



# MAKANA

MUNICIPALITY | EASTERN CAPE

**...a great place to be**

Makana Municipality  
Annual Financial Statements  
for the year ended 30 June 2016

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### Mayoral committee

Executive Mayor	Cllr N Gaga
Speaker	Cllr Y Vara
Chief Whip	Cllr JC Wells
MPAC Chairperson	Cllr MS Tame
	Cllr N Masoma
	Cllr MM Khubalo
	Cllr M Matyumza
	Cllr E Louw
	Cllr T Ngeleza
	Cllr MPG Notyawa
	Cllr BW Fargher
	Cllr M Gojela
	Cllr BPN Jackon
	Cllr MG Madinda
	Cllr XG Madyo
	Cllr L May
	Cllr N Meti
	Cllr B Bonani
	Cllr NR Plaatjie
	Cllr LM Reynolds
	Cllr NC Tyantsula
	Cllr K Jela
	Cllr MC Booysen

### Grading of local authority

Category B

### Chief Finance Officer (CFO)

NF Siwahla

### Acting Municipal Manager

Ms MJ Meiring

### Registered office

City Hall  
86 High Street  
Grahamstown  
6139

### Postal address

P O Box 176  
Grahamstown  
6140

### Auditors

Auditor-General South Africa

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Index

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

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### Abbreviations

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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Officer's Responsibilities and Approval

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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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and were given unrestricted access to all financial records and related data. The 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 financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she 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, she 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 financial statements which have been prepared on the going concern basis, were signed on municipality's behalf by 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, she is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Makana municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality. The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements.

The financial statements which have been prepared on the going-concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

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**Ms MJ Meiring**  
**Acting Municipal Manager**

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories General	3	8,588,929	11,854,649
Inventories Water	4	75,888	21,672
Receivables from exchange transactions	5	35,673,755	49,929,130
Receivables from non-exchange transactions	6	6,935,169	71,220
VAT receivable	7	101,377	-
Cash and cash equivalents	8	5,179,154	21,658,984
VAT Suspense	9	-	14,550,952
		<b><u>56,554,272</u></b>	<b><u>98,086,607</u></b>
<b>Non-Current Assets</b>			
Property, plant and equipment	10	817,313,955	957,608,475
Intangible assets	11	430,036	597,039
Heritage assets	12	33,364,868	33,364,868
Investment property	13	184,350,014	188,146,212
		<b><u>1,035,458,873</u></b>	<b><u>1,179,716,594</u></b>
<b>Total Assets</b>		<b><u>1,092,013,145</u></b>	<b><u>1,277,803,201</u></b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
VAT Suspense	9	9,794,806	-
Consumer deposits	14	2,938,657	2,814,709
Payables from exchange transactions	15	131,136,539	140,601,471
Payables from non- exchange transactions	16	30,561,505	16,508,903
Unspent conditional grants and receipts	17	4,017,068	4,499,197
Long term loan: current portion	18	526,025	-
Employee benefit obligation: current portion	19	3,276,820	2,728,362
		<b><u>182,251,420</u></b>	<b><u>167,152,642</u></b>
<b>Non-Current Liabilities</b>			
Long term loan: current portion	18	55,832,375	55,068,278
Employee benefit obligation: current portion	19	64,659,889	64,745,999
Provisions	20	28,881,524	27,336,984
		<b><u>149,373,788</u></b>	<b><u>147,151,261</u></b>
<b>Total Liabilities</b>		<b><u>331,625,208</u></b>	<b><u>314,303,903</u></b>
<b>Net Assets</b>		<b><u>760,387,937</u></b>	<b><u>963,499,298</u></b>
<b>Net Assets</b>			
Accumulated surplus		<b><u>760,387,937</u></b>	<b><u>963,499,298</u></b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

		2016	2015
	Note(s)	R	Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	202,543,006	171,250,781
Rental of facilities and equipment	22	1,166,798	1,023,409
Interest received on debtors		16,980,125	11,092,670
Agency services		995,783	850,378
Licences and permits		2,220,899	2,344,416
Other income	23	5,587,945	2,774,315
Interest received - investment		643,168	1,401,578
<b>Total revenue from exchange transactions</b>		<b>230,137,724</b>	<b>190,737,547</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	24	53,449,608	53,827,308
<b>Transfer revenue</b>			
Government grants & subsidies	25	112,809,161	110,611,241
Fines, Penalties and Forfeits		49,016	55,402
<b>Total revenue from non-exchange transactions</b>		<b>166,307,785</b>	<b>164,493,951</b>
<b>Total revenue</b>	26	<b>396,445,509</b>	<b>355,231,498</b>
<b>Expenditure</b>			
Employee related costs	27	(144,119,649)	(135,178,101)
Remuneration of councillors	28	(9,421,559)	(9,458,268)
Depreciation and amortisation	29	(22,301,077)	(22,706,987)
Impairment loss	30	(138,944,296)	(1,346,130)
Finance costs	31	(19,000,269)	(17,884,071)
Lease rentals on operating lease		(7,397,332)	(1,010,366)
Debt Impairment	32	(182,764,755)	(66,325,870)
Repairs and maintenance		(30,494,783)	(10,155,437)
Bulk purchases	33	(95,360,918)	(82,036,759)
Contracted services	34	(8,383,361)	(4,490,553)
Grants and Subsidies	35	(2,370,270)	(2,657,075)
General Expenses	36	(60,624,862)	(60,305,062)
<b>Total expenditure</b>		<b>(721,183,131)</b>	<b>(413,554,679)</b>
<b>Operating deficit</b>		<b>(324,737,622)</b>	<b>(58,323,181)</b>
Loss on disposal of assets and liabilities		(107,881)	(21,253)
Actuarial gains/losses	19	6,870,329	1,047,113
		<b>6,762,448</b>	<b>1,025,860</b>
<b>Deficit for the year</b>		<b>(317,975,174)</b>	<b>(57,297,321)</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

