defined benefit obligation		
Post retirement medical aid plan	1,997,000	1,786,000
Long service award	2,059,000	1,752,000
	4,056,000	3,538,000

16.1 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 dependents. 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 dependents 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 2023 and performed by independent professional valuers. The next actuarial valuation is expected to be performed on 30 June 2024.

Notable benefit plan risks faced by the Municipality can be summarised as follows:

- Inflation: The risk that future CPI inflation and medical aid contribution inflation are higher than assumed and present in an uncontrolled manner.
- Longevity: The risk that eligible individuals live longer than assumed i.e. their benefits are payable for longer than expected.
- Volatility of open-ended, long-term liability: The risk that the liability may be volatile which is exacerbated by its long-term nature.
- Enforcement of eligibility criteria and rules: The risk that eligibility criteria and rules are not strictly or consistently enforced, to the detriment of the Municipality.
- Future changes in legislation: The risk that changes to legislation with respect to the post-employment medical aid benefit may increase the liability for the Municipality.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

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16. Employee benefit obligations (continued)

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1,997,000)	(1,786,000)
Non-current liabilities	1,790,000	1,643,000
Current liabilities	207,000	143,000
	1,997,000	1,786,000

In-service members:

The average in-service member liability has increased by 29% since the last valuation due to the significant increase in the member's post-employment subsidy as well as:

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

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

Continuation members:

The average continuation member liability has increased by 3% since the last valuation due to an increase in the average subsidy. This impact was partially offset by increases in the net discount rates, and an increase in the average age.

The total continuation member liability has also increased by 3% due to the above, and because there was no change in the number of continuation members.

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

Opening balance	1,786,000	2,228,000
Net expense recognised in the statement of financial performance	211,000	(442,000)
	1,997,000	1,786,000

Net expense recognised in the statement of financial performance

Current service cost	22,000	22,000
Interest cost	194,000	227,000
Actuarial (gains) losses	140,914	(423,496)
Settlement	(145,914)	(267,504)
	211,000	(442,000)

Calculation of actuarial gains and losses

Experience adjustments: Subsidy inflationary increases higher than assumed	95,000	(9,000)
Experience adjustments: Changes to membership profile different from assumed	55,000	(321,496)
Experience adjustments: Actual benefits vested, greater than expected	2,914	-
Financial assumptions: increases in net discount rates	(12,000)	(93,000)
	140,914	(423,496)

The Current-service Cost for the ensuing year is estimated to be R3 000 whereas the Interest Cost for the next year is estimated to be R211 000.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

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16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.13 %	11.32 %
CPI inflation rate	5.28 %	5.57 %
Medical aid contribution inflation rate	6.78 %	7.07 %

Sensitivity Analysis on the Accrued Liability as at 30 June 2024:

Assumption	Change	In-Service Members	Continuation Members	Total Liability	% Change
Central assumptions	-	802,000	1,195,000	1,997,000	-
Medical aid contribution inflation rate	1 %	834,000	1,247,000	2,081,000	4 %
Medical aid contribution inflation rate	(1) %	758,000	1,143,000	1,901,000	(5)%
Discount rate	1 %	728,000	1,128,000	1,856,000	(7)%
Discount rate	(1) %	890,000	1,270,000	2,160,000	8 %
Post-employment mortality	1	787,000	1,145,000	1,932,000	(3)%
Post-employment mortality	(1)	816,000	1,245,000	2,061,000	3 %
Membership continuation	(10)	722,000	1,195,000	1,917,000	(4)%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30 June 2024:

Assumption	Change	Current-Service Cost	Interest Cost	Total	% Change
Central assumptions	-	22,000	194,000	216,000	-
Medical aid contribution inflation rate	1 %	23,000	206,000	229,000	6 %
Medical aid contribution inflation rate	(1) %	20,000	182,000	202,000	(6)%
Discount rate	1 %	20,000	195,000	215,000	- %
Discount rate	(1) %	24,000	193,000	217,000	- %
Post-employment mortality	2	21,000	187,000	208,000	(4)%
Post-employment mortality	(2)	22,000	201,000	223,000	3 %
Membership continuation	2	20,000	201,000	221,000	(4)%

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 DBO. However, where there is no deep market in government bonds with sufficiently long maturity to match the estimated term of the benefit payments, current market rates of 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 11.13% per annum has been used. The corresponding index-linked yield at this term is 5.09%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 28 June 2024.

These yields were obtained by calculating the duration of the DBO 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 DBO). The two main components of the liability are as follows:

- Employees post-employment subsidy liability
- Continuation members' liability.

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16. Employee benefit obligations (continued)

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 medical aid contribution inflation rate of 6.78% per annum has been assumed. This is 1.50% in excess of expected consumer price index (CPI) inflation over the expected term of the DBO, namely 5.28% per annum. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 4.07% per annum which derives from $((1+11.13\%)/(1+6.78\%))-1$.

The CPI inflation assumption of 5.28% per annum was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the DBO (5.09%) and those of fixed interest bonds (11.13%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was thus determined as follows: $((1+11.13\%-0.50\%)/(1+5.09\%))-1$.

The next contribution increase was assumed to occur with effect from 1 January 2025.

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.

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:

Karoo Hoogland Local Municipality

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16. Employee benefit obligations (continued)

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.

Maturity Analysis:

<u>Future year</u>	<u>Expected benefit payments</u>	<u>Future year</u>	<u>Expected benefit payments</u>
Year 1:	207,000	Year 21-25	937,000
Year 2:	217,000	Year 26-30	848,000
Year 3:	221,000	Year 31-40	1,268,000
Year 4:	224,000	Year 41-50	423,000
Year 5:	227,000	Year 51-60	2,000
Year 6-10:	1,134,000	Year 61-70	0
Year 11-15:	1,086,000	Year 71-80	0
Year 16-20:	1,015,000		

Karoo Hoogland Local Municipality

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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 R149,000 whereas the Interest Cost for the next year is estimated to be R201,000.

Notable benefit plan risks faced by the Municipality can be summarised as follows:

- Inflation: The risk that future CPI inflation and earnings inflation are higher than assumed and present in an uncontrolled manner.
- Termination of service: The risk that fewer eligible employees terminate their service at the Municipality i.e. more long service awards vest than expected.
- Volatility of open-ended, long-term liability: The risk that the liability may be volatile which is exacerbated by its long-term nature.
- Enforcement of eligibility criteria and rules: The risk that eligibility criteria and rules are not strictly or consistently enforced, to the detriment of the Municipality.
- Future changes in legislation: The risk that changes to legislation with respect to long service awards may increase the liability for the Municipality.

