



KAI !GARIB LOCAL MUNICIPALITY

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

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Abbreviations

ASB	Accounting Standards Board
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
CLLR	Councilor
CPI	Consumer Price Index
CRC	Current Replacement Cost
DORA	Division of Revenue Act
DTSL	Department of Transport, Safety and Liaison
DWS	Department of Water Affairs and Sanitation
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
GLCCM	General Landfill Closure Costing Model
HDF	Housing Development Fund
IAS	International Accounting Standards
IDP	Integrated Development Plan
IRD	Initial Rate of Deposition
IPSAS	International Public Sector Accounting Standards
INEP	Integrated National Electrification Programme
LFG	Landfill Gas
LG SETA	Local Government Sector Education Training Programme
LSA	Long Service Awards
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MLCCM	Municipal Landfill Closure Costing Model
mSCOA	Municipal Standard Chart of Accounts
MSIG	Municipal Systems Improvement Grant
NERSA	National Energy Regulator of South Africa
PAYE	Pay As You Earn
PEMA	Post-employment Medical Aid Subsidy Liability
PPP's	Public Private Partnerships
RDP	Reconstruction and Development Programme
SALGA	South African Local Government Association
SARS	South African Revenue Service
SA GAAP	South African Statements of Generally Accepted Accounting Practice
SDBIP	Service Delivery and Budget Implementation Plan
SDL	Skills Development Levy
SG	Surveyor-General
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WCA	Workers Compensation Administration

KAI !GARIB LOCAL MUNICIPALITY

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Relevant Legislation

Constitution of the Republic of South Africa (Act no 108 of 1996)
Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
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)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998)
Nature of business and principal activities	Kai !Garib Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)
Vision statement	Creating an economically viable and fully developed Municipality, which enhances the standard of living of all the inhabitants/community of Kai !Garib through good governance, excellent service delivery and sustainable development
Mission statement	Provision of transparent, accountable and sustainable service delivery
Grading of local authority	Low capacity municipality
Accounting Officer	Dr. J. Mac Kay (Acting)
Chief Finance Officer (CFO)	Mrs. A.F. Beukes
Registered office	164 11th Avenue Kakamas 8870
Postal address	Private Bag X 6 Kakamas 8870
Bankers	ABSA Bank Limited Standard Bank Limited
Auditors	Auditor General of South Africa
Attorneys	Matthews and Partners Inc. Van Wyk Attorneys Inc. Wessels and Smith Ing.
Level of assurance	These annual financial statements has been audited in compliance with the applicable requirements of the Municipal Finance Management Act, No 56 of 2003
Preparer	These annual financial statements were internally compiled by Wim Scheepers, the municipality's Budget and Reporting Manager
Telephone number	(054) 431 6300
Fax number	(054) 431 6301
Email address	admin@kaigarib.gov.za
Website	www.kaigarib.gov.za

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Members of the Municipal Council

Mayor	Cllr. M.M. Louw	
Speaker	Cllr. W.D. Klim	
Ward councillors	Cllr. D. Jaar	ANC
	Cllr. B.B. Kordom	ANC
	Cllr. B.M. Bock	ANC
	Cllr. P.A. Thomas	ANC
	Cllr. M.A. Papier	ANC
	Cllr. V.W. Sacco	ANC
	Cllr. N.J. Snyers	ANC
	Cllr. M. Basson	ANC
	Cllr. E.E. Fritz	ANC
	Cllr. W.D. Klim	ANC
Proportional members	Cllr. C. Markgraaff	DA
	Cllr. J.M. de Klerk	DA
	Cllr. C.F.P. Bezuidenhout	DA
	Cllr. C. Kruger	DA
	Cllr. R. Cloete	DA
	Cllr. E.K. Strauss	DF
	Cllr. A. Smith	DF
	Cllr. C. April	EFF
Council committees		
Executive committee		
Chairperson:	Cllr. M.M. Louw	
Members:	Cllr. B.B. Kordom	
	Cllr. C. Markgraaff	
Socio-economic development committee		
Chairperson:	Cllr. D.R. Jaar	
Members:	Cllr. B.B. Kordom	
	Cllr. M.A. Papier	
	Cllr. C. April	
	Cllr. C. Kruger	
Institutional development committee		
Chairperson:	Cllr. V.W.W. Sacco	
Members:	Cllr. B.M. Bock	
	Cllr. E.E. Fritz	
	Cllr. J.M. de Klerk	
	Cllr. E.K. Strauss	
Infrastructure development committee		
Chairperson:	Cllr. N.J. Snyers	
Members:	Cllr. E.E. Fritz	
	Cllr. P.A. Thomas	
	Cllr. A. Smith	
	Cllr. R. Cloete	
Municipal public account committee (MPAC)		
Chairperson:	Cllr. B.M. Bock	
Members:	Cllr. V.W.W. Sacco	
	Cllr. D.R. Jaar	
	Cllr. E.K. Strauss	
	Cllr. C.F.P. Bezuidenhout	

Munisipaliteit Kai !Garib Municipality

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Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments 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 annual financial statements are 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 for the ongoing operations for the municipality and that the municipality is very reliant on grants from National Treasury. Funding will be received from National Treasury as long as the municipality complies with all legislative requirements. The collection of outstanding consumer debtor accounts and effective service delivery is also a priority of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report will be issued after the annual auditing process.

The annual financial statements set out on pages 8 to 118, which have been prepared on the going concern basis, were approved by the accounting officer and were signed by him.



Dr. J. Mac Kay (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
20 October 2022

Munisipaliteit Kai !Garib Municipality

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Accounting Officer's Report

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

1. Review of activities

Main business and operations

Kai !Garib Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996), and operates principally in the Northern Cape province of South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus. of R 350,506,825 (2020: R464,074,454) and that the municipality's total assets exceed its liabilities by R 350,506,825 (2020:R464,074,454).

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.

The local municipal elections held on the 2nd of November 2021, resulted in a change of councillors and the executive. The following newly elected council members and executive were voted and elected in:

- Cllr. M.M.M. Matthys	Mayor
- Cllr. E. Vas	Speaker
- Cllr. A. Prestly	Ward Councillor
- Cllr. Y. Scheffers	Ward Councillor
- Cllr. R. Ipinge	Ward Councillor
- Cllr. A. Jabnson	Ward Councillor
- Cllr. L. Tieties	Ward Councillor
- Cllr. E. Padmaker	Ward Councillor
- Cllr. M. Basson	Ward Councillor
- Cllr. R. Saal	Ward Councillor
- Cllr. C. Bezuidenhout	Proportional Members
- Cllr. S. Bruwer	Proportional Members
- Cllr. C. April	Proportional Members
- Cllr. A. Kampher	Proportional Members
- Cllr. T. Renier	Proportional Members
- Cllr. M. Basson	Proportional Members
- Cllr. A. Kotzee	Proportional Members
- Cllr. N. Du Plessies	Proportional Members
- Cllr. R. Cloete	Proportional Members.

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

4. Accounting Officer's interest in contracts

The accounting officer has no interest in contracts awarded, either direct or indirect.

5. Accounting policies

The annual financial statements prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such statements issued by the Accounting Practices Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

6. Accounting Officer

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

Name

Dr. J. Mac Kay (Acting)

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King IV Report on Corporate Governance for South Africa of September 2009. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the Code on a quarterly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit committee

The audit committee was established with effect from 1 July 2014. The chairperson of the audit committee is Mr. L. Lankalebalela, who is an independent audit committee member. Other independent members of the audit committee are, Me. M. Venter and Me. A. Delport.

Only Me. M. Venter was appointed at year end. The chairperson and Me A. Delport's contracts had both come to an end. Current Audit Committee does not have contracts with Kai !Garib municipality, but is a shared service from ZF District Municipality.

Internal audit

The municipality established an internal audit unit on 1 April 2014.

8. Bankers

The municipality's primary bank accounts are with ABSA Bank Limited and Standard Bank Limited and will continue to bank with them in the new financial year.

9. Auditors

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

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

10. Public Private Partnership

The municipality did not enter into any Public Private Partnerships for the financial year under review, nor does it have any existing PPP's

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Report

11. Non-compliance with applicable legislation

In terms of section 65 (2)(e) of the Municipal Finance Act No. 56 of 2003, all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Due to cash flow constraints, the municipality could not settle all money owing within the prescribed period.

In terms of section 126 (1)(a) of the Municipal Finance Act No. 56 of 2003, the accounting officer of a municipality must ensure that the municipality prepare its annual financial statements within 2 months after year end.

The municipality was unable to comply due to numerous financial system challenges faced during the year.

12. Municipal jurisdiction

Kai !Garib Municipality have the following surrounding towns under its jurisdiction:

- Kakamas
- Keimoes
- Kenhardt
- Alheit
- Augrabies
- Blaauwskop
- Bloemsmond
- Cillie
- Currieskamp
- Lennertsville
- Lutzburg
- Mactaggerscamp
- Marchand
- Riemvasmaak
- Soverby
- Vredesvallei
- Eksteenskuil



The annual financial statements set out on pages 8 to 118, which have been prepared on the going concern basis, were approved by the accounting officer and was signed by him:

Dr. J. Mac Kay (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
20 October 2022

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Certification of Remuneration of Councillors

Declaration by the Accounting Officer

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution and according to the Government Gazette 43246 dated 24 April 2020. This read with the Remuneration of Public Officer Bearers Act, Circular 14/2015 dated 27 March 2015 of SALGA, the Minister of Corporative Governance and Traditional Affairs determination in accordance with this Act and the approval letter received from the Minister of Corporative Governance, Human Settlements and Traditional Affairs on 3 April 2018.

Dr. J. Mac Kay (Acting)
Municipal Manager (Accounting Officer)
Kai !Garib Local Municipality
20 October 2022

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position for the year ended 30 June 2021

Figures in Rand	2021	2020 Restated*
Assets		
Current Assets		
Cash and cash equivalents	1,402,047	320,917
Inventories	492,963	771,316
Receivables from exchange transactions	8,581,089	13,981,116
Receivables from non-exchange transactions	7,520,657	3,878,111
VAT receivable	27,256,796	17,615,814
Total Current Assets	45,253,552	36,567,274
Non-Current Assets		
Receivables from non-exchange transactions	136,093	13,887,826
Heritage assets	112,955	112,955
Intangible assets	66,539	103,289
Investment property	188,820,643	184,612,149
Property, plant and equipment	752,062,850	751,838,349
Total Non-Current Assets	941,199,080	950,554,568
Total Assets	986,452,632	987,121,842
Liabilities		
Current Liabilities		
Consumer deposits	2,107,055	1,997,741
Employee benefit obligation	2,332,754	2,923,710
Finance lease obligation	869,902	326,183
Other financial liabilities	12,551,670	11,225,715
Payables from exchange transactions	553,090,065	442,559,475
Provisions	2,249,530	1,716,727
Unspent conditional grants and receipts	148,238	1,557,520
Total Current Liabilities	573,349,214	462,307,071
Non-Current Liabilities		
Employee benefit obligation	21,805,918	19,668,316
Finance lease obligation	833,016	1,337,914
Other financial liabilities	238,344	520,747
Provisions	39,719,315	37,477,977
Total Non-Current Liabilities	62,596,593	59,004,954
Total Liabilities	635,945,807	521,312,025
Net Assets	350,506,825	465,809,817
Accumulated surplus	350,506,825	465,809,817
Total Net Assets	350,506,825	465,809,817

The accounting policies on pages 23 to 52 and the notes on pages 53 to 118 form an integral part of the annual financial statements.

* See Note 47

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance for the year ended 30 June 2021

Figures in Rand		2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Agency services	20	576,172	345,373
Interest income	21	5,346,590	13,424,928
Licences and permits	22	831,484	577,301
Rental of facilities and equipment	23	818,327	616,332
Sales of goods and rendering of services	24	214,454	248,239
Service charges	25	107,689,012	91,943,283
Operational revenue	26	594,418	356,303
Total revenue from exchange transactions		116,070,457	107,511,759
Revenue from non-exchange transactions			
Property rates	27	22,463,257	20,605,733
Interest - Receivables from non-exchange transactions	42	4,654,055	7,309,569
Transfer revenue			
Fines, penalties and forfeits	28	10,400	80,628
Government grants and subsidies	29	136,600,282	110,793,477
Public contributions and donations	30	54,247	31,761
Total revenue from non-exchange transactions		163,782,241	138,821,168
Total revenue		279,852,698	246,332,927
Expenditure			
Bulk purchases	31	78,231,025	67,754,773
Contracted services	32	50,661,420	24,939,131
Debt impairment	33	47,722,971	64,594,705
Depreciation and amortisation	34	30,751,969	29,902,903
Employee related costs	35	130,982,888	119,740,695
Finance costs	36	21,494,518	38,109,043
General expenses	37	29,463,689	23,983,271
Remuneration of councillors	38	7,189,487	7,222,560
Total expenditure		396,497,967	376,247,081
Operating deficit		(116,645,269)	(129,914,154)
Actuarial gains/losses	14	987,331	2,886,682
Fair value adjustments	40	9,783,789	3,130,662
Impairment loss	39	(4,482,539)	(7,625,305)
Loss on disposal of assets and liabilities	11	(4,946,296)	(2,574,650)
Deficit for the year		(115,302,984)	(134,096,765)

* See Note 47

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets for the year ended 30 June 2021

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	331,412,319	331,412,319
Adjustments		
Correction of errors	268,494,263	268,494,263
Balance at 01 July 2019 as restated*	599,906,582	599,906,582
Changes in net assets		
Deficit for the year	(134,096,765)	(134,096,765)
Total changes	(134,096,765)	(134,096,765)
Restated* Balance at 01 July 2020	465,809,809	465,809,809
Changes in net assets		
Deficit for the year	(115,302,984)	(115,302,984)
Total changes	(115,302,984)	(115,302,984)
Balance at 30 June 2021	350,506,825	350,506,825
Notes	47	

The accounting policies on pages 23 to 52 and the notes on pages 53 to 118 form an integral part of the annual financial statements.

* See Note 47

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement for the year ended 30 June 2021

Figures in Rand	2021	2020 Restated*
Cash flows from operating activities		
Receipts		
Property taxation	12,035,518	6,200,130
Sale of goods and services	126,981,561	123,357,487
Grants	135,191,000	104,709,146
Interest received	10,000,645	20,734,497
	284,208,724	255,001,260
Payments		
Employee costs	(135,638,407)	(124,637,383)
Suppliers	(92,808,379)	(69,308,561)
Interest paid	(18,887,170)	(36,262,797)
	(247,333,956)	(230,208,741)
Net cash flows from operating activities	36,874,768	24,792,519
Cash flows from investing activities		
Purchase of property, plant and equipment	(34,897,654)	(18,544,187)
Proceeds from sale of investment property	628,999	100,430
Purchase of other intangible assets	-	(90,335)
Net cash flows from investing activities	(34,268,655)	(18,534,092)
Cash flows from financing activities		
Increase in other financial liabilities	1,043,552	1,269,526
Finance lease payments	(2,568,527)	(7,210,318)
Net cash flows from financing activities	(1,524,975)	(5,940,792)
Net increase/(decrease) in cash and cash equivalents	1,081,138	317,635
Cash and cash equivalents at the beginning of the year	320,917	3,282
Cash and cash equivalents at the end of the year	1,402,055	320,917

The accounting policies on pages 23 to 52 and the notes on pages 53 to 118 form an integral part of the annual financial statements.