	Other NDR R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	(5,465,495)	988,694,435	983,228,940
Adjustments			
Correction of errors	5,465,495	32,102,184	37,567,679
<b>Balance at 01 July 2014 as restated*</b>	<b>-</b>	<b>1,020,796,619</b>	<b>1,020,796,619</b>
Changes in net assets			
Surplus for the year	-	(57,297,321)	(57,297,321)
Total changes	-	(57,297,321)	(57,297,321)
Opening balance as previously reported	-	963,499,298	963,499,298
Adjustments			
Prior year adjustments	-	114,863,813	114,863,813
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>-</b>	<b>1,078,363,111</b>	<b>1,078,363,111</b>
Changes in net assets			
Surplus for the year	-	(317,975,174)	(317,975,174)
Total changes	-	(317,975,174)	(317,975,174)
<b>Balance at 30 June 2016</b>	<b>-</b>	<b>760,387,937</b>	<b>760,387,937</b>
Note(s)			

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from customers		272,109,516	225,603,634
Grants		112,809,161	110,611,241
Interest income		643,168	-
Other income		-	49,612,467
		<u>385,561,845</u>	<u>385,827,342</u>
<b>Payments</b>			
Employee costs		(153,627,318)	(118,646,530)
Suppliers		(218,979,176)	(197,594,912)
Taxes on surpluses		101,377	-
Finance costs		(8,842,666)	(9,513,065)
		<u>(381,347,783)</u>	<u>(325,754,507)</u>
<b>Net cash flows from operating activities</b>	38	<b>4,214,062</b>	<b>60,072,835</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(561,458)	(40,850,474)
Proceeds from sale of property, plant and equipment	10	457,096	406,728
Other cash item		(20,589,530)	-
<b>Net cash flows from investing activities</b>		<b>(20,693,892)</b>	<b>(40,443,746)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(16,479,830)</b>	<b>19,629,089</b>
Cash and cash equivalents at the beginning of the year		21,658,984	2,029,895
<b>Cash and cash equivalents at the end of the year</b>	8	<b>5,179,154</b>	<b>21,658,984</b>



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	260,556,000	16,976,000	<b>277,532,000</b>	202,543,006	<b>(74,988,994)</b>	Note 45
Rental of facilities and equipment	3,176,000	-	<b>3,176,000</b>	1,166,798	<b>(2,009,202)</b>	Note 45
Interest received (trading)	11,392,500	-	<b>11,392,500</b>	16,980,125	<b>5,587,625</b>	Note 45
Agency services	-	-	-	995,783	<b>995,783</b>	Note 45
Licences and permits	3,448,000	-	<b>3,448,000</b>	2,220,899	<b>(1,227,101)</b>	Note 45
Other income - (rollup)	14,820,000	(4,960,000)	<b>9,860,000</b>	5,587,945	<b>(4,272,055)</b>	Note 45
Interest received - investment	500,000	-	<b>500,000</b>	643,168	<b>143,168</b>	Note 45
<b>Total revenue from exchange transactions</b>	<b>293,892,500</b>	<b>12,016,000</b>	<b>305,908,500</b>	<b>230,137,724</b>	<b>(75,770,776)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	52,694,527	-	<b>52,694,527</b>	53,449,608	<b>755,081</b>	Note 45
<b>Transfer revenue</b>						
Government grants & subsidies	79,961,000	400,036	<b>80,361,036</b>	112,809,161	<b>32,448,125</b>	Note 45
Fines, Penalties and Forfeits	1,089,056	-	<b>1,089,056</b>	49,016	<b>(1,040,040)</b>	Note 45
<b>Total revenue from non-exchange transactions</b>	<b>133,744,583</b>	<b>400,036</b>	<b>134,144,619</b>	<b>166,307,785</b>	<b>32,163,166</b>	
<b>Total revenue</b>	<b>427,637,083</b>	<b>12,416,036</b>	<b>440,053,119</b>	<b>396,445,509</b>	<b>(43,607,610)</b>	
<b>Expenditure</b>						
Personnel	(126,773,000)	(5,197,000)	<b>(131,970,000)</b>	(144,119,649)	<b>(12,149,649)</b>	Note 45
Remuneration of councillors	(9,722,655)	-	<b>(9,722,655)</b>	(9,421,559)	<b>301,096</b>	Note 45
Depreciation and amortisation	(14,185,689)	-	<b>(14,185,689)</b>	(22,301,077)	<b>(8,115,388)</b>	Note 45
Impairment loss/ Reversal of impairments	(17,316,520)	-	<b>(17,316,520)</b>	(138,944,296)	<b>(121,627,776)</b>	Note 45
Finance costs	(477,561)	-	<b>(477,561)</b>	(19,000,269)	<b>(18,522,708)</b>	Note 45
Lease rentals on operating lease	-	-	-	(7,397,332)	<b>(7,397,332)</b>	Note 45
Bad debts written off	(18,352,475)	-	<b>(18,352,475)</b>	(182,764,755)	<b>(164,412,280)</b>	Note 45
Repairs and maintenance	(23,657,300)	-	<b>(23,657,300)</b>	(30,494,783)	<b>(6,837,483)</b>	Note 45
Bulk purchases	(87,574,000)	6,316,000	<b>(81,258,000)</b>	(95,360,918)	<b>(14,102,918)</b>	Note 45
Contracted Services	(8,734,000)	(1,395,000)	<b>(10,129,000)</b>	(8,383,361)	<b>1,745,639</b>	Note 45
Transfers and Subsidies	(48,997,000)	-	<b>(48,997,000)</b>	(2,370,270)	<b>46,626,730</b>	Note 45
General Expenses	(55,171,781)	(10,008,000)	<b>(65,179,781)</b>	(60,624,862)	<b>4,554,919</b>	Note 45
<b>Total expenditure</b>	<b>(410,961,981)</b>	<b>(10,284,000)</b>	<b>(421,245,981)</b>	<b>(721,183,131)</b>	<b>(299,937,150)</b>	
<b>Operating deficit</b>	<b>16,675,102</b>	<b>2,132,036</b>	<b>18,807,138</b>	<b>(324,737,622)</b>	<b>(343,544,760)</b>	
Loss on disposal of assets and liabilities	-	-	-	(107,881)	<b>(107,881)</b>	Note 45
Actuarial gains/losses	-	-	-	6,870,329	<b>6,870,329</b>	Note 45
	-	-	-	<b>6,762,448</b>	<b>6,762,448</b>	
<b>Deficit before taxation</b>	<b>16,675,102</b>	<b>2,132,036</b>	<b>18,807,138</b>	<b>(317,975,174)</b>	<b>(336,782,312)</b>	

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>16,675,102</b>	<b>2,132,036</b>	<b>18,807,138</b>	<b>(317,975,174)</b>	<b>(336,782,312)</b>	