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	2,059,000	(1,752,000)
Non-current liabilities	1,670,000	1,677,000
Current liabilities	389,000	75,000
	2,059,000	1,752,000

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

Opening balance	1,752,000	1,831,000
Net expense recognised in the statement of financial performance	307,000	(79,000)
	2,059,000	1,752,000

Net expense recognised in the statement of financial performance

Current service cost	143,000	148,000
Interest cost	190,000	184,000
Actuarial (gains) losses	12,403	(301,930)
Settlement	(38,403)	(109,070)
	307,000	(79,000)

Calculation of actuarial gains and losses

Financial assumptions: increase in net discount rate	(20,000)	(51,000)
Experience adjustment: Earnings increases lower than assumed	(19,000)	5,000
Actual benefits vesting, lower than expected	(36,597)	-
Experience adjustment: Experience adjustment: Changes to employee profile different from assumed	88,000	(255,930)

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Figures in Rand	2024	2023
16. Employee benefit obligations (continued)	12,403	(301,930)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.75 %	11.08 %
General Salary Inflation (long-term)	5.94 %	6.47 %
Net effective discount rate	4.54 %	4.33 %

A general earnings increase of 5.00% as at 1 July 2024 has been included in the earnings disclosed above and used in this valuation.

Average Retirement Age

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

Pre-Retirement Mortality

SA85-90 ultimate table, adjusted for female lives.

Maturity Analysis:

Future year	Expected benefit payments	Future year	Expected benefit payments
Year 1:	389,000	Year 6-10:	2,053,000
Year 2:	158,000	Year 11-15:	1,560,000
Year 3:	428,000	Year 16-20:	1,554,000
Year 4:	257,000	Year 21-30:	1,173,000
Year 5:	295,000	Year 31-40:	73,000

Sensitivity analysis

Sensitivity Analysis on the Accrued Liability as at 30 June 2024:

Assumption	Change	Liability	% Change
Central assumptions	-	2,059,000	-
General earnings inflation rate	1 %	2,163,000	5 %
General earnings inflation rate	(1) %	1,964,000	(5)%
Discount rate	1 %	1,962,000	5 %
Discount rate	(1) %	2,166,000	(5)%
Average retirement age (yrs)	2	2,210,000	7 %
Average retirement age (yrs)	(2)	1,909,000	(7)%
Withdrawal rates (multiply)	2	1,732,000	(16)%
Withdrawal rates (multiply)	0.5	2,271,000	10 %

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30 June 2024:

Assumption	Change	Current-Service Cost	Interest Cost	Total	% Change
Central assumptions	-	143,000	190,000	333,000	-
General earnings inflation rate	1 %	152,000	201,000	353,000	6 %
General earnings inflation rate	(1) %	134,000	180,000	314,000	(6)%

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand				2024	2023	
16. Employee benefit obligations (continued)						
Discount rate	1	%	135,000	196,000	331,000	(1)%
Discount rate	(1)	%	151,000	183,000	334,000	- %
Average retirement age (yrs)	2		152,000	206,000	358,000	8 %
Average retirement age (yrs)	(2)		133,000	176,000	309,000	(7)%
Withdrawal rates (multiply)	2		110,000	154,000	264,000	(21)%
Withdrawal rates (multiply)	0.5		165,000	214,000	379,000	14 %

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	8,429,076	6,205,254
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See note 25 for reconciliation of grants from National/Provincial Government.

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

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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18. Provisions

Reconciliation of provisions - 2024

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	36,200,788	(1,130,930)	3,881,036	38,950,894

Reconciliation of provisions - 2023

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	32,205,862	349,232	3,645,694	36,200,788

Environmental rehabilitation provision

In terms of the licencing of the landfill-sites, the municipality will incur licensing and rehabilitation costs of R195 907 947 (2023: R202 579 511) 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.

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 - 2032	14,337,048	13,716,629
Sutherland - 2041	14,462,710	13,228,711
Williston - 2041	10,151,136	9,255,448
	38,950,894	36,200,788

Material Assumptions used

It is assumed that sufficient on-site quantities for the confining layer and topsoil would be available free of charge.

The rate of the levelling layer is based on importing the quantities from commercial sources to ensure good quality materials.

Insufficient quantities of the required quality clay would be available from on-site or nearby sources. As a result the clay will be replaced by a geosynthetic equivalent (GCL).

The average rate of inflation is determined as 5.02%.

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.

Discount rate

Fraserburg	9.705 %	9.982 %
Sutherland	11.875 %	11.954 %
Williston	11.875 %	11.954 %

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
19. Service charges		
Sale of electricity	12,263,597	10,794,104
Sale of water	5,736,571	5,246,501
Sewerage and sanitation charges	5,120,696	4,863,664
Refuse removal	4,321,789	4,034,572
Revenue forgone	(5,472,763)	(4,377,931)
	21,969,890	20,560,910

Revenue foregone represents rebates allowed to consumers at transaction date:

Revenue foregone		
Sale of electricity	19,874	17,487
Sale of water	1,599,639	1,201,817
Sewerage and sanitation charges	2,006,536	1,645,373
Refuse removal	1,846,713	1,513,253
	5,472,762	4,377,930

20. Rental of facilities

Facilities and equipment

Rental of facilities	536,608	852,742
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It is the municipality's policy to rent out facilities, site rentals, commonage and farms to the community.

The average lease term was between 1 and 3 years.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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21. 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:

The 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.

The municipality is the Agent in the Principal-Agent arrangement with the Provincial Department of Transport, Safety and Liason, and collects licencing fees on behalf of themt. 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).

The 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 agent

Compensation received for agency activities

The municipality received 12% commission from the Provincial Department of Transport, Safety and Liason for acting as an agent on their behalf during the financial year.

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

Amounts payable at year-end are disclosed in note 14

Compensation received

Agency service - Department of Transport, Safety and Liason	90,128	116,201
Agency service - 3rd Parties	36,746	34,711
	<u>126,874</u>	<u>150,912</u>

Entity as principal

The municipality paid 4% commission to various service providers for selling prepaid electricity on its behalf during the year.