* See Note 47

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2021

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions					
Agency services	211,607	-	211,607	576,172	364,565
Interest received	11,070,000	-	11,070,000	5,346,590	(5,723,410)
Licences and permits	685,000	-	685,000	831,484	146,484
Rental of facilities and equipment	534,240	-	534,240	818,327	284,087
Sales of goods and rendering of services	-	-	-	214,454	214,454
Service charges	132,154,270	-	132,154,270	107,689,012	(24,465,258)
Operational revenue	659,540	-	659,540	594,418	(65,122)
Total revenue from exchange transactions	145,314,657	-	145,314,657	116,070,457	(29,244,200)
Revenue from non-exchange transactions					
Taxation revenue					
Property rates	19,750,000	-	19,750,000	22,463,257	2,713,257
Interest - Receivables from non-exchange transactions	-	-	-	4,654,055	4,654,055
Transfer revenue					
Fines, Penalties and Forfeits	115,000	-	115,000	10,400	(104,600)
Government grants and subsidies	124,364,000	13,509,000	137,873,000	136,600,282	(1,272,718)
Public contributions and donations	-	-	-	54,247	54,247
Total revenue from non-exchange transactions	144,229,000	13,509,000	157,738,000	163,782,241	6,044,241
Total revenue	289,543,657	13,509,000	303,052,657	279,852,698	(23,199,959)
Expenditure					
Bulk purchases	(73,000,000)	-	(73,000,000)	(78,231,025)	(5,231,025)
Contracted Services	-	-	-	(50,661,420)	(50,661,420)

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
Debt Impairment	(7,760,450)	-	(7,760,450)	(47,722,971)	(39,962,521)
Depreciation and amortisation	(3,390,000)	-	(3,390,000)	(30,751,969)	(27,361,969)
Employee related costs	(115,190,149)	-	(115,190,149)	(130,982,888)	(15,792,739)
Finance costs	(11,647,000)	-	(11,647,000)	(21,494,518)	(9,847,518)
General expenses	(31,281,538)	(7,709,000)	(38,990,538)	(29,463,689)	9,526,849
Remuneration of councillors	(8,130,000)	-	(8,130,000)	(7,189,487)	940,513
Total expenditure	(250,399,137)	(7,709,000)	(258,108,137)	(396,497,967)	(138,389,830)
Operating deficit	39,144,520	5,800,000	44,944,520	(116,645,269)	(161,589,789)
Loss on disposal of assets and liabilities	-	-	-	(4,946,296)	(4,946,296)
Impairment loss/ Reversal of impairments	-	-	-	(4,482,539)	(4,482,539)
Fair value adjustments	-	-	-	9,783,789	9,783,789
Actuarial gains/losses	-	-	-	987,331	987,331
Surplus/(deficit) for the year	39,144,520	5,800,000	44,944,520	(115,302,984)	(160,247,504)

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
Statement of Financial Position					
Assets					
Current Assets					
Cash and cash equivalents	596,000	-	596,000	1,402,047	806,047
Receivables from exchange transactions	154,168,950	-	154,168,950	8,581,089	(145,587,861)
Receivables from non-exchange transactions	68,473,600	-	68,473,600	7,520,657	(60,952,943)
Other assets	67,000	-	67,000	-	(67,000)
Other financial assets	1,894,030	-	1,894,030	-	(1,894,030)
Inventories	948,061	-	948,061	492,963	(455,098)
VAT receivable	-	-	-	27,256,796	27,256,796
Total current assets	226,147,641	-	226,147,641	45,253,552	(180,894,089)
Non-Current Assets					
Receivables from exchange transactions	1,873,600	-	1,873,600	-	(1,873,600)
Receivables from non-exchange transactions	-	-	-	136,093	136,093
Heritage assets	-	-	-	112,955	112,955
Intangible assets	312,000	-	312,000	66,539	(245,461)
Investment property	1,680,000	-	1,680,000	188,820,643	187,140,643
Property, plant and equipment	860,302,630	3,800,000	864,102,630	752,062,850	(112,039,780)
Total non-current assets	864,168,230	3,800,000	867,968,230	941,199,080	73,230,850
Total Assets	1,090,315,871	3,800,000	1,094,115,871	986,452,632	(107,663,239)
Liabilities					
Current Liabilities					
Consumer deposits	1,948,000	-	1,948,000	2,107,055	159,055
Employee benefit obligation	-	-	-	2,332,754	2,332,754
Finance lease obligation	-	-	-	869,902	869,902

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Other financial liabilities	10,470,000	-	10,470,000	12,551,670	2,081,670
Payables from exchange transactions	140,556,000	(2,000,000)	138,556,000	553,090,067	414,534,067
Provisions	4,134,800	-	4,134,800	2,249,530	(1,885,270)
Unspent conditional grants and receipts	-	-	-	148,238	148,238
Total current liabilities	157,108,800	(2,000,000)	155,108,800	573,349,216	418,240,416
Non-Current Liabilities					
Employee benefit obligation	20,873,000	-	20,873,000	21,805,918	932,918
Finance lease obligation	9,984,000	-	9,984,000	833,016	(9,150,984)
Other financial liabilities	756,000	-	756,000	238,344	(517,656)
Provisions	69,074,000	-	69,074,000	39,719,315	(29,354,685)
Total non-current liabilities	100,687,000	-	100,687,000	62,596,593	(38,090,407)
Total Liabilities	257,795,800	(2,000,000)	255,795,800	635,945,809	380,150,009
Net Assets	832,520,071	5,800,000	838,320,071	350,506,823	(487,813,248)
Total Net Assets					
Accumulated surplus	832,520,071	5,800,000	838,320,071	350,506,823	(487,813,248)
Total Net Assets	832,520,071	5,800,000	838,320,071	350,506,823	(487,813,248)

KAI I GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Reasons for variances between Budget and Actuals (Statement of Financial Performance)

Line item	Variance (%)	Reason for variance
Revenue		
Agency services	172.28%	The municipality's traffic office in Kakamas is still providing all DTSL services to the community that was moved to the Post Office
Interest received	(51.70)%	Consumer debtors charged less interest than originally budgeted for.
Licences and permits	21.38%	The municipality's traffic office in Kakamas is still providing all DTSL services to the community that was moved to the Post Office
Rental of facilities and equipment	53.18%	Municipal facilities were used more by the community than was originally anticipated during the budgeting process
Sales of goods and rendering of services	100.00%	Budget for this line item included in other revenue
Service charges	(18.51)%	Completeness and billing corrections made during the compilation of the Annual Financial Statements
Operational revenue	(9.87)%	Including the Sales of goods and rendering of services, this is due to an overall better increase in revenue management from the municipality coincided with a tariff increase.
Property rates	13.74%	Completeness and billing corrections made during the compilation of the Annual financial statements
Fines, Penalties and Forfeits	(90.96)%	Penalties on property rates not anticipated during the budgeting process
Government grants and subsidies	(0.92)%	Immaterial variance
Public contributions and donations	100.00%	Donations towards the municipality were not anticipated during the budgeting process
Expenditure		
Bulk purchases	7.17%	The consumer base used more electricity than anticipated during the annual budget process
Contracted Services	100.00%	Contracted services were reclassified according to the nature of the expenditure
Debt Impairment	514.95%	Impairment on consumer debtors accounts corrected
Depreciation and amortisation	807%	Due to the municipality's cash flow constraints, non cash items are not budgeted for effectively
Employee related costs	13.71%	New employees appointed and salary corrections made during the financial year not budgeted for
Finance costs	84.55%	Due to cash flow constraints the municipality can not pay all their creditors within 30 days
General expenses	(24.43)%	Due to cash flow constraints, general expenses budgeted for during the financial year did not occur.
Remuneration of councillors	(11.57)%	Classification corrections made after the budgeting process
Other		
Loss on disposal of assets and liabilities	100.00%	During the budgeting process it was not anticipated that the municipality will sell any of its assets or liabilities
Impairment loss/ Reversal of impairments	100.00%	Non cash item not budgeted for
Fair value adjustments	100.00%	Non cash item not budgeted for
Actuarial gains/losses	100.00%	Non cash item not budgeted for

KAI I GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Reasons for variances between Budget and Actuals (Statement of Financial Position)

Line item	Variance (%)	Reason for variance
Current Assets		
Cash and cash equivalents	135.24%	Budget not aligned with reporting structure
Receivables from exchange transactions	(94.43)%	Provision for debt impairment not accounted for during the budgeting process
Receivables from non-exchange transactions	(89.02)%	Provision for debt impairment not accounted for during the budgeting process
Other assets	(100.00)%	Budget not aligned with reporting structure
Other financial assets	(100.00)%	Budget not aligned with reporting structure
Inventories	(48.00)%	Budget not aligned with reporting structure
VAT receivable	DIV/0	Budget not aligned with reporting structure
Non-Current Assets		
Other financial assets	(90.96)%	Budget not aligned with reporting structure
Heritage assets	(0.92)%	Immaterial variance
Intangible assets	100.00%	Budget not aligned with reporting structure
Investment property	100.00%	Budget not aligned with reporting structure
Property, plant and equipment	100.00%	Budget not aligned with reporting structure
Current Liabilities		
Consumer deposits	7.17%	Immaterial variance
Employee benefit obligation	100.00%	Budget not aligned with reporting structure
Finance lease obligation	514.95%	Budget not aligned with reporting structure
Other financial liabilities	807%	Budget not aligned with reporting structure
Payables from exchange transactions	13.71%	Budget not aligned with reporting structure
Provisions	84.55%	Budget not aligned with reporting structure
Unspent conditional grants and receipts	100.00%	Grants withheld not accounted for during the budget process
Non-Current Liabilities		
Employee benefit obligation	100.00%	Budget not aligned with reporting structure
Finance lease obligation	100.00%	Budget not aligned with reporting structure
Other financial liabilities	100.00%	Budget not aligned with reporting structure
Provisions	100.00%	Budget not aligned with reporting structure

Management considers a variance between the budget and actual amount of less than 10% and less than 3 million in the movement as immaterial.

The accounting policies on pages 23 to 52 and the notes on pages 53 to 118 form an integral part of the annual financial statements.

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies for the year ended 30 June 2021

Figures in Rand	2021	2020
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1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

The amounts disclosed in the annual financial statements are rounded-off 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:

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables

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

The impairment for trade receivables is calculated on a payment rate basis per consumer. The payment rate is calculated on the total payments received per consumer in the current year, and then divided by the total revenue billed per consumer for the current year. The percentage is then converted to a non payment ratio. The non payment ratio is then multiplied with the consumers total outstanding balance. The movement between a consumers yearly impairment balance are accounted through profit and loss in the statement of financial performance.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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 property, plant and equipment and Investment properties. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. In the event that a depreciating asset is nearing the end of its useful life, the availability of budget to replace the asset is considered. If the asset is not budgeted to be replaced, the useful life is extended by one year. Depreciation is adjusted going forward.

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 14.

Effective interest rate

The discounted mean term of the liabilities is approximately 27.2 years. We have therefore used a discount rate of 11.2% p.a.(10.3%), which is the nominal yield at a term of 27.2 years, taken from the South African government zero coupon bond yield curve as at 30 June 2021.

Allowance for doubtful debts

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

Accounting 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.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- Property intended for sale in the ordinary course of operations or in the process of construction or development from such sale;
- Property being constructed or developed on behalf of third parties;

Accounting Policies

1.5 Investment property (continued)

- Owner occupied property, including among other things property held for future use as owner occupied property, property held for future developments and subsequent use as owner occupied property, property occupied by employees such as housing personnel (whether or not the employees pay rent at market rates) and owner occupied property awaiting disposal;
- Property that is being constructed for future use as investment property;
- Property that is leased to another entity as investment property;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

KAI I GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	10-50 years
Plant and machinery	Straight-line	2-80 years
Furniture and fixtures	Straight-line	3-15 years
Transport assets	Straight-line	3-15 years
Office equipment	Straight-line	2-5 years
Computer Equipment	Straight-line	2-5 years
Infrastructure assets	Straight-line	5-60 years
Community assets	Straight-line	5-60 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

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

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

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

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

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

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.7 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.8 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

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.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

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.

Internally generated goodwill is not recognised as an intangible asset.

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

KAI I GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Intangible assets (continued)

Item	Depreciation method	Average useful life
Computer software	Straight-line	1-2 years

Intangible assets are derecognised:

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

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

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

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Accounting Policies

1.9 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

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

Derecognition

The municipality derecognises heritage asset 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 a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.10 Financial instruments

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

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

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

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

A financial asset is:

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

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

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

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Accounting Policies

1.10 Financial instruments (continued)

Initial recognition and measurement

A financial instrument is recognised, when the Municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added or deducted from the fair value, as appropriate on initial recognition.

Subsequent measurement – financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of Financial Performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of Financial Performance.

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

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of Financial Performance.

Subsequent measurement – financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of Financial Performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

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Accounting Policies

1.10 Financial instruments (continued)

Classification

The municipality 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

Cash and cash equivalents
Trade and other receivables from exchange transactions
Other receivables from non-exchange transactions
Other financial asset

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at fair value

The municipality 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

Bank overdraft
Consumer deposits
Other financial liabilities
Trade and other payables from exchange transactions

Category

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

1.11 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.

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Accounting Policies

1.11 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventory consist of raw materials and consumables, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for items which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

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

Redundant and slow moving inventory are identified and written down to their estimated net realisable values estimated by management. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventory arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

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

Water Inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.13 Value-Added-Tax (VAT)

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable, or payable to, the taxation authority is included in the Statement of Financial Position. The municipality accounts for Value Added Tax (VAT) on the cash/payment basis.

1.14 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

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Accounting Policies

1.14 Construction contracts and receivables (continued)

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The municipality assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by surveys of work done.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.15 Impairment of cash-generating assets

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

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

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

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

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

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

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

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

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Administrative/owner-occupied assets:

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets:

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to protect health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets:

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

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

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.16 Impairment of non-cash-generating assets

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

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

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

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

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

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Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

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Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets:

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to project health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets:

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

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

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.17 Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts are reflected on the Statement of Financial Position as a current liability. They represent unspent government grants, subsidies and contributions from the public. This liability always has to be cashbacked.

The following provisions are set for the creation and utilisation of this liability:

- The cash which backs up the liability is invested until it is utilised,
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.
- Whenever an asset is purchased out of the unspent conditional grant an amount equal to the cost price of the asset purchased is transferred from the unspent conditional grant into the Statement of Financial Performance as revenue.

1.18 Consumer deposits

Consumer deposits are disclosed as a current liability. Consumer deposits are levied in line with Council's policy to consumers when services are initially connected. When services are disconnected or terminated, the outstanding deposit is utilised against any arrear accounts the consumer might be liable for on that date. Any excess deposit after all debt is settled is refunded to the specific consumer.

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Accounting Policies

1.19 Employee benefits

The municipality provides short term benefits, long term benefits and retirement benefits for its employees.

Short-term employee benefits

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

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Bonus provisions

The municipality recognises the expected cost of bonuses as a provision only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

Post-employment benefits: Defined contribution plans

A defined contribution plan is a plan for Health Care Benefits under which the municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees

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

Post-employment benefits: Defined benefit plans

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

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

Long-service awards

The municipality has an obligation to provide Long-service awards to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

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Accounting Policies

1.20 Provisions and contingencies

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.

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..

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

Provisions are recognised when the municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

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

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

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

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Accounting Policies

1.20 Provisions and contingencies (continued)

Environmental Rehabilitation Provisions

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

1.21 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.

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Accounting Policies

1.22 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

Recognition and measurement

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

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

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

Service Charges – exchange revenue

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

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

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

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

Pre-paid Electricity – exchange revenue

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Sale of goods – exchange revenue

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

- the Municipality has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

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- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue Recognition of Unclaimed Deposits – exchange revenue

Unclaimed deposits older than three (3) years are recognised as revenue.

Rates and Taxes – non-exchange revenue

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

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the Municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions – non-exchange revenue

Donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Transfers and subsidies – non-exchange revenue

Unconditional Grants

Equitable share allocations are recognised in revenue at the start of the financial year.

Conditional Grants

Conditional grants recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Services Received In-kind – non-exchange revenue

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

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Accounting Policies

1.23 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Accounting Policies

1.23 Revenue from non-exchange transactions (continued)

Measurement

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

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

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

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

1.24 Investment income

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

1.25 Borrowing costs

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

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

Change in accounting policy due to amendments to GRAP 5 - Borrowing costs

The adoption of amendments to GRAP 5 - Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since 01/07/2017. The effective date of the amendments was 01/04/2020.

Borrowing costs, incurred both before and after the effective date of this amendment and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this Standard, is recognised in accordance with the municipality's previous accounting policy.

1.26 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

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Accounting Policies

1.27 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.28 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.29 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

1.30 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 01/07/2020 to 30/06/2021.

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

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Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.30 Budget information (continued)

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

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

Comparative information is not required.

1.31 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.32 Events after reporting date

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

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

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

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

1.33 Offsetting

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

1.34 Change on accounting policies estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

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

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

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Accounting Policies

1.35 Bad debts written off

Bad debts are written off in the year during which they are identified as irrecoverable, subject to the approval by the appropriate delegated authority. When a receivable is considered uncollectible, it is written off against the debt provision account. Subsequent recoveries of amounts previously written off are credited against the Statement of Financial Performance.