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories General	9,671,000	-	<b>9,671,000</b>	8,588,929	<b>(1,082,071)</b>	Note 45
Receivables from non-exchange transactions	30,124,000	-	<b>30,124,000</b>	6,935,169	<b>(23,188,831)</b>	Note 45
VAT receivable	-	-	-	101,377	<b>101,377</b>	Note 45
Inventories Water	-	-	-	75,888	<b>75,888</b>	Note 45
Consumer debtors	165,023,000	188,279,000	<b>353,302,000</b>	35,673,755	<b>(317,628,245)</b>	Note 45
Cash and cash equivalents	147,519,000	(134,254,633)	<b>13,264,367</b>	5,179,154	<b>(8,085,213)</b>	Note 45
	<b>352,337,000</b>	<b>54,024,367</b>	<b>406,361,367</b>	<b>56,554,272</b>	<b>(349,807,095)</b>	
<b>Non-Current Assets</b>						
Investment property	252,039,000	-	<b>252,039,000</b>	184,350,014	<b>(67,688,986)</b>	Note 45
Property, plant and equipment	661,804,000	-	<b>661,804,000</b>	817,313,955	<b>155,509,955</b>	Note 45
Intangible assets	1,004,000	-	<b>1,004,000</b>	430,036	<b>(573,964)</b>	Note 45
Heritage assets	29,166,000	-	<b>29,166,000</b>	33,364,868	<b>4,198,868</b>	Note 45
Investment	637,000	6,549,258	<b>7,186,258</b>	-	<b>(7,186,258)</b>	Note 45
	<b>944,650,000</b>	<b>6,549,258</b>	<b>951,199,258</b>	<b>1,035,458,873</b>	<b>84,259,615</b>	
<b>Total Assets</b>	<b>1,296,987,000</b>	<b>60,573,625</b>	<b>1,357,560,625</b>	<b>1,092,013,145</b>	<b>(265,547,480)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Long term loan: current portion	2,500,000	-	<b>2,500,000</b>	526,025	<b>(1,973,975)</b>	Note 45
VAT Suspense	-	-	-	9,794,806	<b>9,794,806</b>	Note 45
Payables from exchange transactions	99,491,112	(11,491,000)	<b>88,000,112</b>	131,136,539	<b>43,136,427</b>	Note 45
Taxes and transfers payable (non-exchange)	-	-	-	30,561,505	<b>30,561,505</b>	Note 45
VAT payable	14,863,000	-	<b>14,863,000</b>	-	<b>(14,863,000)</b>	Note 45
Consumer deposits	2,451,000	-	<b>2,451,000</b>	2,938,657	<b>487,657</b>	Note 45
Employee benefit obligation: current portion	-	-	-	3,276,820	<b>3,276,820</b>	Note 45
Unspent conditional grants and receipts	-	-	-	4,017,068	<b>4,017,068</b>	Note 45
Provisions	4,118,000	-	<b>4,118,000</b>	-	<b>(4,118,000)</b>	Note 45
	<b>123,423,112</b>	<b>(11,491,000)</b>	<b>111,932,112</b>	<b>182,251,420</b>	<b>70,319,308</b>	
<b>Non-Current Liabilities</b>						
Long term loan: current portion	52,573,000	(52,573,000)	-	55,832,375	<b>55,832,375</b>	Note 45
Employee benefit obligation: current portion	2,145,430	-	<b>2,145,430</b>	64,659,889	<b>62,514,459</b>	Note 45
Provisions	528,000	-	<b>528,000</b>	28,881,524	<b>28,353,524</b>	Note 45
	<b>55,246,430</b>	<b>(52,573,000)</b>	<b>2,673,430</b>	<b>149,373,788</b>	<b>146,700,358</b>	
<b>Total Liabilities</b>	<b>178,669,542</b>	<b>(64,064,000)</b>	<b>114,605,542</b>	<b>331,625,208</b>	<b>217,019,666</b>	
<b>Net Assets</b>	<b>1,118,317,458</b>	<b>124,637,625</b>	<b>1,242,955,083</b>	<b>760,387,937</b>	<b>(482,567,146)</b>	

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Other NDR	5,427,536	-	<b>5,427,536</b>	-	<b>(5,427,536)</b>	Note 45
Other reserves	(124,637,078)	124,637,625	<b>547</b>	-	<b>(547)</b>	Note 45
Accumulated surplus	1,237,527,000	-	<b>1,237,527,000</b>	760,387,937	<b>(477,139,063)</b>	Note 45
<b>Total Net Assets</b>	<b>1,118,317,458</b>	<b>124,637,625</b>	<b>1,242,955,083</b>	<b>760,387,937</b>	<b>(482,567,146)</b>	

## Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates	44,790,000	(4,271,748)	<b>40,518,252</b>	57,464,040	<b>16,945,788</b>	Note 45
Service charges	222,147,000	(15,415,661)	<b>206,731,339</b>	214,645,476	<b>7,914,137</b>	Note 45
Grants	255,309,000	(168,587,982)	<b>86,721,018</b>	112,809,161	<b>26,088,143</b>	Note 45
Interest income	11,893,000	(4,500,000)	<b>7,393,000</b>	643,168	<b>(6,749,832)</b>	Note 45
Other receipts	5,717,000	(4,959,834)	<b>757,166</b>	-	<b>(757,166)</b>	Note 45
	<b>539,856,000</b>	<b>(197,735,225)</b>	<b>342,120,775</b>	<b>385,561,845</b>	<b>43,441,070</b>	
<b>Payments</b>						
Employee costs	(141,692,000)	-	<b>(141,692,000)</b>	(153,627,318)	<b>(11,935,318)</b>	Note 45
Suppliers	(101,372,000)	(16,712,400)	<b>(118,084,400)</b>	(218,979,176)	<b>(100,894,776)</b>	Note 45
Finance costs	(1,713,000)	-	<b>(1,713,000)</b>	(8,842,666)	<b>(7,129,666)</b>	Note 45
Other payments	(48,997,000)	(26,592,187)	<b>(75,589,187)</b>	-	<b>75,589,187</b>	Note 45
Taxes on surpluses	-	-	-	101,377	<b>101,377</b>	
	<b>(293,774,000)</b>	<b>(43,304,587)</b>	<b>(337,078,587)</b>	<b>(381,347,783)</b>	<b>(44,269,196)</b>	
<b>Net cash flows from operating activities</b>	<b>246,082,000</b>	<b>(241,039,812)</b>	<b>5,042,188</b>	<b>4,214,062</b>	<b>(828,126)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(191,857,000)	185,000,000	<b>(6,857,000)</b>	(561,458)	<b>6,295,542</b>	Note 45
Proceeds from sale of property, plant and equipment	-	-	-	457,096	<b>457,096</b>	
Other cash items	-	-	-	(20,589,530)	<b>(20,589,530)</b>	
<b>Net cash flows from investing activities</b>	<b>(191,857,000)</b>	<b>185,000,000</b>	<b>(6,857,000)</b>	<b>(20,693,892)</b>	<b>(13,836,892)</b>	
Net increase/(decrease) in cash and cash equivalents	54,225,000	(56,039,812)	<b>(1,814,812)</b>	(16,479,830)	<b>(14,665,018)</b>	Note 45
Cash and cash equivalents at the beginning of the year	9,833,000	(2,912,633)	<b>6,920,367</b>	21,658,984	<b>14,738,617</b>	Note 45
<b>Cash and cash equivalents at the end of the year</b>	<b>64,058,000</b>	<b>(58,952,445)</b>	<b>5,105,555</b>	<b>5,179,154</b>	<b>73,599</b>	