Fee paid as compensation to the agent

Prepaid electricity vendors	<u>256,182</u>	<u>238,309</u>
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Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
22. Other income		
LG Seta Skills development	51,140	51,679
Sundry income	560,243	328,439
Unallocated deposits recognised	119,828	38,851
	731,211	418,969
23. Interest received - investment		
Interest revenue		
Bank accounts	1,844,707	869,185
Deposits receivable	7,179	10,792
	1,851,886	879,977
24. Property rates		
Rates received		
Residential, commercial property, state and farms	8,548,346	7,492,308
Less: Revenue forgone	(1,225,278)	(1,022,472)
	7,323,068	6,469,836
Property rates - interest received	708,119	708,049
	8,031,187	7,177,885
Valuations		
Residential	345,561,000	280,391,000
Commercial	146,924,000	121,122,000
State	-	1,850,000
Municipal	-	36,902,000
Small holdings and farms	3,662,897,000	3,684,384,500
Public Service Infrastructure (Zero Rated)	1,186,000	731,000
Public Benefit Organisations	14,655,000	18,475,000
Protected areas	61,583,000	-
Vacant land	25,275,000	22,994,500
Public Service Property	61,768,000	46,318,000
Places of worship	10,281,000	-
	4,330,130,000	4,213,168,000

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2023. 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 R0.01228 (2023: R0.012477) 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.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
25. Government grants & subsidies		
Operating grants		
Equitable share	32,820,000	30,429,000
Local Government Financial Management Grant	2,650,000	2,650,000
Expanded Public Works Program	796,000	1,073,000
Library Development Grant	1,252,000	1,352,762
	37,518,000	35,504,762
Capital grants		
Municipal Infrastructure Grant	5,925,178	11,356,746
Water Services Infrastructure Grant	12,498,000	11,000,000
	18,423,178	22,356,746
	55,941,178	57,861,508
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	23,121,178	57,861,508
Unconditional grants received	32,820,000	30,429,000
	55,941,178	88,290,508
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	6,205,254	-
Current-year receipts	8,149,000	17,562,000
Conditions met - transferred to revenue	(5,925,178)	(11,356,746)
	8,429,076	6,205,254
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	2,650,000
Conditions met - transferred to revenue	(2,650,000)	(2,650,000)
	-	-

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

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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25. Government grants & subsidies (continued)

Expanded Public Works Program

Current-year receipts	796,000	1,073,000
Conditions met - transferred to revenue	(796,000)	(1,073,000)
	<u>-</u>	<u>-</u>

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	-	152,762
Current-year receipts	1,252,000	1,200,000
Conditions met - transferred to revenue	(1,252,000)	(1,352,762)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

The grant is being used to support library services.

Water Services Infrastructure Grant

Current-year receipts	12,498,000	11,000,000
Conditions met - transferred to revenue	(12,498,000)	(11,000,000)
	<u>-</u>	<u>-</u>

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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26. Services in kind

Provincial Treasury assistance	-	530,366
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Provincial Treasury seconded an individual to act as Chief Financial Officer for a period of 7 months. Revenue from services in kind was recognised as the following criteria is satisfied:

- The position of CFO is critical to the operations of the municipality's finance function and the official was in service for more than half a year;
- The official complied with the municipality's policies and procedures, and reported to the accounting officer; and
- Fair value of the services are considered to be the approved salary scales as determined by Government Gazette no 47538 of 18 Nov 2022.

No such services were received during 2023/24.

27. Employee related costs

Bargaining council contributions	9,972	10,036
Basic	21,156,971	20,179,009
Bonus	1,728,408	1,453,221
Leave pay provision charge	676,249	308,100
Long-service awards	153,582	148,000
Long-term benefits - incentive scheme	37,077	22,000
Overtime payments	703,826	555,749
SDL	270,232	243,870
Travel, motor car, accommodation, subsistence and other allowances	1,117,467	1,031,012
UIF and pension	2,107,237	1,802,175
	27,961,021	25,753,172

Remuneration of the Municipal Manager: J Jonkers (Nov-June 2024)

Annual Remuneration	799,746	139,527
Car Allowance	25,600	4,636
Performance Bonuses	-	(4,147)
	825,346	140,016

Remuneration of Acting Municipal Manager : DP Malan

Annual Remuneration	-	872
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Remuneration of Acting Municipal Manager : A Gibbons (Jul-Oct 2023)

Annual Remuneration	-	54,178
Acting allowance	10,217	-
	10,217	54,178

Remuneration of the Municipal Manager: JJ Fortuin

Annual Remuneration	-	34,731
Car Allowance	-	2,860
Performance Bonuses	59,035	-
Other	590	2,231
	59,625	39,822

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
27. Employee related costs (continued)		
Remuneration of the Director Financial Services: SJ Myburgh		
Annual Remuneration	959,205	454,758
Car Allowance	238,020	122,526
Performance Bonuses	54,096	-
Contributions to UIF, Medical and Pension Funds	-	12,000
Cellphone	25,600	28,572
	1,276,921	617,856
Remuneration of Acting Director Financial Services: A Haas		
Acting allowance	24,626	-
Remuneration of Acting Director Financial Services: SJ van Schalkwyk		
Acting allowance	-	15,075
Remuneration of the Director Technical Services: FJ Lotter		
Annual Remuneration	804,700	708,985
Car Allowance	140,640	150,870
Performance Bonuses	41,364	-
Contributions to UIF, Medical and Pension Funds	12,184	24,000
Cellphone	33,600	59,565
	1,032,488	943,420

Remuneration of Acting Director Financial Services: AR Leteane

Mr Leteane was seconded by Provincial Treasury to act in the vacant CFO position from 4 November 2022 until 30 June 2023.

Revenue from Services received in kind has been recognised. Refer to note 26.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
28. Remuneration of councillors		
Mayor	1,146,583	890,955
Councillors	3,927,038	3,891,562
	5,073,621	4,782,517
VC Wentzel - (Resigned as Mayor 8 November 2021)		
Basic salary	362,841	351,696
Cell phone allowance	49,613	44,400
	412,454	396,096
JJ van der Colff		
Basic salary	345,661	566,156
Cell phone allowance	49,615	44,400
Vehicle allowance	48,525	62,906
	443,801	673,462
J Davids		
Basic salary	336,426	320,980
Cell phone allowance	46,373	44,400
Vehicle allowance	37,381	35,665
	420,180	401,045
A Januarie		
Basic salary	-	2,765
G Klazen		
Basic salary	-	2,747
J Jooste		
Basic Salary	-	2,747
JJ Jacobs		
Basic salary	-	2,747
E Oliphant		
Basic salary	282,732	267,675
Cell phone allowance	49,613	44,400
	332,345	312,075
SA Muller		
Basic salary	308,490	267,675
Cell phone allowance	49,613	44,400
	358,103	312,075
VT Opperman - Speaker		
Basic salary	702,730	353,898
Cell phone allowance	49,618	44,400
	752,348	398,298
Rvd Merwe Geel		
Basic salary	291,259	494,119