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Notes to the Annual Financial Statements for the year ended 30 June 2021

Figures in Rand	2021	2020
2. Financial instruments disclosure		
Categories of financial instruments		
2021		
Financial assets		
	At amortised cost	Total
Cash and cash equivalents	1,402,047	1,402,047
Receivables from exchange transactions	16,101,746	16,101,746
Receivables from non-exchange transactions	7,656,750	7,656,750
	25,160,543	25,160,543
Financial liabilities		
	At amortised cost	Total
Consumer deposits	2,107,055	2,107,055
Other financial liabilities	12,790,014	12,790,014
Payables from exchange transactions	553,090,065	553,090,065
	567,987,134	567,987,134
2020		
Financial assets		
	At amortised cost	Total
Cash and cash equivalents	320,917	320,917
Receivables from exchange transactions	13,981,116	13,981,116
Receivables from non-exchange transactions	3,878,111	3,878,111
	18,180,144	18,180,144
Financial liabilities		
	At amortised cost	Total
Consumer deposits	1,997,741	1,997,741
Other financial liabilities	11,746,462	11,746,462
Payables from exchange transactions	442,559,475	442,559,475
	456,303,678	456,303,678
3. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	690,701	(132,787)
Cash on hand	52,377	51,777
Short-term deposits	658,969	401,927
	1,402,047	320,917
The total amount of undrawn facilities available for future operating activities and commitments	1,402,047	320,917

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3. Cash and cash equivalents (continued)

Refer to note 47 for prior period corrections made to cash and cash equivalents

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

Baa3	1,349,670	269,140
	1,349,670	269,140

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Current accounts						
ABSA Bank Limited: 4051 445 435	257,880	(238,845)	(543,799)	447,685	(355,568)	(543,799)
Standard Bank Limited: 0417 902 19	182,506	106,058	98,925	243,018	106,058	98,925
Short-term Investments						
ABSA Bank Limited: 9117 271 903	289,804	1,594	2,850	289,804	1,594	2,850
First National Bank: 6200 698 309 4	1,681	1,676	1,667	1,681	1,676	1,667
Standard Bank Limited: 0486 432 700 02	1,941	21,813	18,639	1,941	21,813	18,639
Standard Bank Limited: 0489 042 950 04	59,930	59,930	59,930	59,930	59,930	59,930
Stanlib: 1533 550 21	305,624	316,923	319,237	305,624	316,923	319,237
Total	1,099,365	269,149	(42,551)	1,349,683	152,426	(42,551)

4. Inventories

Consumable stores	397,130	689,863
Water for distribution	95,833	81,453
	492,963	771,316

Water inventory relates to water under the control of the municipality. The cost of sale per kiloliter increased from R1.32 p/kl in 2020 to R1.66 p/kl in 2021 representing an increase in cost of sale of 17%.

All inventory for the current year are carried at the lower of cost or the net realisable value.

None of the inventories were pledged as security for liabilities.

Refer to note 47 for prior period corrections made to Inventory.

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5. Receivables from exchange transactions		
Consumer debtors - Electricity	5,750,359	6,394,451
Consumer debtors - Water	1,250,369	3,558,192
Consumer debtors - Sewerage	737,775	2,100,488
Consumer debtors - Refuse	450,894	1,361,548
Consumer debtors - Sundry	356,761	396,600
Consumer debtors - Property rentals	34,931	169,837
	8,581,089	13,981,116

There are no trade and other receivables from exchange transactions pledged as security for overdraft facilities.

Refer to note 47 for prior period corrections made to trade and other receivables

Fair value of trade and other receivables

Trade and other receivables	8,581,089	13,981,116
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The carrying amount of trade and other receivables are denominated in the following currencies:

Rand	8,581,089	13,981,116
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Annual Financial Statements for the year ended 30 June 2021

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Figures in Rand	2021	2020
6. Receivables from non-exchange transactions		
Consumer debtors - Property rates	7,520,657	3,878,111
Arrangements	136,093	13,887,826
	7,656,750	17,765,937
Non-current assets	136,093	13,887,826
Current assets	7,520,657	3,878,111
	7,656,750	17,765,937

Receivables from non-exchange transactions pledged as security

There are no receivables from non-exchange transactions pledged as security for overdraft facilities.

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	7,656,750	17,765,937
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The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

Rand	7,656,750	17,765,937
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Refer to note 47 for prior period corrections made to receivables from non-exchange transactions.

7. Consumer debtors disclosure

Gross balances

Property rates	70,065,101	59,637,363
Electricity	27,877,735	23,710,441
Water	69,551,285	58,561,016
Sewerage	32,730,019	27,620,420
Refuse	32,560,358	27,790,077
Sundry debtors	4,451,658	3,434,460
Property rentals	2,500,082	3,776,003
Arrangements	10,882,153	13,887,826
	250,618,391	218,417,606

Less: Allowance for impairment

Property rates	(62,544,444)	(55,759,252)
Electricity	(22,127,376)	(17,315,990)
Water	(68,300,916)	(55,002,824)
Sewerage	(31,992,244)	(25,519,932)
Refuse	(32,109,464)	(26,428,529)
Sundry debtors	(4,094,897)	(3,037,860)
Property rentals	(2,465,151)	(3,606,166)
Arrangements	(10,746,060)	-
	(234,380,552)	(186,670,553)

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Figures in Rand	2021	2020
7. Consumer debtors disclosure (continued)		
Net balance		
Property rates	7,520,657	3,878,111
Electricity	5,750,359	6,394,451
Water	1,250,369	3,558,192
Sewerage	737,775	2,100,488
Refuse	450,894	1,361,548
Sundry debtors	356,761	396,600
Property rentals	34,931	169,837
Arrangements	136,093	13,887,826
	16,237,839	31,747,053
Included in above is receivables from exchange transactions		
Electricity	5,750,359	6,394,451
Water	1,250,369	3,558,192
Sewerage	737,775	2,100,488
Refuse	450,894	1,361,548
Sundry debtors	356,761	396,600
Property rentals	34,931	169,837
	8,581,089	13,981,116
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Property rates	7,520,657	3,878,111
Arrangements	136,093	13,887,826
	7,656,750	17,765,937
Net balance	16,237,839	31,747,053
Property rates		
Current (0 -30 days)	830,638	643,611
31 - 60 days	586,038	1,168,329
61 - 90 days	547,196	930,689
91 - 120 days	527,527	909,046
121 - 150 days	532,075	847,907
151 - 180 days	507,852	825,271
181+ days	66,533,775	54,312,510
Less: Allowance for impairment	(62,544,444)	(55,759,252)
	7,520,656	3,878,112
Electricity		
Current (0 -30 days)	3,995,085	-
31 - 60 days	1,325,146	3,855,876
61 - 90 days	1,160,653	1,293,619
91 - 120 days	1,247,246	1,356,676
121 - 150 days	565,599	1,077,492
151 - 180 days	451,341	487,235
181+ days	19,132,664	15,639,542
Less: Allowance for impairment	(22,127,376)	(17,315,990)
	5,750,358	6,394,451

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7. Consumer debtors disclosure (continued)		
Water		
Current (0 -30 days)	1,664,463	-
31 - 60 days	1,121,833	2,025,653
61 - 90 days	1,217,580	1,476,497
91 - 120 days	1,027,372	1,319,226
121 - 150 days	952,559	1,330,088
151 - 180 days	1,212,083	1,175,716
181+ days	62,355,395	51,233,835
Less: Allowance for impairment	(68,300,916)	(55,002,824)
	1,250,369	3,558,192
Sewerage		
Current (0 -30 days)	807,944	-
31 - 60 days	558,544	1,061,256
61 - 90 days	508,827	723,450
91 - 120 days	489,177	650,044
121 - 150 days	475,490	629,406
151 - 180 days	466,613	574,564
181+ days	29,423,423	23,981,701
Less: Allowance for impairment	(31,992,244)	(25,519,932)
	737,775	2,100,488
Refuse		
Current (0 -30 days)	621,073	-
31 - 60 days	449,208	830,543
61 - 90 days	426,461	634,816
91 - 120 days	417,749	593,750
121 - 150 days	405,312	570,268
151 - 180 days	406,445	536,384
181 - 365 days	29,834,111	24,624,315
Less: Allowance for impairment	(32,109,464)	(26,428,529)
	450,895	1,361,547
Arrangements		
Current (0 -30 days)	192,710	-
31 - 60 days	198,642	-
61 - 90 days	201,079	-
91 - 120 days	197,849	-
121 - 150 days	194,744	-
151 - 180 days	185,185	-
181+ days	9,711,945	-
Less: Allowance for impairment	(10,746,060)	-
	136,094	-
Property rentals		
Current (0 -30 days)	78,604	-
31 - 60 days	77,664	53,891
61 - 90 days	77,060	37,866
91 - 120 days	76,240	36,731
121 - 150 days	72,289	37,970
151 - 180 days	70,796	34,817
181+ days	2,047,429	3,574,727
Less: Allowance for impairment	(2,465,151)	(3,606,166)
	34,931	169,837

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7. Consumer debtors disclosure (continued)		
Sundry Debtors		
Current (0 -30 days)	39,090	-
31 - 60 days	28,425	54,190
61 - 90 days	25,181	45,446
91 - 120 days	25,152	43,645
121 - 150 days	25,474	43,128
151 - 180 days	24,458	42,750
181+ days	4,283,878	3,205,301
Less: Allowance for impairment	(4,094,897)	(3,037,860)
	356,761	396,600
Total		
Current (0 -30 days)	8,229,607	643,611
31 - 60 days	4,345,499	9,049,738
61 - 90 days	4,164,037	5,142,384
91 - 120 days	4,008,312	4,909,118
121 - 150 days	3,223,542	4,536,259
151 - 180 days	3,324,773	3,676,738
181 - 365 days	223,322,621	176,571,931
Less: Allowance for impairment	(234,380,551)	(186,670,553)
	16,237,839	17,859,227
Reconciliation of allowance for impairment		
Balance at beginning of the year	(186,670,553)	(122,075,848)
Contributions to allowance	(47,709,998)	(64,594,705)
	(234,380,551)	(186,670,553)
Collection rate of consumer receivables		
Property rates	55 %	58 %
Electricity	80 %	85 %
Water	41 %	48 %
Sewerage	44 %	42 %
Refuse	37 %	37 %
Overall collection rate	51 %	54 %
Statutory receivables general information		
Transaction(s) arising from statute		
8. VAT receivable		
South African Revenue Service	27,256,796	17,615,814
	27,256,796	17,615,814

Only once payment is received from debtors or payments made to suppliers the VAT is paid over to or claimed from the South African Revenue Service (SARS).

VAT is (payable)/receivable on the cash basis.

Refer to note 47 for prior period corrections made to vat receivable.

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9. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Areas of land of historic specific significance	3	-	3	3	-	3
Conservation area	1	-	1	1	-	1
Municipal jewellery	112,950	-	112,950	112,950	-	112,950
Works of art and collections	1	-	1	1	-	1
Total	112,955	-	112,955	112,955	-	112,955

Reconciliation of heritage assets 2021

	Opening balance	Total
Municipal jewellery	112,950	112,950
Areas of land of historic specific significance	3	3
Works of art and collections	1	1
Conservation area	1	1
	112,955	112,955

Reconciliation of heritage assets 2020

	Opening balance	Total
Municipal jewellery	112,950	112,950
Areas of land of historic specific significance	3	3
Works of art and collections	1	1
Conservation area	1	1
	112,955	112,955

Pledged as security

There are no Heritage assets pledged as security for overdraft facilities.

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10. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	647,767	(581,228)	66,539	647,767	(544,478)	103,289
Total	647,767	(581,228)	66,539	647,767	(544,478)	103,289

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Impairment reversal	Total
Computer software	103,289	(49,053)	12,303	66,539
	103,289	(49,053)	12,303	66,539

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Impairment loss	Impairment reversal	Total
Computer software	63,434	90,335	(40,321)	(12,466)	2,307	103,289
	63,434	90,335	(40,321)	(12,466)	2,307	103,289

Pledged as security

There are no Intangible assets pledged as security for overdraft facilities.

Other information

Refer to note 47 for prior period corrections made to Intangible assets.

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11. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	392,525,673	(203,705,030)	188,820,643	388,317,179	(203,705,030)	184,612,149
Total	392,525,673	(203,705,030)	188,820,643	388,317,179	(203,705,030)	184,612,149

Reconciliation of investment property - 2021

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	184,612,149	(5,575,295)	9,783,789	188,820,643
	184,612,149	(5,575,295)	9,783,789	188,820,643

Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	184,156,567	(2,675,080)	3,130,662	184,612,149
	184,156,567	(2,675,080)	3,130,662	184,612,149

Fair value of investment properties	188,820,643	184,612,149
	188,820,643	184,612,149

Pledged as security

There are no Investment properties pledged as security.

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

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11. Investment property (continued)

Details of valuation

When valuing real estate, the Valuer must concern himself with placing a value on the rights attaching to the property and the benefits of occupation and/or ownership thereof. In the valuation process, cognisance must be taken of the purpose for which the property is capable of being used and the future income or amenities, which it is likely to produce. At the same time, however, the property must be compared with available substitutes and/or alternative investment opportunities. The object of the valuation process, therefore, is to arrive at a figure which will reflect the point of equilibrium between supply and effective demand at the time of valuing the property.

When valuing real estate, the Valuer must concern himself with placing a value on the rights attaching to the property and the benefits of occupation and/or ownership thereof. In the valuation process, cognisance must be taken of the purpose for which the property is capable of being used and the future income or amenities, which it is likely to produce. At the same time, however, the property must be compared with available substitutes and/or alternative investment opportunities. The object of the valuation process, therefore, is to arrive at a figure which will reflect the point of equilibrium between supply and effective demand at the time of valuing the property.

Investment properties comprise residential and commercial properties that are rented out, as well as vacant land held for a currently undetermined use.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

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11. Investment property (continued)

The municipality applies the Fair Value model to value and measure investment properties.

The fair value of investment property was calculated as follows:

2021

As recommend by GRAP 16.45, an entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by a valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

All valuations were done as per the available report of the professional valuator.

All SG parcels were considered, and after ownership was tested and applied, the rate per square meter was assigned to determine the 2021 fair value for each property.

All investment property which includes a building owned by the municipality, the actual cost of the building was considered and a CRC factor was applied to determine the fair value in 2021.

2020

As the house price indicated is available and published, the municipality opted to rely on the FNB economic report on house prices.

This report is performed by an economist with qualified statistitions. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

PropertyBarometerOctober - (fnb.co.za)

The HPI (house price indices) for 2020 had a positive growth of 1.7%.

2019

As the house price indicator is available and published, the municipality opted to rely on the FNB economic report on house prices.

This report is performed by an economist with qualified statistitions. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

PropertyBarometerOctober - (fnb.co.za)

The HPI (house price indices) for 2019 had a positive growth of 3.5%.

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11. Investment property (continued) 2008 - 2018

As the house price indicator is available and published, the municipality opted to rely on the FNB Economic report on house prices.

This report is performed by an Economist with qualified statistics. The information can therefore be deemed reliable as the necessary qualifications and experience is presented to achieve a fair value (market) growth rate.

The fair value for each investment property was adjusted according to the factor as per the FNB barometer in the link below:

PropertyBarometerOctober - (fnb.co.za)

Where required the following percentages were applied per year to determine the required adjustments over the said period if required:

2008 (-2.9%)
2009 (-1.8%)
2010 (5.5%)
2011 (2.8%)
2012 (4.7%)
2013 (3.6%)
2014 (8.3%)
2015 (6.4%)
2016 (5.8%)
2017 (4.1%)
2018 (3.8%)

Impairment

In 2018 properties where control was deemed to be lost in terms of iGRAP 18 were impaired.

The municipality inspected each property to determine if the property is vacant as per the initial assumption of the valuator or is now occupied. In total R 203,705,030 (2020: R203,705,030) properties were impaired as control could not be confirmed. The fact that control is lost does not constitute a disposal of the property, as the correct legal process was not followed.

Until the legal process has been formalised, these properties will be accounted for but impaired.

No fair value adjustment was applied to impaired properties.

Total impairment valuation is R 203,705,030 (2020: R203,705,030)

Properties where the community is illegally occupying the property was then impaired in line with the standard as per the extraction of iGRAP18 below:

IGRAP 18 indicates that land is recognised based on control.

Control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land.

IGRAP 18 outlines the following:

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11. Investment property (continued)

Legal ownership

.18 Legal ownership refers to the owner being the registered title deed holder of the land. Legal ownership also arises where the land is transferred from the legal owner to another entity or party, through legislation or similar means. For example, when a change in ownership is recorded by way of an endorsement on the existing title deed, rather than a formal transfer or change in ownership reflected on the title deed. References to legal owner or legal ownership in this Interpretation include both situations.

.19 In the absence of an entity demonstrating that it has granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct access to land, and to restrict or deny the access of others to land. The legal owner is thus able to demonstrate both criteria in paragraph

.16 The right to direct access to land, and to restrict or deny the access of others to land .20 In assessing whether the rights that have been granted to an entity in a binding arrangement result in control of the land, it is important to distinguish between substantive rights and protective rights. Only substantive rights are considered in assessing whether an entity controls land.