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The 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 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.

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

#### Standards

##### Standards Issued and Effective

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Accounting for Investments in Associates
GRAP 9	Revenue
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment Properties
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-Cash Generating Assets
GRAP 23	Revenue from non-exchange transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits (Approved, early adoption)
GRAP 26	Impairment of Cash-Generating Assets
GRAP 27	(as revised 2012): Agriculture (Replaces GRAP 101)
GRAP 31	Intangible Assets (replace GRAP GRAP 102)
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

##### Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

GRAP 18	Segmental Reporting
GRAP 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor
GRAP 105	Transfers of functions between entities under common control
GRAP 107	Mergers
GRAP 108	Statutory Receivables

##### Interpretations Issued and Effective

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in Existing Decommissioning Restoration and Similar Liabilities
IGRAP 3	Determining Whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation
Funds IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases - Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 16	Intangible Assets - Website Costs (effective 1 April 2013)

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 and all amounts are rounded to the nearest rand.

### 1.2 Going concern assumption

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

### 1.3 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with South African Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and sections they may undertake in the future, actual results ultimately may differ from those estimates. These include:

#### Trade receivables and other 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.

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

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

#### 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 20 - Provisions.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

### 1.4 Investment property

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

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

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

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

Investment property is initially recognised at fair value. Subsequently recognised at cost model.

### Cost model

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

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

Item	Useful life
Property - land	Indefinite
Property - buildings	10-30 years

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

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

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.

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
<b>INFRASTRUCTURE ASSETS</b>	Straight line	
• Electricity Generation		10-30
• Electricity Reticulation		10-45
• Refuse		10-100
• Roads, Pavements & Bridges		10-50
• Sewerage Purification		20-120
• Sewerage Ratification		10-100
• Sorm water		10-50
• Street Lightning		5-20
• Water-Dams & Reservoirs		20-50
• Water Reticulation		10-120
•		
<b>COMMUNITY ASSETS</b>	Straight line	
• Buses		10-15
• Cemeteries		20-100
• Community Halls		15-100
• Community other		15-100
• Fire,Safety & Emergency		10-100
• Libraries		10-100
• Museums & Art Gallaries		10-100
• Parks & Gardens		5-50
• Recreational Facilities		15-100
• Social Renting Housing		10-100
• Sportsfields & Stadium		10-100
• Swimming Pools		10-20
•		
<b>OTHER ASSETS</b>	Straight line	
• Civil Land & Building		20-100
• Computer Hardware & Equipment		4-5
• Furniture & Office Equipment		7-30
• General Vehicles		7-15
• Other Buildings		50-100
• Other Land		Indefinite
• Other Assets		5-15
• Plant &Equipment		5-30
• Security Measure		5-10
• Specialised Vehicle		12-30

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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 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.

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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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 brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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:

Item	Useful life
Computer software, other	4-10 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 an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 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.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. 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. 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.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 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.

### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses. After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

### Impairment

The municipality assess 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.

### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a 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).

### 1.8 Financial instruments

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

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

A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

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

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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### Classification

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

<b>Class</b>	<b>Category</b>
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from non exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liability	Financial liability measured at fair value

### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

### Initial measurement of financial assets and financial liabilities

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

# Makana Municipality

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## Accounting Policies

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### Subsequent measurement of financial assets and financial liabilities

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

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

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

### Reclassification

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

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

### Gains and losses

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

### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount 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. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

Financial assets measured at cost:

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



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

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

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

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

### 1.9 Leases

#### The Municipality as a lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of the interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

# Makana Municipality

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### The Municipality as a lessor

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

### 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 if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

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.

### 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.

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

### 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.

### 1.10 Inventories General

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

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

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

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

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

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

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

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

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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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 (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. 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 test 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.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 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.

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.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### Reversal of impairment loss

The municipality assess 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.

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.

#### 1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

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 (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

# Makana Municipality

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## Accounting Policies

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

Useful life is either:

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

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

### 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 test 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 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 of non-cash generating units

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.

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.

# Makana Municipality

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## Accounting Policies

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### Reversal of an impairment loss

The municipality assess 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.

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.

### 1.13 Employee benefits

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

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

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

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

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

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

# Makana Municipality

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## Accounting Policies

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### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

### Post-employment benefits

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



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### Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Makana Municipality

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### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.14 Provisions

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Value Added Tax (VAT)

The municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

The municipality is liable to account for VAT at standard rate (14%) in terms of section 7(1) of the vat act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 or is out of scope for VAT purposes. The timing of payments to or from SARS is the last day of each of twelve months financial year.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

### Measurement

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

### Sale of goods

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

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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

### Interest

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

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

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an 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.

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, an 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.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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

### Recognition

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

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

### Measurement

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

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

### Rates, including collection charges, penalties and interest

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 apportionment basis with reference to the principle amount receivable and effective interest rate applicable. Rebates are granted to certain categories of ratepayers and are deducted from the revenue.

### Transfers

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

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

### Fines

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

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

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

### Gifts and donations, including goods in-kind

Donations are recognised on a cash basis or where the donation is in the form of; property, plant and equipment, when such items are available for use.