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
28. Remuneration of councillors (continued)		
Cell phone allowance	49,613	44,400
	340,872	538,519
AS Mietas - Mayor		
Basic salary	883,220	575,293
Cell phone allowance	49,619	44,400
	932,839	619,693
M.J Chadow		
Basic salary	363,124	451,700
Cell phone allowance	49,613	44,400
	412,737	496,100
AE Steenkamp		
Basic salary	282,732	267,675
Cell phone allowance	49,613	44,400
	332,345	312,075
CG Steenkamp		
Basic salary	282,737	267,675
Cell phone allowance	49,615	44,400
	332,352	312,075
Additional information		
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.		
29. Depreciation and amortisation		
Property, plant and equipment	9,886,808	9,941,584
Investment property	278,559	278,693
Intangible assets	61,782	65,794
	10,227,149	10,286,071
Depreciation reconciliation		
Depreciation per note 10 - Property, plant and equipment	10,771,207	10,874,947
Less: Depreciation capitalised to inventory	(884,399)	(933,363)
	9,886,808	9,941,584
30. Finance costs		
Actuarial interest	384,000	411,000
Long term borrowings	57,483	82,797
Provision for the rehabilitation of landfill sites	3,881,036	3,645,694
Trade and other payables	13,998	78,211
	4,336,517	4,217,702

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
31. Debt impairment		
Exchange receivables	(3,027,715)	2,805,886
Non-exchange receivables	(5,133,582)	6,997,428
	<u>(8,161,297)</u>	<u>9,803,314</u>

Debt impairment relates to the contribution to the allowance for debt impairment, exclusive of VAT.

32. Assets transferred to households

Sewage reticulation	<u>2,202,549</u>	<u>2,527,430</u>
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2024:

Capital project - Sewage Reticulation for 165 Stands in Fraserburg was completed during the financial year. The Precast Toilets consist of the supply, delivery, and installation of a complete waterborne concrete top structure including all fittings, cistern, and toilet for each household. Preliminary and General Fees were also included in the cost of the top structures. Above expenditure was recognised as expense as it is transferred to households upon completion and no future service potential or economic benefits are expected from these structures.

2023:

Capital project - Sewage Reticulation for 127 Stands in Williston was completed during the financial year. The Precast Toilets consist of the supply, delivery, and installation of a complete waterborne concrete top structure including all fittings, cistern, and toilet for each household. Preliminary and General Fees were also included in the cost of the top structures.

Above expenditure was recognised as expense as it is transferred to households upon completion and no future service potential or economic benefits are expected from these structures.

33. Bulk purchases

Electricity - Eskom	<u>12,185,754</u>	<u>10,252,583</u>
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34. Contracted services

Contractors

Maintenance of Equipment	<u>2,801,215</u>	<u>1,392,064</u>
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Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
35. Operating cost		
Administrative penalties	85,372	-
Advertising	38,018	76,974
Audit committee	203,851	71,585
Auditors remuneration	2,939,725	3,140,747
Bank charges	230,074	242,989
Commission paid	256,182	238,309
Consulting and professional fees	1,248,170	1,968,923
Consumables	1,997,506	828,475
Donations	-	25,114
Entertainment	21,795	20,605
Fuel and oil	961,479	1,043,126
Insurance	563,456	400,096
Library projects	2,979	2,621
Membership fees	483,250	507,705
Other expenses	56,430	84,184
Postage and courier	164	-
Printing and stationery	585,030	573,842
Research and development costs	16,749	15,984
Security	86,851	43,619
Software expenses	2,981,834	2,490,067
Staff welfare	111,589	120,980
Telephone and fax	347,742	326,389
Title deed search fees	19,677	20,976
Training	123,291	149,085
Travel - local	2,083,828	1,212,360
	15,445,042	13,604,755
36. Cash generated from operations		
Surplus	1,013,729	6,844,158
Adjustments for:		
Depreciation and amortisation	10,227,149	10,286,071
Loss on disposal of property, plant and equipment	-	321,605
Finance costs	4,314,492	4,139,491
Impairment deficit	-	138,619
Debt impairment	8,161,297	(9,803,314)
Bad debts written off	952,415	21,461,400
Movements in retirement benefit assets and liabilities	(19,317)	(206,575)
Movements in provisions	-	180,212
Debt surrendered	(336,820)	-
Inventory adjustment	2,195,187	1,674,516
Actuarial (gain) / loss	153,317	(725,425)
Contributed assets	-	(726,400)
Changes in working capital:		
Inventories	(1,214,099)	(1,000,605)
Other receivables from exchange transactions	(623,711)	(450,466)
Consumer debtors	(7,382,425)	(5,721,123)
Other receivables from non-exchange transactions	(556,864)	(551,349)
Prepayments	-	25,000
Payables from exchange transactions	91,498	(760,322)
VAT	(927,309)	(1,019,366)
Unspent conditional grants and receipts	2,223,822	6,052,492
Consumer deposits	47,256	44,535
	18,319,617	30,203,154

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
37. Cash flows from investing activities		
Reconciliation between additions per note 10 - Property, plant and equipment and Purchase of property, plant and equipment per Cash Flow Statement:		
Capital additions - Note 10	100,610	17,263,805
WIP additions - Note 10	21,623,551	3,290,938
Transfers to inventory	(2,202,549)	(480,406)
Movement in retention creditors	(50,996)	(610,716)
Finance lease initial recognition	-	(185,369)
Contributed assets	-	(726,400)
Unpaid capital creditors	(5,529,286)	-
Retentions surrendered	(336,820)	-
Purchase of property, plant and equipment per Cash Flow Statement	13,604,510	18,551,852

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	6,355,646	5,578,976
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	-	13,000,000
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Total capital commitments

Already contracted for but not provided for	6,355,646	5,578,976
Not yet contracted for and authorised by accounting officer	-	13,000,000
	6,355,646	18,578,976

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.

39. Contingencies

2024:

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 R130 000..

Contingent assets:

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

2023:

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.