.21 Substantive rights grant the entity the ability to make decisions about, and benefit from, certain rights and assets, such as how to use the land to provide services, and when to dispose of the land, to whom and at what price. For the right to be substantive, the holder of the right must have the present ability to exercise that right.

The accounting for land is based on the rights that an entity is presently able to exercise in terms of its ownership of the land or other rights granted in terms of a binding arrangement.

Derecognise

The invasion of land may be an illegal act. Although the illegal occupants may have certain rights, these rights do not supersede or eliminate the entity's currently exercisable rights in terms of its legal ownership of the land. Land ownership means that the entity has substantive rights to direct or restrict access to the economic benefits or service associated with the land. The fact that the entity may not execute these rights because of political, socio-economic or other factors, is irrelevant in establishing whether control exists for accounting purposes. An entity would need to assess if its ownership rights are subsequently changed through another legal action, such as the outcome of a court process such as the outcome of court case, court order, etc. The illegal occupation of land may indicate that an impairment loss should be recognised. An entity should apply the principles in either GRAP 21 or GRAP 26 when these occupations occur (and throughout their duration).

Amounts recognised in surplus and deficit for the year.

Fair value adjustments	9,783,789	3,130,662
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Refer to note 47 for prior period corrections made to investment property.

KAI !GARIB LOCAL MUNICIPALITY

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12. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Immovable assets						
Buildings	49,890,786	(21,330,183)	28,560,603	48,037,364	(19,618,074)	28,419,290
Community assets	70,805,401	(30,945,561)	39,859,840	62,144,933	(28,235,620)	33,909,313
Electrical infrastructure	160,089,445	(56,087,378)	104,002,067	156,579,271	(50,993,437)	105,585,834
Land	99,851,255	-	99,851,255	99,851,255	-	99,851,255
Landfill sites	24,723,532	(8,315,195)	16,408,337	24,198,922	(6,623,911)	17,575,011
Roads infrastructure	215,295,411	(92,454,423)	122,840,988	214,534,234	(84,084,501)	130,449,733
Solid waste infrastructure	84,749,502	(19,012,146)	65,737,356	73,988,385	(16,859,131)	57,129,254
Water supply infrastructure	369,888,341	(99,300,136)	270,588,205	361,974,763	(87,839,795)	274,134,968
Movable assets						
Computer equipment	9,018,125	(7,190,796)	1,827,329	8,002,539	(6,031,500)	1,971,039
Furniture and office equipment	6,856,706	(5,206,750)	1,649,956	6,760,646	(4,569,396)	2,191,250
Transport assets	14,661,612	(14,461,596)	200,016	14,611,454	(14,385,300)	226,154
Machinery and equipment	2,234,760	(1,697,862)	536,898	1,958,846	(1,563,598)	395,248
Total	1,108,064,876	(356,002,026)	752,062,850	1,072,642,612	(320,804,263)	751,838,349

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12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	WIP Additions	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Immovable assets								
Buildings	28,419,290	51,410	1,802,012	-	(1,601,490)	(117,130)	6,511	28,560,603
Community assets	33,909,313	8,937	8,651,530	-	(2,248,034)	(505,916)	44,010	39,859,840
Electrical infrastructure	105,585,834	172,150	3,338,025	-	(4,977,049)	(129,076)	12,183	104,002,067
Land	99,851,255	-	-	-	-	-	-	99,851,255
Landfill sites	17,575,011	-	-	524,611	(1,691,285)	-	-	16,408,337
Roads infrastructure	130,449,733	-	761,177	-	(7,150,074)	(1,622,001)	402,153	122,840,988
Solid waste infrastructure	57,129,254	-	10,761,116	-	(1,771,073)	(383,519)	1,578	65,737,356
Water supply infrastructure	274,134,968	628,935	7,284,643	-	(9,184,834)	(2,318,032)	42,525	270,588,205
Movable assets								
Computer equipment	1,971,039	1,015,586	-	-	(1,121,362)	(137,632)	99,698	1,827,329
Furniture and office equipment	2,191,250	96,060	-	-	(732,476)	(15,687)	110,809	1,649,956
Machinery and equipment	395,248	275,915	-	-	(133,222)	(17,396)	16,353	536,898
Transport assets	226,154	50,158	-	-	(92,017)	-	15,721	200,016
	751,838,349	2,299,151	32,598,503	524,611	(30,702,916)	(5,246,389)	751,541	752,062,850

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12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP Additions	Work in progress	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Immovable assets									
Buildings	28,349,174	75,269	1,840,063	-	-	(1,547,740)	(299,339)	1,863	28,419,290
Community assets	37,282,334	3,121	-	-	-	(2,217,603)	(1,158,608)	69	33,909,313
Electrical infrastructure	100,419,410	391,350	9,881,222	-	-	(4,828,134)	(278,136)	122	105,585,834
Land	99,851,255	-	-	-	-	-	-	-	99,851,255
Landfill sites	18,508,196	-	-	-	717,264	(1,650,449)	-	-	17,575,011
Roads infrastructure	140,864,489	3,981	-	-	-	(7,088,713)	(3,336,621)	6,597	130,449,733
Solid waste infrastructure	53,363,695	-	-	5,555,154	-	(1,491,024)	(298,575)	4	57,129,254
Water supply infrastructure	253,105,742	242,901	4,042,561	27,550,842	-	(8,669,576)	(2,155,918)	18,416	274,134,968
Movable assets									
Computer equipment	1,515,927	1,452,465	-	-	-	(909,051)	(242,074)	153,772	1,971,039
Furniture and office equipment	2,806,497	264,459	-	-	-	(840,002)	(89,189)	49,485	2,191,250
Machinery and equipment	181,226	346,795	-	-	-	(137,816)	(8,682)	13,725	395,248
Transport assets	700,681	-	-	-	-	(482,474)	-	7,947	226,154
	736,948,626	2,780,341	15,763,846	33,105,996	717,264	(29,862,582)	(7,867,142)	252,000	751,838,349

Pledged as security

There are no Property, plant and equipment pledged as security for overdraft facilities.

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12. Property, plant and equipment (continued)		
Capitalised expenditure (excluding borrowing costs)		
Buildings	1,853,422	1,915,332
Machinery and equipment	275,915	346,795
Furniture and office equipment	96,060	264,459
Transport assets	50,158	-
Computer Equipment	1,015,586	1,452,465
Community assets	8,660,467	3,121
Electrical infrastructure	3,510,175	10,272,572
Roads infrastructure	761,177	3,981
Solid waste infrastructure	10,761,116	-
Water supply infrastructure	7,913,578	4,285,462
	34,897,654	18,544,187
Property, plant and equipment in the process of being constructed or developed		
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Infrastructure	761,177	14,595,626
Community	8,651,531	-
	9,412,708	14,595,626
Reconciliation of Work-in-Progress 2021		
	Included within Infrastructure	Total
Opening balance	14,595,626	14,595,626
Additions/capital expenditure	34,647,913	34,647,913
Disposal of Work-in-progress (Meters)	(1,659,846)	(1,659,846)
Transferred to completed items	(38,170,985)	(38,170,985)
	9,412,708	9,412,708
Reconciliation of Work-in-Progress 2020		
	Included within Infrastructure	Total
Opening balance	33,106,004	33,106,004
Additions/capital expenditure	18,397,493	18,397,493
Disposal of Work-in-progress (Meters)	(2,633,656)	(2,633,656)
Transferred to completed items	(34,274,215)	(34,274,215)
	14,595,626	14,595,626

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12. Property, plant and equipment (continued)		
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		
General expenses	13,221,467	2,185,434
	13,221,467	2,185,434
Refer to note 47 for prior period corrections made to Property, plant and equipment.		
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.		
13. Consumer deposits		
Electricity	1,371,600	1,474,521
Water	735,455	523,220
	2,107,055	1,997,741
Guarantees held in lieu of electricity and water deposits.		
No interest accrues on consumer deposits.		
14. Employee benefit obligations		
Current liabilities		
Long service awards	1,521,779	2,133,710
Post-Retirement Medical Plan Obligation	810,975	790,000
	2,332,754	2,923,710
Non-current liabilities		
Long service awards	5,842,770	3,589,316
Post-Retirement Medical Plan Obligation	15,963,148	16,079,000
	21,805,918	19,668,316
Total liabilities		
Long service awards	7,364,549	5,723,026
Post-Retirement Medical Plan Obligation	16,774,123	16,869,000
	24,138,672	22,592,026

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14. Employee benefit obligations (continued)

Defined benefit plan

The GRAP 25 Statement sets out the measurement recognition and disclosure requirements in accounting for postretirement "defined benefit" plans.

GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates).

Post retirement medical aid plan

The Municipality offers in-service members and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In estimating the liability for post-employment health care benefits a number of assumptions are required. GRAP 25 Statement places the responsibility on management to set these assumptions as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

Post-employment medical aid subsidy policy

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions including dependants who are offered continued membership of the medical scheme on the death of the primary member.

The liability generated by the obligation to subsidise medical contribution in retirement, for qualifying retirees and their eligible dependants, is classified as a defined benefit liability in terms of GRAP25.

Eligible in-service members will receive a post-employment subsidy of 70% of the contribution payable should they be a member of a medical scheme at retirement.

Continuation members and their eligible dependants receive a 70% subsidy.

Upon a member's death-in-service, surviving dependants are entitled to commence receipt of the same post-employment subsidy. Upon a member's death-in-retirement, surviving dependants are entitled to continue to receive the same subsidy.

Valuation method

The South African Institute of Chartered Accountants (SAICA) revised the Statement of Generally Accepted Accounting Practice, then known as AC116, in 2001.

GRAP25 states that the current service cost should be recognised as a periodic expense in operating profit and should be matched to the benefit received during the working life of the employee.

We have applied the Projected Unit Credit Method to determine the liabilities. The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. However, the actual experience of the beneficiaries of Kai !Garib will vary from these assumptions. These variations emerge at each valuation as actuarial gains or losses.

The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA, and is consistent with the requirements of GRAP25.

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14. Employee benefit obligations (continued)

The values calculated in the comprehensive report and the conclusions reached are dependent on the accuracy and quality of the data provided by the management of the municipality.

Valuation basis

Discount rate

GRAP25 requires that the discount rate be set with regards to the market yield on government bonds at the reporting date. The discount rate and inflation assumptions are based on government zero coupon bond yield curves as at 30 June 2021, at the appropriate term.

The discounted mean term of the liabilities is approximately 27.2 years. We have therefore used a discount rate of 11.2% p.a., which is the nominal yield at a term of 27.2 years, taken from the South African government zero coupon bond yield curve as at 30 June 2021.

In the previous valuation as at 30 June 2020, a discount rate of 10.3% p.a. was used.

Inflation rate

The long-term inflation rate implied from the government bond yields is measured as the real difference between

- the nominal yield of the South African government zero coupon bond yield curve (11.3% per annum) at a term of 27.2 years; and
- the real yield of the South African government zero coupon bond yield curve (4.3% per annum) at the same duration

Our best estimate of inflation as at 30 June 2021 is therefore assumed to be 6.1% p.a. $((1,113 - 0.005) \div 1,043 - 1)$.

In the previous valuation as at 30 June 2020, the inflation assumption was 4.9% p.a.

Medical Inflation rate

We have assumed that future medical inflation would exceed the rate of general inflation by 1.5% per annum. It has therefore been assumed that medical inflation would be equal to 7.6% per annum.

In the previous valuation the medical inflation rate was assumed to be 6.4% p.a.

Demographic Assumptions

The following assumptions were made for the valuation:

Assumption	Active employees	Continuation pensioners
Normal retirement age	65	N/a
Assumed retirement age	62	N/a
age differences between spouses	4 years	Data provided in the report
Proportion married	60%	Data provided in the report
Mortality basis	SA85-90	PA (90)-1 with a 1% mortality improvement p.a. from 2010

These assumptions remain unchanged from the previous valuation.

We have assumed an average retirement age of 62 in order to allow for early retirement.

We assumed that 60% of employees would be married at retirement. We assumed an age difference of 4 years (males being 4 years older than females). No employees were assumed to have dependent children when they retire. For pensioners, we have used the current marital status and exact age of the spouse.

We used the same withdrawal rates assumption used by the previous actuary to be consistent between valuations:

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14. Employee benefit obligations (continued)

Age	Withdrawal rate (Male)	Withdrawal rate (Female)
20	9.00%	9.00%
25	8.00%	8.00%
30	6.00%	6.00%
35	5.00%	5.00%
40	5.00%	5.00%
45	4.00%	4.00%
50	3.00%	3.00%
55+	0.00%	0.00%

Valuation data

The table below illustrates the average total monthly medical contribution subsidies payable to continuation pensioners and active employees. The employees' contributions are those payable to Page 5 of 13 the employees and their spouses in retirement, at the current rates. The contributions include risk and the medical savings account.

Average age:

Active employees	40.0	41.0
Continuation pensioners	71.0	70.0

Average employer monthly contribution:

Active employees	3,687	3,604
Continuation pensioners	3,772	3,592

The table below summarises the profile of Kai !Garib's active employees who have been used for the actuarial valuation:

Age band	Number of active employees	Average past service (years)
< 24	1	2.91
25 - 29	3	3.86
30 - 34	20	7.08
35 - 39	31	8.52
40 - 44	10	8.58
45 - 49	7	9.37
50 - 54	6	15.25
55 - 59	7	12.06
60 - 64	2	12.62
> 65	-	-
Total	87	8.88

The table below summarises the profile of the continuation pensioners subsidised by Kai ! Garib as at 30 June 2021:

Age band	Number of continuation pensioners
< 50	-
50 - 64	2
65 - 74	10
> 75	6
Total	18

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14. Employee benefit obligations (continued)

The following variables in the current valuation data, supplied by Kai !Garib, were analysed and checked against the previous valuation data:

- Dates of Births;
- Dates of Engagements;
- Salaries; and
- Movements in the number of participants.

Medical contribution table

Medical scheme	Medical option	Lower limit of salary band	Principal member	Adult dependant	Child dependant
Key Health	Equilibrium	-	2,263	1,398	695
	Silver	-	3,904	2,100	814
	Gold	-	5,714	3,864	1,121
	Platinum	-	9,200	6,450	1,941
Bonitas	BonCap	-	1,212	1,212	571
		8,521	1,434	1,434	659
		14,591	2,311	2,311	874
		19,931	2,837	2,837	1,076
	Essential	-	1,962	1,501	575
	FitSelect	-	2,152	1,668	645
	Primary	-	2,537	1,985	807
	BonSave	-	2,847	2,205	852
	Standard	-	4,044	3,506	1,186
	BonComp	-	7,715	7,276	1,570
LA Health	LA Key Plus	-	1,197	1,045	438
		9,701	1,263	1,104	461
		13,401	1,901	1,692	710
	LA Focus	-	2,501	1,617	736
	LA Active	-	3,022	2,031	1,002
	LA Comp	-	7,791	5,949	1,889
Samwumed	Option A	-	1,218	1,218	429
		3,901	1,440	1,440	505
		6,301	1,832	1,832	639
		9,701	2,012	2,012	710
	Option B	-	2,020	2,020	708
		5,801	2,445	2,445	858
		8,001	2,504	2,504	880
		14,801	2,769	2,769	911

Sensitivity of results to medical inflation

The table below shows the impact of a change in the Medical Inflation compared to the best estimate.

Medical Inflation Increase Sensitivity	1% decrease	Valuation basis	1% increase
Employer's accrued liability	14,789,238	16,774,124	19,190,786
Employer's current service cost	602,160	733,938	903,070
Employer's interest costs	1,648,997	1,878,283	2,157,892

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14. Employee benefit obligations (continued)

As per the table above, a 1% increase in the medical inflation rate results in a 14% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in a 12% decrease in the accrued liability.

Sensitivity of results to mortality changes

The table below shows the impact of a decrease in the mortality experience of the employers compared to the best estimate.

Mortality sensitivity	Valuation basis PA(90)-1	Sensitivity PA(90)-2
Employer's accrued liability	16,774,124	17,265,406
Employer's current service cost	733,938	752,319
Employer's interest costs	1,878,283	1,934,325

PA(90) -2(with a two-year age adjustment) means that, to each beneficiary we assigned a mortality rate of an individual two years younger than that beneficiary. The resulting mortality implies that the individual lives longer than expected in the valuation basis. As per the above table, the adjustment would result in a 3% increase in the liability.

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

The valuation results as at 30 June 2021 in compliance with GRAP25 are set out below. The previous accrued liability, current accrued liability, and the projected accrued liability are shown in the tables that follow.