#### 1.18 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.19 Investment income

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

### 1.20 Borrowing costs

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

The alternative treatment, as allowed by the Borrowing Costs standard (GRAP 5), to expense Borrowing Costs has been selected by the Municipality.

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

### 1.21 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.22 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Executive Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitment note in the financial statements.

### 1.24 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

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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- 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.

### 1.25 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period. The nature and reason for the reclassification are disclosed in the comparative figure note 49 to the financial statements.

### 1.26 Unauthorised expenditure

Unauthorised expenditure is any expenditure incurred otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (MFMA).

Unauthorised expenditure includes:

- Overspending of the total amount appropriated in the municipality's approved budget,
- Overspending of the total amount appropriated for a vote in the approved budget,
- Expenditure from a vote unrelated to the department or functional area covered by the vote,
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose,
- Spending of an allocation received from another sphere of Government, municipality, or organ of state otherwise than in accordance with any conditions of the allocation,
- A grant by the municipality otherwise than in accordance with the MFMA.

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not certified as irrecoverable by the council it is treated as an asset until it is recoverable or written off as irrecoverable.

### 1.27 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.

### 1.28 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.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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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 municipality'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.

### 1.29 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 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 in the annual financial statement.

### 1.30 Contingent assets and contingent liabilities

The municipality does not recognise contingent liabilities or contingent assets, but disclose them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow economic benefits is probable. Contingent assets and liabilities are disclosed in note 47.

### 1.31 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, change in accounting estimates and errors, requirements except to the extent that is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

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

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the notes to the financial statements where applicable.



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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### 2. NEW STANDARDS AND INTERPRETATIONS

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

**Standard/ Interpretation:**

**Effective date:  
Years beginning on or  
after**

**Expected impact:**

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>3. INVENTORIES GENERAL</b>		
Land	3,641,500	-
Consumable stores	2,125,802	5,829,474
Electricity	2,821,627	6,025,175
	<b>8,588,929</b>	<b>11,854,649</b>

Inventories are held for own use and measured at the lower of Cost and Net Replacement Value

No inventory is pledged as security.

**Land** is made out of land parcels to be disposed off.

**Consumable stores** includes; protective clothing, toilet papers, maintenance items, refuse bags and other items.

**Electricity** includes; electricity fittings, bulbs, cables.

### 3.1 Inventories recognised as an expense during the year

Cleaning and materials	142,897	149,768
Consumables	4,270	-
Materials and stores	4,311,563	520,546
Printing and stationery	51,663	58,780
Protective clothing	374,592	185,257
Refuse bags	243,513	378,369
Uniforms	71,965	53,992
	<b>5,200,463</b>	<b>1,346,712</b>

### 4. INVENTORIES WATER

Water		
<u>21,672</u>		<u>75,888</u>

Water includes stock in reservoirs and reticulation.

### 5. RECEIVABLES FROM EXCHANGE TRANSACTIONS

#### Gross balances

Electricity	60,303,372	43,624,806
Refuse	28,680,505	22,014,892
Sewerage	54,675,748	38,636,472
Water	132,430,647	172,282,297
Other (specify)	14,551,900	12,218,078
	<b>290,642,172</b>	<b>288,776,545</b>

#### Less: Allowance for impairment

Electricity	(41,017,953)	(38,320,064)
Water	(125,569,368)	(127,937,159)
Sewerage	(52,695,081)	(38,636,472)
Refuse	(27,562,817)	(22,014,892)
Other (specify)	(8,123,198)	(11,938,828)
	<b>(254,968,417)</b>	<b>(238,847,415)</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Net balance</b>		
Electricity	19,285,419	5,304,742
Water	6,861,279	44,345,138
Sewerage	1,980,667	-
Refuse	1,117,688	-
Other (specify)	6,428,702	279,250
	<b>35,673,755</b>	<b>49,929,130</b>
<b>Electricity</b>		
Current (0 -30 days)	15,021,274	2,475,983
31 - 60 days	6,635,449	1,482,430
61 - 90 days	4,375,041	1,274,277
91 - 120 days	3,125,417	1,053,984
121 - 365 days	31,146,191	37,338,132
Allowance for doubtful debts	(41,017,953)	(38,320,064)
	<b>19,285,419</b>	<b>5,304,742</b>
<b>Water</b>		
Current (0 -30 days)	5,284,590	11,428,832
31 - 60 days	4,116,940	5,027,321
61 - 90 days	3,739,371	4,369,889
91 - 120 days	2,347,194	3,906,103
121 - 365 days	116,943,053	147,550,153
> 365 days	(125,569,869)	(127,937,160)
	<b>6,861,279</b>	<b>44,345,138</b>
<b>Sewerage</b>		
Current (0 -30 days)	1,190,295	1,558,667
31 - 60 days	836,458	1,011,593
61 - 90 days	668,681	882,721
91 - 120 days	584,911	702,871
121 - 365 days	51,395,976	34,480,620
> 365 days	(52,695,654)	(38,636,472)
	<b>1,980,667</b>	<b>-</b>
<b>Refuse</b>		
Current (0 -30 days)	738,007	1,389,083
31 - 60 days	499,043	744,028
61 - 90 days	440,137	684,059
91 - 120 days	436,590	556,027
121 - 365 days	26,566,729	18,641,694
> 365 days	(27,562,818)	(22,014,891)
	<b>1,117,688</b>	<b>-</b>
<b>Other (specify)</b>		
Current (0 -30 days)	114,913	2,999,467
31 - 60 days	292,734	2,405,534
61 - 90 days	88,546	2,256,467
91 - 120 days	119,891	1,920,394
121 - 365 days	7,745,847	6,092,850
> 365 days	(1,933,229)	(15,395,462)
	<b>6,428,702</b>	<b>279,250</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(238,847,415)	(90,109,246)
Contributions to allowance	(68,230,355)	(148,738,169)
Debt impairment written off against allowance	52,109,353	-
	<b>(254,968,417)</b>	<b>(238,847,415)</b>

### 6. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Sundry Deposits	52,403	71,221
Consumer debtors - Rates	52,146,147	31,770,867
Impairment on assessment rates debtors	(45,263,381)	(31,770,868)
	<b>6,935,169</b>	<b>71,220</b>

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(31,770,868)	-
Provision for impairment	(13,492,513)	(31,770,868)
	<b>(45,263,381)</b>	<b>(31,770,868)</b>

### 7. VAT RECEIVABLE

VAT	101,377	-
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VAT is payable on the payment basis. Only once payment is received from debtors VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged accordingly to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

### 8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Current Investments	1,305,910	12,142,729
Bank Accounts	3,873,244	9,513,344
Petty Cash	-	2,911
	<b>5,179,154</b>	<b>21,658,984</b>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments.