Contingent assets:

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

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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40. Related parties

Relationships

Accounting Officer	Refer to accounting officers' report note
Members of key management	S Myburgh F Lotter
Members of Council	VC Wentzel JE Davids JJ van der Colff E Oliphant SA Muller VT Opperman RvdM Geel AS Mietas MJ Chadow AE Steenkamp CG Steenkamp

Related party balances

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

SM Davids	510	476
VC Wentzel	981	483
JJ van der Colff	281	937
SA Muller	491	3
VT Opperman	1,021	899
AE Steenkamp	-	688
CG Steenkamp	2,184	1,033
AS Mietas	1,989	1,489
MJ Chadow	573	507
Rvd Merwe Geel	-	643
SJ Myburgh	1,253	-

Related party transactions

Rates levied to Councillors 1 July to 30 June

SM Davids	316	197
JJ van der Colff	3,397	3,764
SA Muller	91	33
VT Opperman	6,447	5,058
AE Steenkamp	-	2,271
CG Steenkamp	10,266	6,064
AS Mietas	12,495	12,352
MJ Chadow	775	568
Rvd Merwe Geel	8,261	10,780

Service charges to Councillors levied 1 July to 30 June

SM Davids	6,086	5,884
VC Wentzel	9,148	6,164
SA Muller	6,013	1,449
VT Opperman	5,805	8,509
AE Steenkamp	43	6,173
CG Steenkamp	17,422	8,775
AS Mietas	7,882	8,732
MJ Chadow	6,151	5,512
Rvd Merwe Geel	13,392	26,009

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
40. Related parties (continued)		
Rates levied to Key Management		
SJ Myburgh	5,111	-
Services levied to Key Management		
SJ Myburgh	9,660	-
Interest levied to related parties		
CG Steenkamp	84	-
MJ Chadow	3	-

Transactions with related parties are on the same terms and conditions as the general public.

Refer to note 50 for councillor accounts that were in arrears at year-end.

Remuneration of management

Remuneration of key management refer to note 27 of the annual financial statements.

Remuneration of councillors

Remuneration of councillors refer to note 28 of the annual financial statements.

41. Prior-year adjustments

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 (Positive amounts represent debit entries and Negative amounts represent credits):

Statement of financial position

2024

	Note	As previously reported	Correction of error	Restated
Receivables from non-exchange transactions		4,933,345	328,763	5,262,108
Receivables from exchange transactions		4,254,186	(273,042)	3,981,144
Property, plant and equipment		274,710,875	1,305,275	276,016,150
VAT receivable		1,624,592	25,563	1,650,155
Accumulated surplus		(285,668,758)	(1,386,562)	(287,055,320)
		(145,760)	(3)	(145,763)

Statement of financial performance

Karoo Hoogland Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023		
41. Prior-year adjustments (continued)				
2023				
	Note	As previously reported	Correction of error	Restated
Service charges		(20,731,332)	170,422	(20,560,910)
Rental of facilities		(858,742)	6,000	(852,742)
Interest received (trading)		(3,647,183)	71,057	(3,576,126)
Other income		(500,137)	81,169	(418,968)
Property rates		(6,470,298)	462	(6,469,836)
Property rates - Interest received		(807,366)	99,317	(708,049)
Depreciation and amortisation		11,589,652	(1,303,580)	10,286,072
Operating cost		13,579,755	25,000	13,604,755
Agency services		116,201	(34,711)	-
Surplus for the year		(7,729,450)	(884,864)	(8,695,804)

Errors

The following prior period errors adjustments occurred:

Error 1

Corrections to consumer accounts due to incorrect billings.

Consolidated correction of rebates which are instituted retrospectively, interest charged on property tax and collection costs previously charged, is now reversed. Decrease in Receivables from non-exchange by R146,236, Property rates R462, Property rates interest received R99,317, and Other income R46,458.

Error 2

Corrections to consumer accounts due to incorrect billings.

Consolidated correction of Sewerage R6 562, Water R151,063 and Electricity R12,796 previously incorrectly charged as well as reversing interest charged to the value of R71,057. Reversal of incorrect rentals levied, amounted to R6,000. Correction results in decrease in Receivables from exchange by R273,042, Interest received R71,057, Service charges R170,422, Rental of facilities R6,000 and increase in VAT receivable by R25,563.

Error 3

Numerous assets were found not to be recorded in the accounting records of the municipality. The recording of the assets results in the increase in Property, plant and equipment by R1,365, increase in depreciation expense by R330 and increase in opening accumulated surplus by R1,695.

Error 4

Incorrect depreciation calculations resulting in the increase in Property, plant and equipment by R1,303,911 and decrease in Depreciation and amortisation by the same amount.

Error 5

SALGA prepayments recognised in incorrect accounting period. Correction results in increase in Receivables from non-exchange by R475 000, decrease in Operation cost by R25 000 and increase in opening accumulated surplus by R500 000.

Cashflow statement

Interest incorrectly classified in financing activities resulting in decrease in loan repayments by R54 928, decrease in finance lease payments by R28 868 and increase in finance costs by R82 797.

Karoo Hoogland Local Municipality

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41. Prior-year adjustments (continued)

Reclassifications

Payroll commission from third parties reclassified from Other income to Agency services amounting to R34 711.

42. Change in estimate

Provisions

The estimated rehabilitation cost of the municipality's landfill sites has decreased, resulting in a change in accounting estimate being recognised. This is mainly due a less than expected increase in footprint and costs. Refer to note 18 for additional information.

The effect of the change in estimate does not have an immediate effect in the current year, as it is assumed to occur at the end of the accounting period. The change in future periods will likely have the following effect:

	2024/2025	2025/2026	2026/2027
Decrease in depreciation	(69,785)	(69,785)	(69,785)
Decrease in finance costs	(65,481)	(80,242)	(97,408)
	<u>(135,266)</u>	<u>(150,027)</u>	<u>(167,193)</u>

Useful lives - Property, plant and equipment

The useful life of Property, plant and equipment was revised in 2024. -

The effect of the change in accounting estimate in the current and future periods is as follows:

	2023/24	2024/25	2025/26
Increase / (decrease in depreciation)	<u>(123,559)</u>	<u>2,609</u>	<u>120,950</u>

43. Financial instruments disclosure

Categories of financial instruments

2024

Financial assets

	At amortised cost	Total
Cash and cash equivalents	18,331,628	18,331,628
Other receivables from exchange transactions	1,409,869	1,409,869
Consumer debtors	4,507,535	4,507,535
	<u>24,249,032</u>	<u>24,249,032</u>

Financial liabilities

	At amortised cost	Total
Consumer deposits	527,301	527,301
Finance lease obligation	79,939	79,939
Other financial liabilities	704,811	704,811
Trade and other payables from exchange transactions	8,486,082	8,486,082
	<u>9,798,133</u>	<u>9,798,133</u>

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43. Financial instruments disclosure (continued)

2023

Financial assets

	At amortised cost	Total
Cash and cash equivalents	13,994,788	13,994,788
Other financial assets	787,219	787,219
Consumer debtors	3,981,144	3,981,144
	18,763,151	18,763,151

Financial liabilities

	At amortised cost	Total
Consumer deposits	480,045	480,045
Finance lease obligation	150,641	150,641
Other financial liabilities	962,918	962,918
Trade and other payables from exchange transactions	3,436,326	3,436,326
	5,029,930	5,029,930