Description

Active employees	6,465,678	7,564,000
Continuation pensioners	10,308,446	9,305,000
Employer's accrued liability	16,774,124	16,869,000

The funding level is the excess of the value of Plan Assets in excess of the accrued liability. We are not aware of any assets set aside for post-employment medical subsidies' funding that qualify as plan assets in terms of the requirements of GRAP25. As such we have ascribed a nil value to the fair value of plan assets. The funding levels for the current and previous valuation periods are shown below:

Description

A: Employer's accrued liability	16,774,124	16,869,000
B: Plan assets	-	-
Funded status at valuation date = B - A	16,774,124	16,869,000

Carrying value

Post-Employment Medical Aid

Present value of the defined benefit obligation-wholly unfunded	16,774,123	16,869,000
	16,774,123	16,869,000
Non-current liabilities	810,975	790,000
Current liabilities	15,963,148	16,079,000
	16,774,123	16,869,000

Refer to note 47 for prior period corrections made to post-retirement medical plan obligation

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14. Employee benefit obligations (continued)		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	16,869,000	17,772,226
Benefits paid	(810,975)	(716,356)
Net expense recognised in the statement of financial performance	716,099	(186,870)
	16,774,124	16,869,000
Net expense recognised in the statement of financial performance		
Current service cost	847,453	651,365
Interest cost	1,721,077	1,638,640
Actuarial (gains) losses	(1,852,431)	(2,476,875)
	716,099	(186,870)
Calculation of actuarial gains and losses		
Increase in net discount rate	843,018	(3,550,000)
Subsidy increases higher/(lower) than assumed	59,346	308,000
Changes to membership profile different from assumed	(1,781,877)	706,162
Actual benefits vested, greater than expected	(972,918)	58,963
	(1,852,431)	(2,476,875)

Long service awards

A comprehensive report containing the results of the liability valuation as at 30 June 2021 is available at the municipality for inspection. The results background methodology and assumptions are explained in the report.

The liability as at 30 June 2020 was calculated using data, economic and demographic assumptions relevant to the period.

Long service awards policy

The municipality provides long service bonuses in line with its employment policy. The benefits are bonuses for every 5 years of completed service from 10 years to 45 years. The bonuses awarded to employees are described below:

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14. Employee benefit obligations (continued)

Completed service (Years)	Long service bonus awards	Cash bonus R
10	10 days accumulative leave + 3% of annual salary	$(10/250^* + 3/100) \times \text{Annual Salary}$
15	10 days accumulative leave + 4% of annual salary	$(10/250^* + 4/100) \times \text{Annual Salary}$
20	15 days accumulative leave + 5% of annual salary	$(15/250^* + 5/100) \times \text{Annual Salary}$
25, 30, 35, 40, and 45	15 days accumulative leave + 6% of annual salary	$(15/250^* + 6/100) \times \text{Annual Salary}$

It is assumed that there are 250 work days per year. This implies that one day of annual leave is worth 1/250 of the employee's annual salary.

Valuation method

The calculations were done using the 'Projected Unit Credit' method. This method is required by GRAP25.

The method projects the long service benefits, that the current workforce that is eligible for, over time. The projection takes into account the future benefits that may be earned by the current up to the retirement date. The projection is based on current salary, expected salary increases, expected withdrawals, deaths and other relevant decrements. These amounts are discounted to take into account of the time value of money so that a Liability can be expressed as a present value in line with GRAP25.

The projection splits the liability between the 'past service liability' and 'future service liability'. The 'past service liability' refers to the liability of benefits attributed to service up to the valuation date. The 'future service liability' refers to the liability of benefits attributed to service expected after the valuation date. The 'current service cost' is the liability that is accrued in the one-year period after the valuation date.

Valuation basis

Discount rate

GRAP25 requires that the discount rate be set with regards to the market yield on government bonds at the reporting date. The discount rate and inflation assumptions are based on government zero coupon bond yield curves as at 30 June 2021, at the appropriate term.

The discounted mean term of the liabilities is approximately 9.3 years. We have therefore used a discount rate of 9.5% p.a., which is the nominal yield at a term of 9.3 years, taken from the South African government zero coupon bond yield curve as at 30 June 2021.

In the previous valuation as at 30 June 2020, a discount rate of 9.8% p.a. was used.

Inflation rate

The long-term inflation rate implied from the government bond yields is measured as the real difference between

- the nominal yield of the South African government zero coupon bond yield curve (9.5% per annum) at a term of 9.3 years; and
- the real yield of the South African government zero coupon bond yield curve (4.2% per annum) at the same duration.

Our best estimate of inflation as at 30 June 2021 is therefore assumed to be 4.6% p.a. $((1,095 - 0.005) \div 1,042 - 1)$.

In the previous valuation as at 30 June 2020, the inflation assumption was 4.2% p.a.

Promotional salary increases

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14. Employee benefit obligations (continued)

Escalation in the general level of salaries as a result of inflation and real salary increases. The general trend is for salaries to increase faster than the increase in inflation. We used a salary escalation rate of 6.6% per annum for future years, which includes real growth of approximately 1% per annum (i.e., an inflation rate of 4.6% has been assumed) and further 1% allowance for merit increases. Actual increases were known and used in the first year of projection.

In the calculations, we assume that the salary increases are given on 1 July of each year.

Withdrawals

The probability of withdrawal at 5-year intervals is illustrated in the following table: Expected rate of withdrawal Age Males and Females valuations:

Age	Withdrawal rate (Male)	Withdrawal rate (Female)
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55+	0%	0%

These assumptions are consistent with that used for the previous valuation.

Mortality

The following assumption were made on the mortality basis used for the valuation:

Assumption

Normal retirement age	65	65
Average retirement age	62	62
Mortality basis	SA85-90	SA85-90

An average retirement age of 62 was assumed for employees to take account of ill-health and early retirements. There are assumed to be no late retirements.

Valuation data

The valuation result is based on data received from Kai !Garib. The data provided by is summarised below:

Employee statistics

Number of employees	432	422
Average annual salary (R)	186,191*	200,584*
Average age (Years)	43.14	43.45
Average past service (Years)	8.07	8.61

*The average annual salary before any assumed increase as at 1 July 2020 and 1 July 2021 respectively.

The following variables in the current valuation data, supplied by Kai !Garib, were analysed and checked against the previous valuation data:

- Date of Births
- Dates of Engagements
- Salaries; and
- Movements in the number of participants

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14. Employee benefit obligations (continued)		
Valuation results		
The valuation results as at 30 June 2021 in compliance with GRAP25 are set out below. The valuation results for the previous financial year are also included.		
The funding level is the excess of the value of Plan Assets in excess of the accrued liability. The funding levels for the current and previous valuation periods are shown below:		
Refer to note 47 for prior period corrections made to long service awards		
Description		
A: Employer's accrued liability	7,364,548	5,723,025
B: Fair value of plan assets	-	-
Funded status at valuation date = B - A	7,364,548	5,723,025
The amounts recognised in the statement of financial position are as follows:		
The valuation results as at 30 June 2021 in compliance with GRAP25 are set out below. The previous accrued liability, current accrued liability, and the projected accrued liability are shown in the tables that follow.		
Carrying value		
Long service awards		
Present value of the defined benefit obligation-wholly unfunded	7,364,549	5,723,026
	7,364,549	5,723,026
Non-current liabilities	1,521,779	2,133,710
Current liabilities	5,842,770	3,589,316
	7,364,549	5,723,026
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	5,723,025	5,380,608
Benefits paid	(492,187)	(444,110)
Net expense recognised in the statement of financial performance	2,133,710	786,527
	7,364,548	5,723,025
Net expense recognised in the statement of financial performance		
Current service cost	699,543	711,600
Interest cost	569,067	484,735
Actuarial (gains) losses	865,100	(409,808)
	2,133,710	786,527
Calculation of actuarial gains and losses		
Discount rate changes	267,872	-
Staff changes	13,754	-
Salary changes	650,702	-
Miscellaneous	(67,228)	(409,808)
	865,100	(409,808)

KAI !GARIB LOCAL MUNICIPALITY

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Figures in Rand	2021	2020
15. Finance lease obligation		
Minimum lease payments due		
- within one year	(2,879,851)	(2,493,405)
- in second to fifth year inclusive	(9,096,376)	(11,976,227)
	(11,976,227)	(14,469,632)
less: future finance charges	10,273,309	12,805,535
Present value of minimum lease payments	(1,702,918)	(1,664,097)
 Non-current liabilities	 833,016	 1,337,914
Current liabilities	869,902	326,183
	1,702,918	1,664,097

Market risk

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

Rand	1,702,918	1,664,097
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Refer to note 47 for prior period corrections made to finance lease obligation

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16. Other financial liabilities		
At amortised cost		
Development Bank of Southern Africa Ltd	2,049,796	1,884,454
Loan number: 100498/1 Product number: 61000080		
The loan is secured and is being repaid over a period of 20 years in equal installments of R130,186.67 every 6 months with a fixed interest rate of 12.100% per annum.		
Redemption date: 30/06/2023.		
Development Bank of Southern Africa Ltd	9,608,528	8,806,314
Loan number: 103723/2 Product number: 61001016		
The loan is secured and is being repaid monthly over a period of 7 years in equal installments of R110,140.87 with a fixed interest rate of 6.750% per annum.		
Redemption date: 28/02/2019.		
Development Bank of Southern Africa Ltd	16,789	15,388
Loan Number: 103723/3 Product number: 61001017		
The loan is secured and is being repaid monthly over a period of 5 years in equal installments of R32,506.21 with a fixed interest rate of 6.750% per annum.		
Redemption date: 31/08/2015.		
Development Bank of Southern Africa Ltd	1,114,901	1,040,306
Loan number: 13702/101 Product number: 61003256		
The loan is secured and is being repaid over a period of 20 years in equal capital installments of R39,349.17 every 6 months with a semi-floating interest rate of 9.800% per annum.		
Redemption date: 30/06/2021.		
Total other financial liabilities	12,790,014	11,746,462
Non-current liabilities		
At amortised cost	238,344	520,747
	238,344	520,747
Current liabilities		
At amortised cost	12,551,670	11,225,715
	12,551,670	11,225,715

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17. Payables from exchange transactions		
Accrued bonus	3,959,950	3,581,813
Accrued leave pay	10,839,664	9,184,172
Agency fees	45,706,217	41,636,171
Consumer debtors with credit balances	14,640,994	9,172,969
Overtime accrual	292,743	272,757
Other payables	(670,680)	3,903,600
Payments received in advance	2,742,074	7,088,319
Retention fees	1,803,675	1,345,871
Standby accrual	246,181	246,716
Trade payables	473,529,247	366,127,087
	553,090,065	442,559,475
Fair value of trade and other payables from exchange transactions		
Trade payables	553,090,065	442,559,475
	553,090,065	442,559,475

Refer to note 47 for prior period corrections made to Trade and other payables.

The carrying amount of payables from exchange transactions are denominated in the following currencies:

Rand	553,090,065	442,559,475
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18. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	39,194,704	524,611	2,249,530	41,968,845
	39,194,704	524,611	2,249,530	41,968,845

Reconciliation of provisions - 2020

	Opening Balance	Change in provision	Finance Cost	Total
Environmental rehabilitation	36,760,713	717,264	1,716,727	39,194,704
	36,760,713	717,264	1,716,727	39,194,704

Non-current liabilities	39,719,315	37,477,977
Current liabilities	2,249,530	1,716,727
	41,968,845	39,194,704

Environmental rehabilitation provision

The municipality's landfill sites are located in the following towns and is addressed in a report that is available at the municipality on request:

- Alheit
- Curriescamp
- Kakamas
- Keimoes
- Kenhardt
- Lennertsville

The assessments focus on the compliance of the Generally Recognised Accounting Practice 19 (GRAP 19) framework for their landfill sites as of 30 June 2021.

Refer to note 47 for prior period corrections made to provisions.

Introduction

Sections 122(1) and (3) of the Municipal Finance Management Act (MFMA), Act 56 of 2003, require local authorities to prepare annual financial statements in accordance with the generally recognised accounting practice as prescribed by section 91(1)(b) of the PFMA prescribes the standards set by the (ASB) Accounting Standards Board. This includes the Standard of Generally Recognised Accounting Practice 19 (GRAP 19) for the provisions of contingent liabilities and contingent assets, which provides detailed guidance on the recognition, measurement, and disclosure of liabilities, which are disclosed as a provision if the amount of the obligation can be measured with sufficient reliability or as a contingent liability if such reliable measurement is not possible (paragraph .16 of GRAP 19).

The amount of such liabilities needs to be reviewed annually. West Rand Consulting have provided the expected life span of the site so that the municipality can plan for the closure of the site, if not yet closed, for a particular financial year as is proposed together with a cost estimate.

Section 718 of 3 July 2009, including the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008. The operation of a landfill sites results in an obligation to rehabilitate the landfill and prevent any current or further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice.

Notes to the Annual Financial Statements

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18. Provisions (continued)

Considering substance over form, in some cases no permits or licenses have been issued for the particular landfill site being assessed, but the necessary provisions and rehabilitation's costs are still to be accounted for under the same methods as licenced sites.

Applicable legislation

The Department of Water Affairs Minimum Requirements for Waste Disposal by Landfill, 2nd Edition (1998) and Norms and Standards for Assessment of Waste for Landfill Disposal prior to the disposal of waste to landfill (GN R.635 promulgated on 23 August 2013) are the latest and most up to date legislation in South Africa pertaining to the permitting of landfill waste sites.

This document addresses landfill classification, siting, investigation, design operation, monitoring and closure of landfill sites. A landfill is classified in terms of its waste class, size of operation, and potential for significant leachate generation, all of which influence the risk it poses to the environment.

In accordance with The Department of Water Affairs Minimum Requirements for Waste Disposal by Landfill, 2nd Edition (1998) waste is classified into two types, namely General (G) or Hazardous (H) waste. General waste is a generic term for waste such as domestic, commercial, certain industrial wastes and builders' rubble, which, due to its composition and characteristics, does not pose a significant threat to public health or the environment. Hazardous waste is waste which, because of its inherent characteristics (e.g. toxicity, corrosivity, etc.) can have a significant negative effect on public health and/or the environment even in low concentrations.

The ultimate physical size of a landfill will depend on the amount of waste it receives over its lifetime. The size of a landfill operation depends on the daily rate of waste deposition. This, in turn, relates to, amongst other things, the size of the population served. To take time and growth into account, landfills are classified using the 'Maximum Rate of Deposition' or 'MRD'. This is simply the projected maximum average annual rate of waste deposition, expressed in tonnes per day, during the expected life of a landfill.

Closure is the final step in the operation of a landfill. In order to close a landfill properly, however, the closure must be preceded by rehabilitation, to ensure that the site is acceptable to the environment. The site must also be rendered suitable for its proposed end-use, as determined during permitting and set out in the End-use Plan. Where bad practice has occurred, this must be rectified by means of remedial measures. Once the Operation has ceased, aftercare is necessary to ensure sustained acceptability. Where it is intended to close a landfill, the Permit Holder must inform the Department of its intention at least one year prior to closure. This is because certain procedures must be implemented and criteria met before closure. If the site is permitted to be closed, it must be rehabilitated in accordance with the Permit conditions and the relevant Minimum Requirements for closure. If, however, the site does not have a Permit, it must be permitted with a view to closure. In this event, the emphasis of the Permit Application is on closure design and rehabilitation. Regardless of whether a landfill is permitted or not, it must be investigated before rehabilitation and closure can commence, so as to identify any closure requirements that must be implemented.

Purpose of the report

The purpose of this report is to address the scope of work to assess the present condition of the site including present operations according to recognised operational procedures for similar size landfill sites.

Recommendations are also provided to improve the status quo.

During the site visit the following aspects were noted and considered for the costing analysis:

- Containment of the waste
- Manage leachate production by controlling the ingress of water into the waste
- Prevent uncontrolled escape of landfill gas and odors or the entry of air into the wastes
- Provide protection and covering for the wastes
- Accommodate environmental control measures such as gas vents, etc.
- Provide physical separation between waste and humans, animals and plants by means of perimeter protection

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18. Provisions (continued)

Methodology

Estimating the life expectancy and rehabilitation costs of a waste site is not a precise science as there are numerous factors that affect it including those within the control of landfill owners as well as those outside of the control of the landfill owner. For example, within the limits of the applicable regulations and permits, a landfill owner is able to control the amount of permitted airspace, compacted waste density, waste diversion techniques within the landfill, and the use of innovative techniques like leachate recirculation or liquids addition (to degrade waste material).