#### Current Investment Deposits

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 4,5 % to 7,50 % (2015: 4,25 % to 4,50 %) per annum.

Call Deposits are investments with no maturity period.

The municipality does not have any overdrawn current account facilities with its bankers and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R			2015 R		
<b>The municipality had the following bank accounts</b>						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - Current Account- 620 312 32531	3,828,302	5,786,560	(10,092,144)	3,828,302	5,786,560	(10,092,144)
Standard Bank - Current Account- 081 999 356	44,941	3,726,783	(7,215,473)	44,941	3,726,783	(7,215,473)
First National Bank - Call Account - 620 733 69607	-	1,004	1,098	-	1,004	1,098
First National Bank - Call Account - 622 334 11884	(41)	2,638,507	605,222	(46)	2,638,507	605,222
First National Bank - Call Account- 620 523 37865	-	20,144	14,634	-	20,144	14,635
First National Bank - 12 Months Deposits - 715 388 11574	446,292	418,000	-	446,292	418,000	-
Standard Bank - 12 Months Deposits - 088807657-004	425	171,682	166,220	426	171,682	166,220
Standard Bank -12 Months Deposits - 088812685-001/4/7	1,507	374,425	355,713	1,507	374,425	355,713
Standard Bank - Call Account - 088822370-002	42,313	7,537,325	-	42,313	7,537,325	-
GBS Mutual - 32 Days Notice - 305 970 0053	210,850	204,052	131,878	210,850	204,052	131,879
GBS Mutual - 12 Months Deposits - 225 060 4545	169,637	159,388	150,879	169,637	159,388	150,879
GBS Mutual - 12 Months Deposits - 225 060 4601	166,218	166,218	166,218	166,218	166,218	166,218
ABSA - Call Account - 909 560 9301	131,812	126,761	122,817	131,812	126,761	122,817
ABSA - 12 Months Deposits - 204 758 4346	43,435	-	-	43,436	-	-
ABSA - 12 Months Deposits - 204 947 8169	10,107	-	-	10,107	-	-
Ned Bank - Call Account - 03/7881065141/000001	82,776	77,978	73,970	82,776	77,978	73,970
Standard Bank - 12 Months Deposits - 088805662-002	164	75,703	-	163	75,703	-
Standard Bank - 12 Months Deposits - 088812723 -001	416	167,462	-	415	167,462	-
<b>Total</b>	<b>5,179,154</b>	<b>21,651,992</b>	<b>(15,518,968)</b>	<b>5,179,149</b>	<b>21,651,992</b>	<b>(15,518,966)</b>

### Other Cash and Cash Equivalents

Petty Cash	-	2,911
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### 9. VAT SUSPENSE

VAT suspense	( 9,794,806)
14,550,952	

The VAT suspense account is used to record vat on revenue and expenses incurred but for which no payment has been received or made.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>10. PROPERTY, PLANT AND EQUIPMENT</b>		
	2016	2015
	Cost / Valuation	Accumulated depreciation and accumulated impairment
	Carrying value	Cost / Valuation
	Accumulated depreciation and accumulated impairment	Carrying value
Land	89,145,911	-
Buildings	137,970,990	(26,363,260)
Infrastructure	535,004,530	(219,766,011)
Community	50,215,907	(20,101,218)
Other property, plant and equipment	41,896,969	(22,418,977)
Work in progress Infrastructure	224,588,636	-
Work in progress Community	3,388,516	-
Landfill site	25,941,432	(2,189,470)
<b>Total</b>	<b>1,108,152,891</b>	<b>(290,838,936)</b>
	<b>817,313,955</b>	<b>1,088,786,496</b>
	<b>(131,178,021)</b>	<b>957,608,475</b>

## Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

### Notes to the Annual Financial Statements

Figures in Rand

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	89,145,911	-	-	-	-	89,145,911
Buildings	120,605,030	-	-	(2,192,052)	(6,805,248)	111,607,730
Infrastructure	451,321,672	-	-	(14,881,656)	(121,201,497)	315,238,519
Community	40,714,398	427,495	-	(1,575,473)	(9,451,731)	30,114,689
Other property, plant and equipment	23,037,654	783,673	(564,977)	(2,241,262)	(1,537,096)	19,477,992
Work in progress Infrastructure	204,605,674	19,982,962	-	-	-	224,588,636
Work in progress Community	3,388,516	-	-	-	-	3,388,516
Landfill site	24,789,620	-	-	(1,037,658)	-	23,751,962
	<b>957,608,475</b>	<b>21,194,130</b>	<b>(564,977)</b>	<b>(21,928,101)</b>	<b>(138,995,572)</b>	<b>817,313,955</b>

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Land	89,145,911	-	-	-	89,145,911
Buildings	122,797,082	-	-	(2,192,052)	120,605,030
Infrastructure	466,046,676	151,737	-	(14,876,741)	451,321,672
Community	42,285,975	-	-	(1,571,577)	40,714,398
Other property, plant and equipment	25,945,315	172,756	(427,981)	(2,652,436)	23,037,654
Work in progress Infrastructure	163,815,946	40,789,728	-	-	204,605,674
Work in progress Community	3,002,553	385,963	-	-	3,388,516
Landfill site	25,827,277	-	-	(1,037,657)	24,789,620
	<b>938,866,735</b>	<b>41,500,184</b>	<b>(427,981)</b>	<b>(22,330,463)</b>	<b>957,608,475</b>

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.

No property, plant and equipment was pledged as security.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 11. INTANGIBLE ASSETS

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,137,881	(707,845)	430,036	1,137,881	(540,842)	597,039

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	597,039	(167,003)	430,036

#### Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Impairment loss	Total
Computer software	921,663	(221,826)	(102,798)	597,039

#### Pledged as security

No intangible assets are pledged as security.

### 12. HERITAGE ASSETS

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	33,364,868	-	33,364,868	33,364,868	-	33,364,868

#### Reconciliation of heritage assets 2016

	Opening balance	Total
Historical buildings	33,364,868	33,364,868

#### Reconciliation of heritage assets 2015

	Opening balance	Impairment losses recognised	Total
Historical buildings	34,608,199	(1,243,331)	33,364,868

#### Pledged as security

No heritage assets are pledged as security.