44. 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. 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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44. 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 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 2024	0 - 6 months	6 - 12 months	1 - 2 years	2 - 5 years
Other financial liabilities - Note 12	150,276	150,276	300,551	150,049
Finance lease obligation - Note 13	42,692	42,692	-	-
Payables from exchange transactions - Note 14	6,998,254	1,487,828	-	-
Consumer deposits - Note 15	527,301	-	-	-
	7,718,523	1,680,796	300,551	150,049
At 30 June 2023	0 - 6 months	6 - 12 months	1 - 2 years	2 - 5 years
Other financial liabilities - Note 12	150,276	150,276	300,551	-
Finance lease obligation - Note 13	42,692	42,692	85,383	-
Payables from exchange transactions - Note 14	1,999,495	1,436,832	-	-
Consumer deposits - Note 15	480,045	-	-	-
	2,672,508	1,629,800	385,934	-

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	2024	2023
Cash and cash equivalents - Note 8	18,331,628	13,994,788
Receivables from exchange transactions - Note 6	4,507,535	3,981,144
Other receivables from exchange transactions - Note 4	1,409,869	787,219

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44. 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 R105 (2023: R105) or decrease of R 105 (2023: R105), respectively. The simulation is done on a quarterly basis to verify that the maximum deficit potential is within the limit given by the management.

The loan with DBSA is at a fixed interest rate. Therefore the municipality is not exposed to an interest rate risk in this regard.

Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations as it does not incur foreign exchange transactions. All revenue is invoiced in home currency and the municipality only sources from South African suppliers.

45. 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.

46. Events after the reporting date

In June 2024 AfriForum challenged NERSA's method for determining municipal tariff increases. AfriForum claimed that NERSA allowed municipalities to increase prices without the required cost-of-supply studies.

On 28 June 2024 NERSA approved Karoo Hoogland Municipalities tariff increase with condition of submitting a cost of supply (Cos) study in line with NERSA policy. The CoS submitted in May 2024 to NERSA was rejected.

On 30 August 2024 the Municipality submitted another CoS study and awaiting NERSA response.

Currently the Municipality is unable to quantify the impact of this subsequent event.

47. Unauthorised expenditure

Opening balance as previously reported	188,505,086	158,927,768
Add: Unauthorised expenditure - current	16,635,059	29,577,318
Less: Amount written off - 2023 capital	(3,518,267)	-
Less: Amount written off - 2023 operational	(29,510,403)	-
Closing balance	172,111,475	188,505,086

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

Non-cash	3,378,862	10,125,468
Cash	13,256,197	19,451,850
	16,635,059	29,577,318

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47. Unauthorised expenditure (continued)

Operating unauthorised expenditure: Budget overspending – per municipal department:

Vote 3 - Directorate Financial Services	10,698,704	23,927,112
Vote 5 - Community & Social Services	2,208,213	2,131,938
	<u>12,906,917</u>	<u>26,059,050</u>

Capital unauthorised expenditure: Budget overspending – per municipal department:

Vote 1 - Executive and Council	-	235,343
Vote 5 - Community & Social Services	3,728,142	3,282,924
	<u>3,728,142</u>	<u>3,518,267</u>

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48. Fruitless and wasteful expenditure		
Opening balance as previously reported	2,789,988	2,450,615
Add: Fruitless and wasteful expenditure identified - current	459,528	441,217
Less: Amount recovered - current	(10,866)	(11,776)
Less: Amount written off by suppliers - current	(175,715)	(90,068)
Less: Amount written off by council	(22,202)	-
Closing balance	3,040,733	2,789,988

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings		
Interest - late payments to suppliers	R178,550 written off	13,790	168,292
Travel and subsistence paid without attendance register to support claims	R18,657 written off	-	48,164
Meeting cancelled without any notice	2023 balance written off	150	710
Fruitless travel and subsistence recovered from salaries	Costs recovered	(10,866)	(11,776)
Meetings not attended	Costs recovered	10,866	-
Labour court settlement	None	-	224,101
Penalty - VAT return not submitted	None	85,372	-
Purchase at uneconomical price	None	349,350	-
		448,662	429,491

Amounts recoverable

None of the above amounts identified as recoverable.

Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 22,202 from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

Karoo Hoogland Local Municipality

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Figures in Rand	2024	2023
49. Irregular expenditure		
Opening balance as previously reported	50,662,788	50,462,304
Add: Irregular expenditure - current	675,553	200,484
Less: Amount written off by council	(139,803)	-
Closing balance	51,198,538	50,662,788

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

	Disciplinary steps taken/criminal proceedings		
Procurement process not followed	R135,030 of 2023 balance written off	430,722	177,196
Not a CSD Supplier	2023 balance written off	30,652	4,773
Contract overspent	None	-	18,515
Not a valid tax clearance certificate	None	58,683	-
Supporting documents not attached/requisition not signed	None	6,602	-
Invalid deviation	None	99,188	-
Interest - Family	None	49,706	-
		675,553	200,484

Amount recoverable

None of the above amounts identified as recoverable.

Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 139,803 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1,317,767	1,824,472
Current year subscription / fee	483,250	482,705
Amount paid - current year	(483,250)	(482,705)
Amount paid - previous years	(216,000)	(507,205)
	1,101,767	1,317,267

The municipality has committed to pay an amount of R18 000 over 56 equal instalments, with the last instalment on 1 February 2028, in order to settle the outstanding balance.

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Figures in Rand	2024	2023
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Other material losses		
Electricity distribution losses		
Units purchased (Kwh)	5,296,497	5,191,570
Units lost during distribution (Kwh)	941,874	547,346
Percentage lost during distribution	17.78 %	10.54 %
Rand value of loss	1,807,418	1,080,927
Water distribution losses		
Kiloliters raw water input	367,270	300,777
Kiloliters lost during distribution	123,583	27,561
Percentage lost during distribution	33.65 %	9.16 %
Rand value of loss	738,658	154,725
The electricity energy losses can be classified into non-technical losses during the 2023/2024 financial year.		
The entity's non-technical losses increased to 17.78% from 10.54%. The non-technical losses are attributable mainly to the following:		
<ul style="list-style-type: none">- Theft and bypass of meters;- Illegal decalibration of meters;- Damaged meters and faulty voltage and current transformers; and- Customers without meters- Decrease in purchases due to increase in load shedding		
Audit fees		
Opening balance	165,457	90,068
Current year subscription / fee	3,388,176	3,777,316
Amount paid - current year	(3,378,097)	-
Amount paid - previous years	-	(3,611,859)
Amounts written off	(175,536)	(90,068)
	-	165,457
PAYE and UIF		
Current year subscription / fee	5,515,794	4,956,143
Amount paid - current year	(5,515,794)	(4,956,143)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	3,929,582	3,865,672
Amount paid - current year	(3,929,582)	(3,865,672)
	-	-
VAT		
VAT receivable	3,347,503	1,650,156

All VAT returns have not been submitted by the due date throughout the year and a penalty has been incurred.