At the same time, there are factors outside of the landfill owner's control, such as, changes in waste generation quantities (mostly linked to economic changes) and characteristics (e.g. more builders' rubble coming into the sites), waste diversion at the source or point of collection, and regulatory restrictions (e.g. Air Quality Act.) the owner can also consider a landfill site to either be capped at the end of its useful life according to the standards set out by its licence or capping could be phased in during its lifetime.

Final capping is frequently delayed for the following reasons:

- To allow LFG generation and extraction to continue, which a low permeability cap hinders; and
- To allow significant settlement to take place before capping, and thus avoid the large stresses induced by ongoing differential settlement.

Phased capping of a landfill site involves capping portions of the waste body that are at final height. The main motivation for phased capping is given below:

- Capping the site will ensure no additional liquids enter the waste body from surface, which reduces the quantities of leachate generated.
- Seepage from the side slopes will be minimized.
- Partial rehabilitation will result in the removal of large areas from the contaminated catchment resulting in less contaminated water requiring management.
- It will help prevent oxygen entering the site once the gas wells are placed under suction, improving yield, and reducing the risk of a landfill fire.
- Vegetation of the side slopes will mitigate sedimentation of the storm water infrastructure.

Assumptions and calculations

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pretax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate.

The net discount rate of 5.36%(2020: 5.00%) was applied over the investigation period. The net discount rate is inversely related to the provision. As such an increase in the net discount rate results in a decrease in the provision.

Changes in the variables of the assumptions used in the determination of the rehabilitation and closure costs over the assessment period resulted in an increase in the provision.

As each financial year lapses, the useful lives of the sites diminish. The emergence of the costs for rehabilitation and closure is pushed closer and results in a higher provision.

Generation

According to a governmental (iwmp.environment.gov.za) reach done in 2006, the link between household income and waste generation-, low-, middle- and high-income households in South Africa, residents generate an estimated 0.47, 0.27, 0.149 and 0.149 kilograms per person per day respectively.

For the purposes of this report an average of 0.34kg per person per day will be used.

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18. Provisions (continued)

Airspace

Site life is calculated by comparing the total available airspace with annual airspace utilisation whereas the excavation cover depth for the air space calculations will be considered at 2m.

Cover to waste ratio

To determine the total remaining life of each plant, the total available air space it to be determined. A factor 1:4 Is considered when calculating the amount of waste to still be dumped within the site before the available air space is occupied in total.

The ratio means that for every available 1m³ a total of 0.8m³ can be utilized for waste.

This represents a somewhat rudimentary approach, as the cover to waste ratio is approximate, the compaction density of the waste is estimated, and no allowance is made for the effect of 'bulking' or 'debulking' on the volume of potential cover material.

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18. Provisions (continued)

Calculation of annual airspace utilization

Airspace utilisation is calculated from the Initial rate of disposal. The IRD, expressed in T/day based on the population being served by the landfill site is then expressed in an annual tonnage of waste. By dividing this figure by the average density of the waste (between 0.75 T/m³ to 1.20 T/m³ depending on waste type and compaction efficiency), the volume of waste to be deposited in the first year is determined.

By multiplying this volume by 5/4, the total airspace utilisation for the first year is obtained. Airspace utilisation for subsequent years is obtained by escalating the IRD for each year. This is then cumulated.

Landfill site life

The landfill site life is arrived at by matching the available airspace volume for the landfill, with the cumulative airspace utilisation.

Annual growth rate

Obtained from Stats SA the available data for annual average annual growth rate is calculated at 1.52% which will be used to determine the population for each town within the Kai! Garib local municipality implied at the respective landfill sites:

Closing methodology

The following cost elements are included in the rehabilitation of the said landfill site's planning for closure (incurred in the two years ahead of actual closure of the landfill)

- License application for the operation to closure (only if the landfill is not permitted/licensed)
- Landfill closure report
- Basic assessment
- Finalize end-use plan
- Closure design

[Note: In practice, some of the elements of the above planning for closure costs may be part of the same process. However, the elements have been split to allow for the effect of variables on different parts of the process/documents to be transparent. The design of the model ensures that no double accounting takes place.]

Rehabilitation and closure (incurred in the year of closure of the landfill and the following three years)

- Clearing, shaping, and compacting
- Capping
- Top-soiling and vegetating
- Stormwater control system
- Gas control system (if applicable)
- Fencing
- Decommissioning of infrastructure (if applicable)
- End-use related infrastructure (if applicable).

Post-closure monitoring and maintenance (incurred for a period of 30 years after the closure of the landfill)

- Water monitoring
- Gas/air quality monitoring
- Rehabilitation monitoring
- Maintenance of cover, subsidence, and drainage
- Fire control and vegetation maintenance
- Ongoing leachate management

As capping is considered as the highest cost within the rehabilitation process, the following steps are considered during execution:

- Vegetation
- Topsoil
- 2 x 150 mm thick compacted layers
- 1 mm linear low-density polyethylene (LLDPE) geomembrane liner

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18. Provisions (continued)

- 1 x 150 mm thick compacted layer
- Separation geotextile
- 1 x 150 mm thick compacted layer
- 19 mm stone gas drainage and capillary break layer (if applicable)

Limitations and Recommendations

Limitations

There were several limitations that were observed and noted when the analysis was done, and these can be summarised as follows:

- There are no precise records in terms of waste deposition tonnages. As a result, we relied on information sourced from the Census 2011.
- The lack of a detailed closure design and end-use plan had an impact on the estimated cost of the basic assessment as well as rehabilitation and closure costs.
- The lack of water monitoring has an impact on the amount of various cost elements. The lack of information to confirm the absence of adverse impact on water, contingency has to be built in, just in case such impact may exist.
- The lack of internal and external auditing adds to the uncertainty regarding environmental impacts, which is reflected in several cost elements.
- The lack of local contractors to provide rates for the rehabilitation landfill sites could have a significant effect on the valuation.

Recommendations

Several aspects of landfill management directly or indirectly affect the amount of the closure costs. The following recommendations are a summary regarding the management of the landfills:

- There is a need for the implementation of the means of recording waste tonnages, accurately as it enters the landfill sites. Furthermore, bi-annual topographical surveys should be undertaken to determine the precise quantity of airspace utilised on an on-going basis. This recommendation should be urgently implemented at all the sites.
- A comprehensive operating plan for the sites should be developed and implemented in accordance with the Minimum Requirements.
- It is recommended that any part of the landfill that has been used to its full capacity, be rehabilitated, and capped in accordance with the Minimum Requirements. This way the closure and rehabilitation costs will be spread out over the life of the landfill.
- It is strongly recommended that water monitoring is urgently instituted, with immediate effect at all the sites.
- The establishment of a monitoring committee should be considered for all the sites.
- The information on the availability of cover and capping material should be recorded and submitted annually to ensure compliance with the permit conditions.

Conclusion

The provision for the final rehabilitation and closure costs indicated was based on currently available information and current management practices. The costs of final rehabilitation and closure can be reduced by either improving the availability of information or management practices at the landfill. The life expectancy and cost of rehabilitation of a landfill are estimated at a given time based on the most reasonable set of assumptions known at that particular time. Changes to the assumptions can have a dramatic impact on the life expectancy and cost of rehabilitation of a landfill. However, it is important to highlight that, apart from careful measurement of the site's lifespan; the municipality has the final say as to what the lifespan should be.

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19. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	-	1,557,520
Water Services Infrastructure Grant (WSIG)	148,238	-
	148,238	1,557,520
Movement during the year		
Balance at the beginning of the year	1,557,520	7,641,851
Additions during the year	31,321,000	26,276,477
Income recognition during the year	(31,172,762)	(24,718,957)
Returned to the National Revenue Fund (NRF)	(1,557,520)	(7,641,851)
	148,238	1,557,520
The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.		
See note 29 for reconciliation of grants from National/Provincial Government.		
Refer to note 47 for prior period corrections made to unspent conditional grants and receipts.		
20. Agency services		
Driver's licenses and permits	576,172	345,373
	576,172	345,373
The revenue generated is due to services rendered to the public on behalf of the Department of Transport, Safety and Liaison.		
The municipality have traffic offices in Kakamas, Keimoes and Kenhardt.		
Refer to note 47 for prior period corrections made to agency fees.		
21. Investment revenue		
Interest revenue		
Bank accounts	140,398	164,792
Receivables from exchange transactions	5,206,192	13,260,136
	5,346,590	13,424,928

Refer to note 47 for prior period corrections made to investment revenue.

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22. Licences and permits (exchange)

Road and Transport	831,484	577,301
	831,484	577,301

The revenue generated is due to services rendered to the public on behalf of the Department of Transport, Safety and Liaison.

The municipality have traffic offices in Kakamas, Keimoes and Kenhardt.

Refer to note 47 for prior period corrections made to Licences and permits

23. Rental of facilities and equipment

Facilities and equipment

Facilities and equipment owned by the municipality	818,327	616,332
	818,327	616,332

24. Sales of goods and rendering of services

Advertisements	-	2,940
Application fees for land usage	-	28,154
Building plans	47,537	36,961
Cemetery fees	50,509	35,198
Clearance certificates	23,205	65,681
Entrance fees	-	31,223
Escort fees	304	1,540
Fire services	-	500
Materials and equipment	56,787	-
Occupation certificates	504	1,840
Photocopies and faxes	481	509
Prints	779	-
Tender documents	31,739	40,293
Valuation rolls	1,957	-
Valuation services	652	3,400
	214,454	248,239

Refer to note 47 for prior period corrections made to sales of goods and rendering of services.

25. Service charges

Refuse removal	6,587,639	5,637,359
Sale of electricity	75,683,181	63,957,817
Sale of water	16,479,967	14,716,197
Sewerage and sanitation charges	8,938,225	7,631,910
	107,689,012	91,943,283

Refer to note 47 for prior period corrections made to service charges.

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26. Operational revenue		
Administrative connection fees	98,450	56,770
Incidental cash surpluses	23,619	7,351
Inspection fees	-	3,017
Re-connection fees	-	18,493
Transaction handling fees	472,349	270,672
	594,418	356,303

Refer to note 47 for prior period corrections made to other income.

27. Property rates

Rates received

Property rates	22,463,257	24,782,701
Less: Income forgone	-	(4,176,968)
	22,463,257	20,605,733

Refer to note 47 for prior period corrections made to property rates.

Valuations

Agricultural properties	5,282,119,655	5,200,383,655
Business properties	172,244,200	273,640,200
Commercial properties	-	95,941,000
Government properties	174,228,000	188,530,000
Municipal properties	7,974,000	172,220,000
Residential properties	894,789,000	739,660,000
Public buildings	-	80,196,000
Exempted properties	213,167,000	-
Vacant land	6,901,000	-
	6,751,422,855	6,750,570,855

Valuations on properties within the municipal jurisdiction are performed every 5 years. The last general valuation roll came into effect on 1 July 2014. Interim valuations are not being performed, as prescribed by legislation, on an annual basis due to the low level of new developments within the municipal jurisdiction. The low level of new developments deemed the interim valuation process not be cost effective. Interim valuations, if performed, will consider the changes in individual property values due to alterations and subdivisions.

The detailed schedule of applicable tariffs and rebates are advertised annually and is available from the municipality on request.

Property rates are levied on an annual basis with the final date for payment for annual rate payers to be 30 September 2020 (30 June 2021) for monthly rate payers. Interest at the maximum bank percentage charged per annum plus 1%, is levied on consumer's property rates outstanding amount, one month after the due date.

The municipality was granted extension by MEC for Corporative Governance, Human Settlements and Traditional Affairs to implement a new general valuation roll until 30 June 2021. The new general valuation roll was compiled during the 2021 financial year and will be implemented on 1 July 2021.

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Figures in Rand	2021	2020
28. Fines, Penalties and Forfeits		
Meter tampering fines	-	11,341
Municipal traffic fines	10,400	48,885
Library fines	-	2,318
Property rates penalties	-	18,084
	10,400	80,628

Refer to note 47 for prior period corrections made to fines, penalties and forfeits.

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29. Government grants and subsidies		
Operating grants		
Equitable share (ES)	105,428,000	84,517,000
Expanded Public Works Programme (EPWP)	1,299,000	1,146,000
Financial Management Grant (FMG)	3,000,000	2,880,000
Library Grant (LG)	-	800,000
Local Government Sector Education and Training Authority (LGSETA)	-	460,864
Municipal Disaster Relief Grant	-	131,000
	109,727,000	89,934,864
Capital grants		
Integrated National Electrification Programme (INEP)	3,006,000	-
Municipal Infrastructure Grant (MIG)	22,015,520	20,858,613
Water Services Infrastructure Grant (WSIG)	1,851,762	-
	26,873,282	20,858,613
	136,600,282	110,793,477
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	31,172,282	26,276,477
Unconditional grants received	105,428,000	84,517,000
	136,600,282	110,793,477
Reconciliation of conditional contributions		
Balance unspent at beginning of year	1,557,520	1,164,514
Current-year receipts	31,321,000	28,719,408
Conditions met - transferred to revenue	(31,172,762)	(27,161,888)
Returned to the National Revenue Fund (NRF)	(1,557,520)	(1,164,514)
	148,238	1,557,520
Conditions still to be met - remain liabilities (see note 19)		
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
All registered indigents receive a monthly subsidy of R 482 (2020: R 472), which is funded by the Equitable share grant.		
Expanded Public Works Programme (EPWP)		
Balance unspent at beginning of year	-	68,292
Current-year receipts	1,299,000	1,146,000
Conditions met - transferred to revenue	(1,299,000)	(1,146,000)
Returned to the National Revenue Fund (NRF)	-	(68,292)
	-	-
Financial Management Grant (FMG)		
Current-year receipts	3,000,000	2,880,000
Conditions met - transferred to revenue	(3,000,000)	(2,880,000)
	-	-

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Figures in Rand	2021	2020
29. Government grants and subsidies (continued)		
Library Grant (LG)		
Current-year receipts	-	800,000
Conditions met - transferred to revenue	-	(800,000)
	-	-
Local Government Sector Education and Training Authority (LGSETA)		
Current-year receipts	-	460,864
Conditions met - transferred to revenue	-	(460,864)
	-	-
Disaster Relief Grant (Covid-19)		
Current-year receipts	-	131,000
Conditions met - transferred to revenue	-	(131,000)
	-	-
Integrated National Electrification Programme (INEP)		
Current-year receipts	3,006,000	885,544
Conditions met - transferred to revenue	(3,006,000)	(885,544)
	-	-
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	1,557,520	1,096,222
Current-year receipts	22,016,000	22,416,000
Conditions met - transferred to revenue	(22,016,000)	(20,858,480)
Returned to the National Revenue Fund (NRF)	(1,557,520)	(1,096,222)
	-	1,557,520
Conditions still to be met - remain liabilities (see note 19).		
Water Services Infrastructure Grant (WSIG)		
Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(1,851,762)	-
	148,238	-
Conditions still to be met - remain liabilities (see note 19).		
30. Public contributions and donations		
Property, plant and equipment	54,247	31,761
	54,247	31,761

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
31. Bulk purchases		
Electricity	72,109,719	63,868,376
Water	6,121,306	3,886,397
	78,231,025	67,754,773

Refer to note 47 for prior period corrections made to bulk purchases.

32. Contracted services

Outsourced Services

Business and advisory services	11,020,915	3,787,630
Cleaning Services	4,594,180	2,334,343
Infrastructure and planning	586,330	3,782,482
Legal cost	5,748,214	820,261
Lease rentals on operating leases	1,678,553	2,329,424
Maintenance of buildings and facilities	560,482	20,759
Maintenance of unspecified assets	6,028,684	437,460
Refuse Removal	5,147,925	2,217,815
Telecommunication	623,586	980,343
Water Tankers	14,672,551	8,228,614
	50,661,420	24,939,131

Refer to note 47 for prior period corrections made to contracted services.

33. Debt impairment

Debt impairment	47,722,971	64,594,705
	47,722,971	64,594,705

Refer to note 47 for prior period corrections made to debt impairment.

34. Depreciation and amortisation

Intangible assets	49,053	40,321
Property, plant and equipment	30,702,916	29,862,582
	30,751,969	29,902,903

Refer to Note 47 for detail regarding the correction depreciatoion and amortisation.