During the year the Municipality changed its measurement of heritage assets from fair value model to cost model. This was to achieve fairer presentation of heritage assets.



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016	2015
	R	R

### 13. INVESTMENT PROPERTY

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	185,432,902	(1,082,888)	184,350,014	189,074,402	(928,190)	188,146,212

#### Reconciliation of investment property - 2016

	Opening balance	Transfers	Depreciation	Total
Investment property	188,146,212	(3,641,500)	(154,698)	184,350,014

#### Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	188,300,910	(154,698)	188,146,212

#### Change in accounting policy

During the year the Municipality changed its measurement of investment property from fair value model to cost model. This was to achieve fairer presentation of investment property. This is in line with GRAP 16, refer to change in accounting policy note.

No investment property has been pledged as security.

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

### 14. CONSUMER DEPOSITS

Electricity and water	2,938,657	2,814,709
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Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer Deposits held.

### 15. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	99,771,053	109,921,130
Payments received in advance	135,659	704,717
Retentions	1,553,829	2,149,864
Debtors with Credit Balances	29,675,998	27,825,760
	<b>131,136,539</b>	<b>140,601,471</b>

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>16. PAYABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
Other Creditor	14,506,686	1,374,280
Bonus Provision	4,453,052	3,342,618
Leave Provision	11,601,767	11,792,005
	<b>30,561,505</b>	<b>16,508,903</b>

**Staff bonuses** accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

**Staff leave** accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

**Other creditors** is made out of third party payments outstanding at year end.

### 17. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

**Unspent conditional grants and receipts comprises of:**

#### Unspent conditional grants and receipts

Finance Management Grant (FMG)	-	346,992
Expanded Public Works program (EPWP)	141,068	276,205
Disaster Grant	3,876,000	3,876,000
	<b>4,017,068</b>	<b>4,499,197</b>

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 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 18. LONG TERM LOAN

#### Designated at fair value

Bank loan	56,358,400	55,068,278
The municipality has restructured its loan with the Development Bank of south Africa effectively on the 30 September 2015. The borrowed amount amounts to R56 358 399 with an interest rate of 10.5% p.a for a period of 20 years with the first installment starting 31 January 2017.		

#### Non-current liabilities

Designated at fair value	55,832,375	55,068,278

#### Current liabilities

Designated at fair value	526,025	-

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 19. EMPLOYEE BENEFIT OBLIGATIONS

#### Defined benefit plan

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

#### Carrying Value

Post Retirement Benefits: Medical Aid	61,362,940	61,612,636
Long Service Awards	6,573,769	5,861,725
	<b>67,936,709</b>	<b>67,474,361</b>
Current Portion of Liability	3,276,820	2,728,362
Non-Current Portion of Liability	64,659,889	64,745,999
	<b>67,936,709</b>	<b>67,474,361</b>

#### Post retirement health care benefit liability

The municipality operates an unfunded defined benefit plan for qualifying employees, and offers employees 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. The accrued unfunded liability at 30 June 2016 is based on the municipality's accrued contributions-based liability and takes no account of any potential contingent Cross-subsidy liability. The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation report was performed on 30 June 2016 by Arch Actuarial Consulting using the Projected Unit Credit Method.

#### The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service (employee) members	386	323
In-service (employee) no-members	320	273
Continuation (retiree and widow) members	61	61
	<b>767</b>	<b>657</b>

#### The liability in respect of past service has been estimated as follow:

In-service (employee) members	29,168,920	30,855,650
In-service (employee) non-members	6,951,484	6,309,647
Continuation (retiree and widow) members	25,242,536	24,447,239
	<b>61,362,940</b>	<b>61,612,536</b>

#### The municipality makes monthly contributions for health-care arrangements to the following Medical Aid Schemes

Bonitas  
Samwumed  
Keyhealth  
Hosmed  
LA Health

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

Opening balance	61,612,536	57,100,887
Net expense recognised in the statement of financial performance	(249,596)	4,511,649
	<b>61,362,940</b>	<b>61,612,536</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>The amounts recognised in the statement of financial performance are as follows</b>		
Current service cost	3,098,268	2,832,207
Interest cost	5,468,733	5,080,194
Actuarial (gains) losses	(6,870,329)	(1,426,128)
Expected contribution (benefits paid)	(1,946,268)	(1,974,624)
	<b>(249,596)</b>	<b>4,511,649</b>

### The principal assumptions used for the purpose of the actuarial valuations were as follows:

(i) SA 85-90 table was used for pre-retirement mortality adjusted for female lives, and table PA (90)-1 was used for post-retirement mortality, adjusted year of age.

Medical Health Discount rates used	9.34 %	9.02 %
Post-retirement health care net effective discount rate	0.86 %	0.82 %
Medical Health cost inflation rate	8.40 %	8.13 %
Long - Service award discounted rate	8.35 %	7.78 %
Long - Service award general salary inflation	7.02 %	6.97 %
Long - Service awards net effective discount rate	1.24 %	0.75 %
Maximum subsidy inflation rate	5.93 %	- %
Net discount rate- maximum subsidy inflation	3.22 %	- %
Portion of eligible non-members joining the scheme by retirement	20.00 %	20.00 %

(ii) Normal Retirement Age

Expected Retirement Age (females)	63
63	

Expected Retirement Age (males)	63
63	

The PA 90-1 mortality table, adjusted down by one year of age, was used. The SA85-90 ultimate table, adjusted for female lives was used.

### Other assumptions

it is further assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments.