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

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.

Incident

Sole suppliers	904,556	1,163,545
Emergency	1,819,816	291,932
Impractical	2,265,120	2,062,708
	4,989,492	3,518,185

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

R&S Karoo (Pty) Ltd	42,018	265,879
Soek 'n slapie guesthouse	25,110	49,150
Manna Restuarant	6,905	10,995
	74,033	326,024

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

51. 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.

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

Financial information relating to assets, liabilities and geographical locations are not readily available and are therefore not disclosed.

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.

Furthermore information regarding the different geographical areas are not readily available and are therefore not disclosed.

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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51. Consumer deposits (continued)

Types of goods and/or services by segment

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

Non-segments include Governance and administration.

Reportable segment

Executive and Council
Directorate Financial Services
Directorate Infrastructure Services
Community and Social Services

Goods and/or services

Governance and Administration
Governance and Administration
Technical Services
Community Services

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Figures in Rand

51. Consumer deposits (continued)

Segment surplus or deficit, assets and liabilities

2024

	Directorate Infrastructure Services	Community and Social Services	Total
Revenue			
Revenue from exchange transactions	23,003,566	15,913	23,019,479
Revenue from exchange transactions - interest	3,083,779	-	3,083,779
Revenue from non-exchange transactions	43,506,398	1,253,570	44,759,968
Total segment revenue	69,593,743	1,269,483	70,863,226
Entity's revenue			70,863,226
Expenditure			
Employee related cost	10,515,050	1,850,039	12,365,089
Debt impairment	5,079,516	-	5,079,516
Depreciation and amortisation	8,547,530	-	8,547,530
Finance cost	3,923,838	-	3,923,838
Bulk purchases	12,185,754	-	12,185,754
Contracted Services	2,780,789	15,370	2,796,159
Water inventory consumed	2,195,187	-	2,195,187
Operating cost	3,213,084	314,208	3,527,292
Total segment expenditure	48,440,748	2,179,617	50,620,365
Total segmental surplus			20,242,861
Actuarial gains			(153,317)
Other Non-segment revenue			21,845,517
Other Non-segment expenditure			(40,921,402)
Entity's surplus for the period			1,013,659

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Figures in Rand

51. Consumer deposits (continued)

2023

	Directorate Infrastructure Services	Community and Social Services	Total
Revenue			
Revenue from exchange transactions	21,422,229	13,523	21,435,752
Revenue from exchange transactions - interest	3,456,162	-	3,456,162
Revenue from non-exchange transactions	24,155,684	1,353,404	25,509,088
Total segment revenue	49,034,075	1,366,927	50,401,002
Entity's revenue			50,401,002
Expenditure			
Employee related cost	10,520,596	1,680,195	12,200,791
Debt impairment	(9,803,314)	-	(9,803,314)
Depreciation and amortisation	10,874,946	-	10,874,946
Finance cost	82,797	-	82,797
Bulk purchases	10,252,583	-	10,252,583
Contracted Services	1,149,412	193,768	1,343,180
Water inventory consumed	1,688,537	-	1,688,537
Operating cost	2,608,076	271,975	2,880,051
Total segment expenditure	27,373,633	2,145,938	29,519,571
Total segmental surplus			20,881,431
(Loss) on derecognition of assets			(321,605)
Actuarial gains			725,425
Impairment loss			(138,619)
Other Non-segment revenue			42,340,872
Other Non-segment expenditure			(56,643,346)
Entity's surplus for the period			6,844,158

Notes to the Annual Financial Statements

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52. Budget differences

Material differences between budget and actual amounts

Karoo Hoogland Local Municipality

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52. Budget differences (continued)

Statement of Financial Position

1. Inventories

Meters bought not installed at year end.

2. Other receivables from exchange transactions

Council have approved additional write-offs and extended the period which was not anticipated.

3. Receivables from non-exchange transactions

Council have approved additional write-offs and extended the period which was not anticipated.

4. VAT receivable

Net VAT movement within accepted range of 10%.

5. Receivables from exchange transactions

Within accepted variance of 10%.

6. Cash and cash equivalents

Unspent grant that was not budgeted for and outstanding tenders not completed.

7. Investment property

Within accepted variance of 10%.

8. Property, plant and equipment

Within accepted variance of 10%.

9. Intangible assets

Amortisation incorrectly not budgeted for.

10. Non-current receivables from exchange and non-exchange

Debtors arrangements not anticipated during budgeting process.

11. Other financial liabilities

Current / non-current portions incorrectly allocated on budget.

12. Finance lease obligation

Current / non-current portions incorrectly allocated on budget.

13. Payables from exchange transactions

Error in budgeting process resulting in inflated payables balance.

14. VAT payable

Net VAT movement within accepted range.

15. Consumer deposits

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52. Budget differences (continued)

Anticipated new connections did not occur.

16. Employee benefit obligation

Current portion of employee benefit not budgeted for.

17. Unspent conditional grants and receipts

Unspent grant for 2024 not budgeted for.

18. Provisions

Difficulties in budgeting for provisions and employee benefits as they are estimates requiring experts to value them.

19. Other financial liabilities

Current / non-current portions incorrectly allocated on budget.

20. Employee benefit obligation

Difficulties in budgeting for provisions and employee benefits as they are estimates requiring experts to value them.

21. Provisions

Within accepted variance of 10%.

22. Accumulated surplus

Net of below movements.

Statement of Financial Performance

1. Service charges

Loadshedding had an impact on revenue collection.

2. Rental of facilities and equipment

Within accepted variance of 10%.

3. Interest received (trading)

Within accepted variance of 10%.

4. Agency services

Payroll commission not budgeted for and underestimation of licences collected..

5. Other income

Within accepted variance of 10%.

6. Interest received - investment

Increased bank balance not budgeted for, with increased interest received also not budgeted for.

7. Property rates

Within accepted variance of 10%.