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
35. Employee related costs		
Acting allowances	1,209,807	1,049,226
Bargaining council contributions	44,191	44,499
Basic salaries and wages	85,446,513	78,488,895
Bonus	7,051,751	6,516,674
Cell phone allowances	300,300	281,221
Group insurance contributions	2,506	2,359
Housing allowances	559,988	973,791
Leave pay-outs	2,332,423	2,411,942
Long service awards	461,418	521,820
Medical aid contributions	2,751,683	2,678,381
Nightshift allowances	987,318	868,747
Non-pensionable allowances	148,400	-
Overtime payments	4,635,041	3,334,818
Pension fund contributions	14,074,632	13,046,853
Post employment service costs	847,453	651,365
Shift allowances	622,727	574,669
Skills development levy	1,123,818	993,077
Standby allowances	3,000,391	2,628,481
Transport allowance	-	213,430
Travel allowances	4,627,211	3,749,297
UIF contributions	755,317	711,150
	130,982,888	119,740,695

Remuneration of Municipal Manager

Basic salary and wages	84,141	798,185
Cell phone allowances	-	300
Travel allowances	28,047	240,312
Leave pay-outs	96,930	-
Unemployment insurance fund contributions (UIF)	149	1,487
	209,267	1,040,285

Mr. I.G.A. de Waal resigned as acting Municipal Manager on 31 July 2020.

Dr. J. Mac Kay, director Properties, planning and development is acting as Municipal Manager currently.

Remuneration of Chief Finance Officer

Basic salary and wages	828,996	634,261
Cell phone allowances	6,600	16,800
Travel allowances	276,336	218,472
Unemployment insurance fund contributions (UIF)	1,898	1,487
	1,113,830	871,020

Mrs. A.F. Beukes was as appointed as Chief Financial Officer (CFO) on 1 September 2019

Remuneration of the Director Corporate Services

Basic salary and wages	946,848	868,891
Acting allowances	7,149	5,434
Cell phone allowances	6,600	19,800
Travel allowances	315,612	289,634
Unemployment insurance fund contributions (UIF)	1,898	1,785
	1,278,107	1,185,544

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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35. Employee related costs (continued)

Adv. R.S. Neethling was permanently appointed as the Director: Corporate Services on 1 December 2013.

Remuneration of the Director Technical and Engineering Services

Basic salary and wages	1,105,344	1,026,562
Cell phone allowances	6,600	19,800
Leave pay-outs	-	26,457
Unemployment insurance fund contributions (UIF)	1,898	1,785
	1,113,842	1,074,604

Mr. M.C. Links was appointed as Director: Technical and Engineering Services on 1 September 2019.

Remuneration of the Director Properties, Planning and Development

Basic salary and wages	946,848	917,051
Acting allowances	160,076	-
Cell phone allowances	6,600	19,800
Travel allowances	315,612	241,474
Long service awards	-	34,675
Unemployment insurance fund contributions (UIF)	1,898	1,785
	1,431,035	1,214,784

Dr. J. MacKay was permanently appointed as Director: Development and Planning on 1 December 2013.

Refer to note 47 for prior period corrections made to employee cost.

36. Interest paid

Development Bank of South Africa	1,043,552	1,021,407
Finance leases	2,607,348	1,846,246
Landfill site rehabilitation	2,249,530	1,716,727
Trade and other payables	13,303,807	31,401,288
Available-for-sale debt instruments	137	-
Employee benefit obligation	2,290,144	2,123,375
	21,494,518	38,109,043

Refer to Note 47 for detail regarding the correction of prior period errors.

KAI I GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
37. General expenses		
Advertising	313,710	349,929
Assets expensed	116,825	52,255
Auditors remuneration	3,158,284	3,638,957
Bank charges	858,733	783,994
Commission: Sale of pre-paid electricity	165,803	176,338
Community development and training	248,771	1,164,272
Computer expenses	832,373	1,727,036
Discount allowed	152,638	-
Donations	22,435	60,326
Entertainment	275,687	426,870
Hire charges	1,218,625	40,000
Motor vehicle expenses	1,993,588	3,357,408
Postage and courier	15,380	24,106
Printing and stationery	452,493	298,481
Protective clothing	1,201,794	1,038,905
Refuse removal	-	278,165
Repairs and maintenance	6,950,487	1,702,015
Repayment of forfeited deposits	4,905	-
Security services	2,100,582	643,502
Subscriptions and membership fees	4,549	26,909
Town planning fees	-	81,600
Training fees	50,523	288,037
Travel, subsistence and accommodation	6,330,459	5,351,097
Valuation roll expenses	-	155,669
Voluntarily workers	2,200,895	1,467,724
Ward committee members	495,000	539,608
Water sample testing	299,150	310,068
	29,463,689	23,983,271

Refer to note 47 for prior period corrections made to general expenses.

38. Remuneration of councillors

Mayor	837,663	871,308
Speaker	197,910	705,208
Executive committee members	867,812	776,587
Councillors	5,286,102	4,869,457
	7,189,487	7,222,560

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
39. Impairment of assets		
Impairments		
Property, plant and equipment	5,244,617	7,867,144
An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.		
Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:		
(g) - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This lead to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets.		
Land - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:		
(a) legal ownership; and/or		
(b) the right to direct access to land, and to restrict or deny the access of others to land.		
During the prior year it was identified that control over land has been lost. The most significant part of this was rural development for housing. As the land was not yet transferred to the legal new owners name, the land was impaired.		
Method		
Carrying value – Value in Use = Impairment Loss		
Significant assumptions applied		
Value in use is directly related to a calculated current replacement cost considering the national CPI history factor.		
Intangible assets	(12,304)	10,160
An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.		
Method		
Carrying value – Value in Use = Impairment Loss		
	5,232,313	7,877,304
Reversal of impairments		
Property, plant and equipment	(749,774)	(251,999)
Repairs and additions to the network assets resulted in previous conditions of assets to improve, thus a reversal of impairments.		
	(749,774)	(251,999)
Total impairment losses (recognised) reversed	4,482,539	7,625,305
Refer to note 47 for prior period corrections made to impairment of assets.		
40. Fair value adjustments		
Investment property	9,783,789	3,130,662
	9,783,789	3,130,662

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
41. Auditors' remuneration		
Fees	3,158,284	3,638,957
	3,158,284	3,638,957
42. Interest from non-exchange receivables		
Receivables from non-exchange transactions	4,654,055	7,309,569
	4,654,055	7,309,569
43. Cash generated from operations		
Deficit	(115,302,984)	(134,096,765)
Adjustments for:		
Depreciation and amortisation	30,751,969	29,902,903
Gain on sale of assets and liabilities	4,946,296	2,574,650
Fair value adjustments	(9,783,789)	(3,130,662)
Finance costs - Finance leases	2,607,348	1,846,246
Impairment deficit	4,482,539	7,625,305
Debt impairment	47,722,971	64,594,705
Movements in retirement benefit assets and liabilities	1,546,646	(560,808)
Movements in provisions	2,774,141	2,433,991
Other non-cash item - Landfill site adjustment	(524,611)	6,516
Changes in working capital:		
Inventories	278,353	152,749
Receivables from exchange transactions	5,400,027	5,112,623
Consumer debtors	(47,722,971)	(64,594,705)
Other receivables from non-exchange transactions	10,109,187	11,794,875
Payables from exchange transactions	110,530,596	109,370,059
VAT	(9,640,982)	(2,286,369)
Unspent conditional grants and receipts	(1,409,282)	(6,084,331)
Consumer deposits	109,314	131,537
	36,874,768	24,792,519
44. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	13,998,398	6,132,936
	13,998,398	6,132,936
Total capital commitments		
Already contracted for but not provided for	13,998,398	6,132,936
	13,998,398	6,132,936

This committed expenditure relates to property and will be financed by available conditional grants, retained surpluses, existing cash resources, funds internally generated, etc. This commitments are also presented inclusive of VAT.

Refer to note 47 for prior period corrections made to commitments

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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45. Contingencies

Contingent liabilities

The municipality has the following Legal cases pending in the 2020 and 2021 financial year which could result in possible outflow of economic resources.

Type of case	Parties involved	Description	Year	Status	Potential liability
	Disclosure as per 2019/20				
Litigation	HC Turner, CJG Turner & DJ Turner / Kai !Garib Municipality	Claim: Orange River Flood Damage, Keimoes	Prior 2012/13	Pending	664,100
Litigation	JG van Niekerk & Van Niekerk Nieuwoudt / Kai !Garib Municipality	Claim: Orange River Flood Damage, Keimoes	Prior 2012/13	Pending	250,041
Litigation	Me. E. Basson / Kai !Garib Municipality	Claim: Three months salary, medical disability on own request, Keimoes	2014/15	Pending	52,728
Litigation	Andre Bezuidenhout t/a Snoekie Wegneemetes & Andre Bezuidenhout t/a Water Empire / Kai !Garib Municipality	Claim for damages due to power failure in regards of stock losses.	2016/2017	Pending	325,000
Litigation	Transnet / Poonasaib & Kai !Garib Municipality	Eviction. Municipality is the 2nd Respondent to provide alternative accommodation	2018	Pending	50,000
Litigation	Kai !Garib Municipality / Mpepule Trading	In terms of a court order the municipality is ordered to pay R50,000 a month for damages claimed by the deponent.	2018	Pending	2,491,500
Litigation	Triple D Farms / W Bosman & 9 Others	Eviction. Municipality is the 2nd Respondent to provide alternative accommodation	2018	Pending	500,000
Litigation	NHBRC / Markus & 9 Others	Interdict barring Municipality from issuing Certificate of Occupancy: Instructions not to defend	2018	Pending	4,285
Litigation	SS Straus / Kai !Garib Municipality	Personal injury claim against municipality	2019	Pending	300,000
	Disclosure as per 2020/21				
Litigation	ESKOM Holdings SOC Ltd / Kai !Garib Municipality	Eskom holdings SOC Ltd High court, Kimberley interdict and review application not to interrupt electricity power supply.	2021	Pending	600,000
Litigation	Mr I De Waal / Kai !Garib Municipality	Unlawful appointment of I De Waal	2021	Pending	91,737
Litigation	TT Property Consultants / Kai !Garib Municipality	Attorney disbursements to date - Further instruction to follow	2021	Pending	22,183
				Total 2020	4,637,654
				Total 2021	5,351,574

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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46. Related parties

Relationships

Accounting Officer

Members of key management

Refer to accounting officer's report

Mr. I.G.A. de Waal (Resigned 31 July 2020)

Mrs. A.F. Beukes

Adv. R.S. Neethling

Mr. J. Mac Kay

Mr. M.C. Links

Management class: Councillors

2021

	Councillor allowances	Travel allowances	Cell phone allowances	Total
Mayor				
Cllr. M.M. Louw	645,648	215,220	40,800	901,668
Speaker				
Vacant	-	-	-	-
Executive committee members				
Cllr. W.D. Klim	324,346	103,736	40,800	468,882
Cllr. C. Markgraaf	270,144	90,048	40,800	400,992
Councillors				
Cllr. D. Jaar	262,212	87,408	40,800	390,420
Cllr. B.B. Kordom	263,851	87,954	40,800	392,605
Cllr. B.M. Bock	262,212	87,408	40,800	390,420
Cllr. P.A. Thomas	204,324	68,112	40,800	313,236
Cllr. N.J. Snyers	216,288	72,100	40,800	329,187
Cllr. E.E. Frits	204,324	68,112	40,800	313,236
Cllr. V.W. Sacco	532,791	87,408	40,800	660,999
Cllr. M.A. Papier	204,324	68,112	40,800	313,236
Cllr. E.K. Strauss	204,324	68,112	40,800	313,236
Cllr. C. Kruger	204,324	68,112	40,800	313,236
Cllr. C.F.P. Maasdorp	204,324	68,112	40,800	313,236
Cllr. J.M. de Klerk	204,324	68,112	40,800	313,236
Cllr. C. April	204,324	68,112	40,800	313,236
Cllr. A.R. Smith	119,189	39,732	23,800	182,721
Cllr. R. van Rooyen	34,054	11,352	6,800	52,206
Cllr. R.W. Cloete	204,324	68,112	40,800	313,236
Cllr. M.J. Basson	130,632	43,546	26,085	200,263
	4,900,283	1,538,920	750,285	7,189,487

KAI !GARIB LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020		
46. Related parties (continued)				
2020				
	Councillor allowances	Travel allowances	Cell phone allowances	Total
Mayor				
Cllr. M.M. Louw	622,877	207,627	40,800	871,305
Speaker				
Cllr. D.W. Fienies	498,306	166,102	40,800	705,208
Executive committee members				
Cllr. W.D. Klim	260,620	86,873	40,800	388,293
Cllr. C. Markgraaf	260,620	86,873	40,800	388,293
Councillors				
Cllr. D. Jaar	252,969	84,323	40,800	378,092
Cllr. B.B. Kordom	252,969	84,323	40,800	378,092
Cllr. B.M. Bock	252,969	84,323	40,800	378,092
Cllr. P.A. Thomas	197,119	65,707	40,800	303,626
Cllr. N.J. Snyers	197,119	65,707	40,800	303,626
Cllr. E.E. Frits	197,119	65,707	40,800	303,626
Cllr. V.W. Sacco	252,969	84,323	40,800	378,092
Cllr. M.A. Papier	197,119	65,707	40,800	303,626
Cllr. E.K. Strauss	197,119	65,707	40,800	303,626
Cllr. M.Y. Basson	187,296	62,432	37,400	287,127
Cllr. C. Kruger	197,119	65,707	40,800	303,626
Cllr. C.F.P. Maasdorp	197,119	65,707	40,800	303,626
Cllr. J.M. de Klerk	197,119	65,707	40,800	303,626
Cllr. C. April	197,119	65,707	40,800	303,626
Cllr. A.R. Smith	98,232	32,744	20,400	151,376
Cllr. R. van Rooyen	120,760	40,254	24,942	185,956
	4,834,656	1,611,558	776,342	7,222,560

Refer to note "Remuneration of councillors"

KAI !GARIB LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020		
47. 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:				
Statement of financial position				
2020				
	As previously reported	Correction of error	Re-classification	Restated
Assets				
Current assets				
Cash and cash equivalents	543,199	138,561	(360,843)	320,917
Inventories	800,233	(28,917)	-	771,316
Other financial assets	479,981	100,430	(479,981)	100,430
Receivables from exchange transactions	27,090,215	(10,171,669)	(3,037,859)	13,880,687
Receivables from non-exchange transactions	29,458,483	(25,580,372)	-	3,878,111
VAT receivable	17,822,795	(206,981)	-	17,615,814
Total current assets	76,194,906	(35,748,948)	(3,878,683)	36,567,275
Non-current assets				
Other financial assets	386,309	-	(386,309)	-
Receivables from non-exchange transactions	-	9,983,677	3,904,149	13,887,826
Intangible assets	134,569	(31,281)	-	103,288
Investment property	2,377,000	182,235,149	-	184,612,149
Property, plant and equipment	745,101,311	6,737,034	-	751,838,345
Total non-current assets	747,999,189	198,924,579	3,517,840	950,441,608
Total assets	824,194,095	163,175,631	(360,843)	987,008,883
Liabilities				
Current liabilities				
Bank overdraft	(360,841)	-	360,841	-
Employee benefit obligation	(790,000)	(48,293)	(2,085,417)	(2,923,710)
Finance lease obligation	(6,623)	(319,560)	-	(326,183)
Payables from exchange transactions	(459,732,339)	17,504,318	(331,454)	(442,559,475)
Payables from non-exchange transactions	(331,447)	-	331,447	-
Provisions	(1,931,141)	(1,871,003)	2,085,417	(1,716,727)
Total current liabilities	(463,152,391)	15,265,462	360,834	(447,526,095)
Non current liabilities				
Employee benefit obligation	(16,457,000)	(3,211,316)	-	(19,668,316)
Finance lease obligation	(1,513,800)	175,886	-	(1,337,914)
Provision	(89,535,339)	52,057,361	-	(37,477,978)
Total non-current liabilities	(107,506,139)	49,021,931	-	(58,484,208)
Total liabilities	(570,658,530)	64,287,393	360,834	(506,010,303)
Accumulated surplus	-	268,494,263	-	-

KAI !GARIB LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020		
47. Prior-year adjustments (continued)				
Statement of financial performance				
2020				
	As previously reported	Correction of error	Re-classification	Restated
Revenue				
Revenue from exchange transactions				
Agency fees	-	(345,373)	-	(345,373)
Interest received	(21,545,452)	810,955	7,309,569	(13,424,928)
Licences and permits	-	(577,301)	-	(577,301)
Sales of goods and rendering of services	-	-	(248,239)	(248,239)
Service charges	(91,427,831)	(515,452)	-	(91,943,283)
Other income	(604,542)	-	604,542	-
Operational revenue	-	-	(356,303)	(356,303)
Total revenue from exchange transactions	(113,577,825)	(627,171)	7,309,569	(106,895,427)
Taxation revenue				
Property rates	(19,077,549)	(1,528,184)	-	(20,605,733)
Interest - Revenue from non-exchange	-	-	(7,309,569)	(7,309,569)
Total taxation revenue	(19,077,549)	(1,528,184)	(7,309,569)	(27,915,302)
Government grants & subsidies	(103,540,477)	(7,253,000)	-	(110,793,477)
Total transfer revenue	(103,540,477)	(7,253,000)	-	(110,793,477)
Total revenue from non-exchange transactions	2,618,026)	(8,781,184)	-	(131,399,210)
Total revenue	(236,195,851)	(9,408,355)	-	(245,604,206)
Expenditure				
Bulk purchases	67,754,684	(2,648,427)	2,648,516	67,754,773
Contracted services	15,901,791	-	(15,901,791)	-
Debt impairment	24,607,656	39,987,048	-	64,594,704
Depreciation	31,203,248	5,976,790	(7,277,135)	29,902,903
Employee related cost	118,573,971	2,667,894	622,205	121,864,070
Finance cost	31,927,715	4,057,953	-	35,985,668
General expenses	27,691,721	3,439,552	17,791,129	48,922,402
Repairs and maintenance	5,186,318	-	(5,186,318)	-
Total expenditure	322,847,104	53,480,810	(7,303,394)	369,024,520
Operating deficit	86,651,253	44,072,455	(7,303,394)	123,420,314
Loss on disposal of assets and liabilities	1,759,135	789,253	26,262	2,574,650
Actuarial gains/losses	(2,098,875)	(787,807)	-	(2,886,682)
Fair value adjustments	(88,000)	(3,042,662)	-	(3,130,662)
Impairment loss	348,167	-	7,261,906	7,610,073
Deficit for the year	86,571,680	41,031,239	-	127,602,919

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Figures in Rand	2021	2020	
47. Prior-year adjustments (continued)			
Cash flow statement			
2020			
	As previously reported	Correction of error	Restated
Cash flow from operating activities			
Receipts			
Property rates	11,094,602	(4,894,473)	6,200,129
Service charges	57,880,149	72,486,365	130,366,514
Other income	(2,333,314)	2,333,314	-
Interest income	21,545,453	(801,956)	20,743,497
Payments			
Employee cost	(125,395,938)	(1,364,820)	(126,760,758)
Suppliers	(7,165,973)	(59,998,142)	(67,164,115)
Finanace costs	(31,927,715)	(4,011,747)	(35,939,462)
Net cash flows from operating activities	(76,302,736)	3,748,541	(72,554,195)
Cash flow from investing activities			
Purchase of property, plant and equipment	(15,614,154)	(2,801,334)	(18,415,488)
Proceeds from sale of property, plant and equipment	(1,030,980)	1,030,980	-
Net cash flows from investing activities	(16,645,134)	(1,770,354)	(18,415,488)
Cash flow from financing activities			
Finance lease payments	(5,507,746)	(1,831,273)	(7,339,019)
Net cash flows from financing activities	(5,507,746)	(1,831,273)	(7,339,019)

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47. Prior-year adjustments (continued)		
Errors		
The following prior period errors adjustments occurred:		
1. Cash and cash equivalents		
The bank reconciliation was reperformed and reconciling items were identified and correctly accounted for and the effect was follows:		
2. Inventories		
Water inventory at year-end was recalculated and corrected and the accounting of RDP erven was correctly reclassified as investment property.		
3. Receivables from exchange transactions		
The billing integration from the sub ledger did not fully integrate with the ledger module.		
4. Receivables from non-exchange transactions		
The billing integration from the sub ledger did not fully integrate with the ledger module.		
5. Other financial liabilities		
Transactions were accounted for in the correct financial reporting period.		
6. Payables from exchange transactions		
Suppliers relating to exchange transactions were accounted for in the correct financial reporting period and reconciled to the appropriate supplier statements.		
7. Provisions		
During the year the landfill site provision and asset was reperformed and errors were identified and corrected.		
8. Investment property		
All investment property items were investigated and corrected based on the control of the asset and ownership as confirmed on the deeds.		
9. Property, plant and equipment		
A full asset verification process was conducted and assets were accounted for correctly in the prior financial reporting period.		
10. Employee benefit obligation		
Recalculations were performed on all employee benefit obligations owed to third parties and correctly disclosed in the prior financial period.		
11. Finance lease obligation		
The finance lease obligation calculation, split between short and long term liability was reperformed and correctly disclosed in the prior financial reporting period.		
12. Agency services		
Agency services was correctly accounted for and correctly disclosed for in the prior financial reporting period.		

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Figures in Rand	2021	2020
47. Prior-year adjustments (continued)		
13. Interest received		
Interest received was recalculated in accordance with the recalculation of trade and other receivables and disclosed correctly in the prior financial reporting period.		
14. Licences and permits		
Licences and permits was correctly accounted for and correctly disclosed for in the prior financial reporting period.		
15. Sales of goods and rendering of services		
The billing integration from the sub ledger did not fully integrate with the ledger module.		
16. Service charges		
The billing integration from the sub ledger did not fully integrate with the ledger module.		
17. Operational revenue		
The billing integration from the sub ledger did not fully integrate with the ledger module.		
18. Property rates		
The billing integration from the sub ledger did not fully integrate with the ledger module .		
19. Bulk purchases		
Bulk purchases calculations was reperformed and disclosed correctly in the prior financial reporting period.		
20. Contracted services		
Contracted services was reviewed and correctly classified in the prior financial reporting period.		
21. Debt impairment		
Debt impairment calculation was reperformed and correctly disclosed in the prior financial reporting period.		
22. Depreciation, amortisation and impairments		
A new Asset Management Policy was implemented during the financial year, with all asset classes being re-evaluated to ensure the useful lives of assets was disclosed correctly.		
23. Employee costs		
The payroll integration from the payroll system did not fully integrate with the general ledger.		
24. Finance costs		
Interest and penalties were recalculated and correctly accounted for in the respective financial reporting periods.		
25. General		
The classification of expenditure was reperformed for the prior financial reporting period. The same process was applied to all creditors.		
26. Other Financial Assets		
Transactions were accounted for in the correct financial reporting period.		

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Figures in Rand	2021	2020
47. Prior-year adjustments (continued)		
27. VAT Receivable		
A vat reconciliation was re-performed and correctly accounted for in the prior period.		
28. Intangible Assets		
A full asset verification process was conducted, and assets were accounted for correctly in the prior financial reporting period.		
29. Payables from non-exchange transactions		
Suppliers relating to non-exchange transactions were accounted for in the correct financial reporting period and reconciled to the appropriate supplier statements.		
30. Loss on disposal of assets and liabilities		
Loss on disposal of assets and liabilities was recalculated and account for correctly in the prior period and the effect was as follows:		
31. Actuarial gains/losses		
Actuarial gains and losses were recalculated and accounted for at the correct amount in the prior period.		
32. Fair value adjustments		
Fair value adjustments were recalculated where necessary and accounted for correctly in the prior period.		
33. (Impairment loss)/Reversal of impairments		
Reversal and accrual of impairments was recalculated and accounted for correctly in the prior period.		
Irregular expenditure		
Opening balance	76,587,173	
Previously reported movement	108,429,910	
Adjusted opening balance	185,017,083	
Adjustments made - Movement	22,764,947	
Restated opening balance	207,782,030	
Adjustment made to opening balance of irregular expenditure is due to an omission of irregular expenditure in the prior year amounting to R 22,764,947 (2019: R108,429,910)		
Fruitless and wasteful expenditure		
Opening balance	87,679,045	
Previously reported movement	463,881	
Adjusted opening balance	88,142,926	
Adjustments made - Movement	(930,670)	
Restated opening balance	87,212,256	
Adjustment made to opening balance of fruitless and wasteful expenditure is due to an omission of fruitless and wasteful expenditure of -R930,670 (2019: R463,881) made in the prior year.		

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Figures in Rand	2021	2020
47. Prior-year adjustments (continued)		
Unauthorised expenditure		
Opening balance	593,810,342	
Previously reported movement	14,243,713	
Adjusted opening balance	608,054,055	
Adjustments made - Movement	52,931,580	
Restated opening balance	660,985,635	

Adjustment made to opening balance of unauthorised expenditure is due to an omission of unauthorised expenditure in the prior year amounting to R 55,389,295 (2019: R14,295.270).

48. Comparative figures

Certain comparative figures have been reclassified. Refer to Note 47.

49. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Liquidity risk

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

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	553,090,065	-	-	-
At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	442,559,475	-	-	-

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49. Risk management (continued)

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.

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

Financial instrument	2021	2020
Receivables from exchange transactions	8,581,089	13,981,116
Receivables from non-exchange transactions	7,520,657	3,878,111
Cash and cash equivalents	1,402,047	320,917

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

50. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus. of R (115,302,984) and that the municipality's total liabilities exceed its assets by R350,506,825.

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 municipality is experiencing some financial difficulties, indicators are as follows:

1. Suppliers are not paid within the legislative 30 days.
2. Employee benefit obligations are unfunded; refer note 14
3. High levels of distribution losses; refer note 54
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios.

In addition, the municipality owed Eskom R418,561,442 (2020: R332,363,178) and the Kakamas water verbruiker vereeniging R5,480,377 (2020: R4,551,626) and Department water and sanitation R16,846,227 (2020: R15,678,168) as at 30 June 2021.

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50. Going concern (continued)

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 for the ongoing operations for the municipality.

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51. Unauthorised expenditure		
Opening balance as previously reported	755,491,904	608,054,056
Opening balance as restated	755,491,904	608,054,056
Add: Expenditure identified - current	138,389,839	147,437,848
Closing balance	893,881,743	755,491,904

Refer to note 47 for prior period corrections made to unauthorised expenditure.

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

Non-cash	(69,936,829)	(94,388,842)
	(69,936,829)	(94,388,842)

Analysed as follows: non-cash

Employee related cost - Actuarial gains	987,331	2,886,682
Depreciation and amortisation	(30,751,969)	(29,902,903)
Finance charges - Landfill site rehabilitation	2,249,530	1,716,727
Property, plant and equipment - Impairment loss	(4,482,539)	(7,625,305)
Consumer debtors - Impairment loss	(47,722,971)	(64,594,705)
Investment property - Fair value adjustment	9,783,789	3,130,662
	(69,936,829)	(94,388,842)

Unauthorised expenditure: Budget overspending – per municipal department:

Vote 1 - Office of the mayor and speaker	(290,407)	-
Vote 2 - Office of the municipal manager	(1,411,660)	-
Vote 3 - Budget and treasury office	(90,480,122)	(123,810,793)
Vote 4 - Corporate services	(10,107,641)	(6,659,941)
Vote 5 - Technical and engineering services	(34,729,512)	(15,355,069)
Vote 6 - Properties, planning and development	(1,370,498)	(1,614,044)
	(138,389,840)	(147,439,847)

52. Fruitless and wasteful expenditure

Opening balance as previously reported	119,544,214	88,142,926
Opening balance as restated	119,544,214	88,142,926
Add: Expenditure identified - current	13,303,807	31,401,288
Closing balance	132,848,021	119,544,214

Penalties and interest was levied on the municipality's supplier arrear accounts.

Due to no active investigation relating to the amount disclosed, the amount should be deemed as non-recoverable.

Refer to note 47 for prior period corrections made to fruitless and wasteful expenditure.

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Figures in Rand	2021	2020
52. Fruitless and wasteful expenditure (continued)		
Expenditure identified in the current year include those listed below:		
Disciplinary steps taken/criminal proceedings		
A3 Engineering	801	506
ABSA Bank Ltd	-	289,506
Atm Auto Elektries (Motolek)	24	-
Auditor General Of South Africa	835,211	1,483,543
BB Handelaars	13	-
Buildzone	-	1,964
Consolidated retirement fund	-	103,462
Driving licences card	161	-
Eskom	11,426,521	27,603,185
Jam office stationers	(1,179)	-
Kakamas fitment center	-	888
Kakamas staalwerke	-	25
The phonebook company	12,262	-
Oranje moters	-	125
Redira clothing	-	388
SAMWU	-	4,200
SARS	-	537,291
NFMW	5,421	-
Telkom S.A.	275	325
Trans oranje drukkers	-	63
Water and Sanitation - National	1,024,297	1,375,817
	13,303,807	31,401,288

53. Irregular expenditure

Opening balance as previously reported	231,393,660	185,017,083
Opening balance as restated	231,393,660	185,017,083
Add: Irregular Expenditure - current	116,153,567	46,376,577
Closing balance	347,547,227	231,393,660

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Figures in Rand	2021	2020
53. Irregular expenditure (continued)		
Cases under investigation		
No contracts where investigated for any possible irregular expenditure relating to the reporting period under review.		
Refer to note 47 for prior period corrections made to fruitless and wasteful expenditure.		
54. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	6,106,440	4,683,605
Current year subscription / fee	1,175,168	1,422,835
	7,281,608	6,106,440
Material losses		
Electricity distribution loss	16,381,310	15,989,285
Water distribution loss	2,150,194	1,638,198
	18,531,504	17,627,483
Audit fees		
Opening balance	17,462,465	12,028,165
Current year subscription / fee	3,339,266	3,435,449
Interest charges	835,211	1,483,534
Value added tax (VAT)	806,087	515,317
Amount paid - current year	(3,089,321)	-
Credit notes	(4,476,703)	-
	14,877,005	17,462,465
PAYE and UIF		
Opening balance	5,319,391	3,977,972
Current year subscription / fee	18,181,378	15,912,536
Amount paid - current year	(5,859,840)	(13,332,052)
Amount paid - previous years	(2,580,483)	(1,239,065)
	15,060,446	5,319,391
Pension and Medical Aid Deductions		
Opening balance	7,145,869	3,542,293
Current year subscription / fee	26,565,193	25,159,574
Amount paid - current year	(17,171,026)	(18,013,705)
Amount paid - previous years	(7,145,869)	(3,542,293)
	9,394,166	7,145,869

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

VAT

VAT receivable	27,256,796	17,615,814
	27,256,796	17,615,814

VAT output payables and VAT input receivables are shown in note 8.

All VAT returns have been submitted to the South African Revenue Service.

Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. B.B. Kordom	83	55	138
Cllr. C. Markgraaf	1,403	2,835	4,238
	1,486	2,890	4,376

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. B.B. Kordom	78	130	208
	78	130	208

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2021	Highest outstanding amount	Aging (in days)
Cllr. B.B. Kordom	138	180
Cllr. C. Markgraaf	4,238	180
	4,376	360

30 June 2020	Highest outstanding amount	Aging (in days)
Cllr. B.B. Kordom	208	360
	208	360

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55. COVID 19 Pandemic

National Treasury published a presentation on Covid-19 Response: Division of Revenue Amendment Bill 2020 on 8 July 2020. The presentation stated that the local government spending pressures as a result of the Covid-19 pandemic include, among others, the impact of increased indigents due to economic downturn. This is indicative of conditions that arose after the reporting date as consumers will still have to meet the indigents registration criteria even after the prolonged impact of the Covid-19 pandemic and its resultant economic downturn. The Covid-19 pandemic is a non-adjusting event as the financial impact that the pandemic has on the communities within the municipal jurisdiction can't be estimated at the time of reporting. Many businesses are experiencing financial constraints due to the Covid-19 pandemic, that ultimately jeopardises the sustainability and future of businesses and job security of their employees. Decreased income of households, or even worse, unemployment, will result in increased indigents that will, at the end of the day have a negative impact on the municipality's cash flow and the ability to service its communities effectively.

The Division of Revenue Second Amendment Bill passed by the National Assembly on 20 November 2020, states that R307 million is rolled over in the regional bulk infrastructure grant for drought and Covid-19 water and sanitation interventions nation-wide. This is indicative of conditions that arose after the reporting date as the bill was passed by the National Assembly on 20 November 2020. The municipality was then forced to shift their focus towards, providing their communities with proper sanitation infrastructure and facilities and providing them with clean drinkable water. Personal hygiene is crucial to limit the spread of the threatening corona virus within communities. The national lockdown prohibit unnecessary movement of people and construction of infrastructure within the municipal jurisdiction was delayed.

Due to the continuing impact of the Covid-19 pandemic, there has been reallocations in the Division of Revenue to assist local government manage the impact of the pandemic. This is indicative of conditions that arose after the reporting date as the Second Amendment Division of Revenue was passed by national assembly on 20 November 2020. This is a non-adjusting event as the financial impact and the reallocations of grants due to the pandemic can't be estimated at the time of reporting.

During the financial year the municipality received an amount of R13,509,000.00 through Equitable share towards the Covid-19 pandemic