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
52. Budget differences (continued)		
<i>8. Property rates - penalties imposed</i>		
Within accepted variance of 10%.		
<i>9. Surcharges and Taxes</i>		
Incorrectly budgeted for.		
<i>10. Government grants & subsidies</i>		
Within accepted variance of 10%.		
<i>11. Debt surrendered</i>		
Not anticipated during budgeting process.		
<i>12. Fines, Penalties and Forfeits</i>		
An increase of income was anticipated, due to the appointment of the law enforcement officer, but policies and processes could not be rectified in time to implement policies and by-laws.		
<i>13. Personnel and remuneration of councillors</i>		
Within accepted variance of 10%.		
<i>14. Transfers and subsidies</i>		
A project to replace pit toilet was completed and the toilets that was given to the community was not capitalised and therefore an increase in the transfer.		
<i>15. Depreciation and amortisation</i>		
Within accepted variance of 10%.		
<i>16. Finance costs</i>		
Actuarial interest and landfill interest was not budgeted for as the reports are only received in the end of the financial year.		
<i>17. Debt Impairment</i>		
Debt impairment difficult to estimate in advance.		
<i>18. Bad debts written off</i>		
Council have approved additional write-offs and extended the period which was not anticipated.		
<i>19. Bulk purchases</i>		
Within accepted variance of 10%.		
<i>20. Contracted Services</i>		
The budget between General Expenditure and contracted service was incorrectly budgeted.		
<i>21. Water inventory consumed</i>		
Water inventory difficult to estimate in advance.		
<i>22. General Expenses</i>		

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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52. Budget differences (continued)

The budget between General Expenditure and contracted service was incorrectly budgeted.

Cash flow Statement

1. Taxation

Recovery rate under-anticipated during budget.

2. Sale of goods and services

Estimate was based on six month actuals.

3. Grants

Operational grants omitted from budget due to error.

4. Interest income

Interest earned on unspent grants.

5. Suppliers and employees

Cost-containment measures

6. Finance costs

Estimate was based on six month actuals.

7. Transfers and grants

Capital project was transferred to the community, which was not budgeted for.

8. Purchase of property, plant and equipment

Estimates was base on a six month actuals

9. Repayment of other financial liabilities

Within accepted variance of 10%.

10. Repayment of finance lease obligation

Not budgeted for.

Changes from the approved budget to the final budget

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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52. Budget differences (continued)

Statement of Financial Position

1. Inventories

Consumables to be received by projects to be completed.

2. Other receivables from exchange transactions

Adjustments based on 6 months projections.

3. Receivables from non-exchange transactions

Adjustments based on 6 months projections.

4. VAT receivable

Incorrect alignment between VAT receivable and VAT payable.

5. Receivables from exchange transactions

Adjustments based on 6 months projections.

6. Cash and cash equivalents

Error in original budget had to be corrected with adjustment budget.

7. Investment property

Expected sale and donation of farm.

8. Property, plant and equipment

Downward adjustment for projects not awarded.

9. Intangible assets

Error in original budget had to be corrected with adjustment budget.

10. Other financial liabilities

Error in budgeting process. Budget strings not correct on original budget.

11. Finance lease obligation

Error in budgeting process. Budget strings not correct on original budget.

12. Payables from exchange transactions

Error in original budget had to be corrected with adjustment budget. Budget strings not correct on original budget.

13. VAT payable

Incorrect alignment between VAT receivable and VAT payable. Budget strings not correct on original budget.

14. Consumer deposits

Adjustments based on 6 months projections.

15. Unspent conditional grants and receipts

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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52. Budget differences (continued)

Accounting for opening balance.

16. Provisions

Error in original budget had to be corrected with adjustment budget. Budget strings not correct on original budget.

17. Other financial liabilities

Error in budgeting process.

18. Employee benefit obligation

Adjustments based on 6 months projections.

19. Provisions

Adjustments based on 6 months projections.

Statement of Financial Performance

1. Service charges

Refuse was incorrectly budgeted and corrected and sales of electricity drop due to loadshedding.

2. Rental of facilities and equipment

Adjustments based on 6 months projections.

3. Interest received (trading)

Adjustments based on 6 months projections.

4. Other income

Adjustments based on 6 months projections.

5. Interest received - investment

Increased interest due to projects not being completed.

6. Property rates

Adjustments based on 6 months projections.

7. Property rates - penalties imposed

Adjustments based on 6 months projections.

8. Surcharges and Taxes

VAT assumption adjusted.

9. Government grants & subsidies

Correction of error in original budget.

10. Fines, Penalties and Forfeits

Adjusted based on the 6 months projections..

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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52. Budget differences (continued)

11. Personnel

Vacant post not filled in the first 6 months..

12. Remuneration of councillors

Additional post on staff establishment.

13. Finance costs

Reversal of interest anticipated.

14. Debt Impairment

Correction from incorrect line of bad debts at original budget.

15. Bad debts written off

It became apparent that R5m debts will not be written off, and debt impairment was not budgeted for.

16. Bulk purchases

Adjustments based on 6 months projections.

17. Contracted Services

Adjustments based on 6 months projections.

18. Water inventory consumed

It appeared that this line item was under-budgeted for.

19. General Expenses

Adjustments based on 6 months projections.

Cash flow Statement

1. Taxation

Adjustments based on 6 months projections.

2. Sale of goods and services

Adjustments based on 6 months projections.

3. Grants

Error in original budget had to be corrected with adjustment budget as grant receipts were a negative amount.

4. Interest income

Adjustments based on 6 months projections.

5. Suppliers and employees

Adjustments based on 6 months projections.

6. Finance costs

Karoo Hoogland Local Municipality

Annual Financial Statements for the year ended June 30, 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
52. Budget differences (continued)		
Anticipated interest reversals by suppliers.		
<i>7. Transfers and grants</i>		
Anticipated donations to households.		
<i>8. Purchase of property, plant and equipment</i>		
Adjustments based on 6 months projections.		
<i>9. Repayment of other financial liabilities</i>		
Error in original budget had to be corrected with adjustment budget as cash outflow was not budgeted for originally.		
53. Statutory receivables		
Figures in Rand		
VAT Receivable	3,347,503	1,650,156
Rates	11,098,315	10,541,451
Total Statutory Receivables	14,445,818	12,312,279
Less: Provision for Debt impairment	(8,787,252)	(5,759,536)
	5,658,566	6,432,071
Property Rates: Ageing		
Current (0 - 30 days)	585,357	855,162
31 - 60 days	342,754	3,487,582
61 - 90 days	302,553	223,318
91 - 120 days	279,791	217,668
+120 days	9,587,860	5,903,957
Less: Provision for impairment	(8,787,252)	(5,759,536)
	2,311,063	4,928,151
Reconciliation of Provision for Debt impairment		
Opening balance	(5,759,535)	(8,565,421)
Provision for impairment	(3,027,717)	2,805,886
	(8,787,252)	(5,759,535)