### The history of experienced adjustments is as follows:

The fair value of Plan assets: The post-employment health care liability and Long- Service Awards are not a funded arrangement i.e no separate assets have been set aside to meet this liability

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	61,362,940	61,612,536	57,100,887	45,862,298	49,602,909
Surplus (deficit)	(61,362,940)	(61,612,536)	(57,100,887)	(45,862,298)	(49,602,909)
Experience adjustments on plan liabilities	-	(789,000)	4,866,000	(7,717,000)	1,131,000

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Long -service awards</b>		
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening Balance	5,861,625	5,153,490
Net expense recognised in the statement of financial performance	712,144	708,135
	<b>6,573,769</b>	<b>5,861,625</b>

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

Long - Service awards- Carrying Amount	6,573,769	5,861,625
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### Net expense recognised in the statement of financial performance

Current Service Costs	865,251	807,335
Interest costs	426,026	379,015
Actuarial (gain)/loss	202,761	103,327
Benefits paid	(781,894)	(581,542)
	<b>712,144</b>	<b>708,135</b>

## 20. PROVISIONS

### Reconciliation of provisions - 2016

	Opening Balance	Interest	Total
Environmental rehabilitation	27,336,984	1,544,540	28,881,524

### Reconciliation of provisions - 2015

	Opening Balance	Interest	Total
Environmental rehabilitation	25,875,044	1,461,940	27,336,984

The Municipality has an obligation to restore three land fill sites situated in Grahamstown, Alicedale and Riebeeck east. The landfill sites are currently licensed and used for general waste disposal ( non-hazardous) purpose. Assumptions and estimates are based on an operational life expectancy of 30 years and the average interest rate used is 5-7%. The valuations were done by Sean Nel from Bosch Munitech (Pty) Ltd based in East London.

## 21. SERVICE CHARGES

Service charges	31,397	101,716
Sale of electricity	135,221,603	105,700,467
Sale of water	40,778,025	42,893,595
Sewerage and sanitation charges	19,286,627	16,642,066
Refuse removal	7,225,354	5,912,937
	<b>202,543,006</b>	<b>171,250,781</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>22. RENTAL OF FACILITIES AND EQUIPMENT</b>		
<b>Premises</b>		
Encroachments	1,012,733	914,215
Venue hire	132,781	85,534
	<b>1,145,514</b>	<b>999,749</b>
<b>Facilities and equipment</b>		
Amenities	21,284	23,660
	<b>1,166,798</b>	<b>1,023,409</b>
<b>23. OTHER INCOME</b>		
Administration/sale of plots	479,354	419,422
Advertising fees	277	664
Building Plans	198,421	291,175
Car pound fees	-	38,980
Grazing fees	23,608	22,056
Weighbridge fees	240	-
Sundry revenue	4,535,271	1,417,965
Search fees	17,646	10,435
Printing and photocopies	17,136	19,314
Refuse bags and bins	22,268	14,092
Vacuun tanker	31,992	-
Street Painting Fee	-	1,995
Other income	261,732	538,217
	<b>5,587,945</b>	<b>2,774,315</b>
<b>24. PROPERTY RATES</b>		
<b>Rates received</b>		
Property rates	57,106,845	57,215,209
Less: Income forgone	(3,657,237)	(3,387,901)
	<b>53,449,608</b>	<b>53,827,308</b>
<b>Valuations</b>		
Residential	22,127,088	20,713,016
Commercial	10,752,972	9,368,940
State	12,639,627	11,831,868
Undetermined	384,826	360,233
Agricultural	2,194,112	2,053,893
Industrial	1,662,875	1,556,606
Educational	11,302,543	10,580,233
Institutional	57,234	39,877
	<b>61,121,277</b>	<b>56,504,666</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>25. GOVERNMENT GRANTS AND SUBSIDIES</b>		
<b>Operating grants</b>		
Equitable share	75,367,317	72,184,000
Municipal System Improvement Grant (MSIG)	930,000	934,000
Department Sport, Recreation, Arts & Culture	3,985,000	3,985,000
Finance Management Grant (FMG)	2,021,992	1,562,510
Other Government: LG Seta	165,600	1,025
Fire Subsidy grant	592,000	500,000
Expanded Public Works Programme (EPWP)	1,137,137	730,795
Public Health Subsidy	1,808,502	1,734,678
	<b>86,007,548</b>	<b>81,632,008</b>
<b>Capital grants</b>		
DWA	538,118	3,561,188
Municipal Infrastructure Grant (MIG)	26,263,495	22,379,961
Regional Bulk Infrastructure Grant	-	1,499,084
INNOWIND	-	1,539,000
	<b>26,801,613</b>	<b>28,979,233</b>
	<b>112,809,161</b>	<b>110,611,241</b>
<b>Disaster</b>		
Included in above are the following grants and subsidies received:		
Opening balance	3,876,000	-
Current year receipts	-	7,447,552
Conditions met - transferred to revenue	-	(3,571,552)
	<b>3,876,000</b>	<b>3,876,000</b>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	-	12,543,161
Current-year receipts	26,263,495	9,836,800
Conditions met - transferred to revenue	(26,263,495)	(22,379,961)
	-	-
<p>The municipal Infrastructure Grant (MIG) was allocated for construction of Roads, basic sewere and water infrastructure as part of the life of poor households, micro enterprise and social institution, to provide new infrastructure, rehabilitation and upgrading of municipal infrastructure. The municipality's MIG funds are deposited to Sarah Baartman District Municipality and the municipality receives a portion of expenditure to be incurred upon submission of valid invoices to Sarah Baartman. Unspent Grant at year end as well as Roll over application is done by the district municipality and will be disbursed to the municipality upon submission of valid tax invoices.</p>		
<b>Department of Housing</b>		
Current-year receipts	-	3,345,595
Conditions met - transferred to revenue	-	(3,345,595)
	-	-
This Grant was allocated to the municipality to assist the municipality to provide housing for the poor		
<b>Finance Management Grant</b>		
Balance unspent at beginning of year	346,992	309,502
Current-year receipts	1,675,000	1,600,000

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
Conditions met - transferred to revenue	(2,021,992)	(1,562,510)
	<u>-</u>	<u>346,992</u>

The Finance Management Grant is paid by National Treasury to municipalities to help them implement the finance management reforms required by Municipal finance Management Grant (MFMA) 2003

### Municipal Systems Improvement Grant

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	<u>-</u>	<u>-</u>

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems

### Expanded Public Works program

Balance unspent at beginning of year	276,205	-
Current-year receipts	1,002,000	1,007,000
Conditions met - transferred to revenue	(1,137,137)	(730,795)
	<u>141,068</u>	<u>276,205</u>

The Expanded Public works Program was allocated to the municipality for environmental and water infrastructure projects

### Other Grants: LG Seta

Current-year receipts	165,600	1,025
Conditions met - transferred to revenue	(165,600)	(1,025)
	<u>-</u>	<u>-</u>

### Department of Sport, Recreation, Arts & Culture

Current-year receipts	3,985,000	3,985,000
Conditions met - transferred to revenue	(3,985,000)	(3,985,000)
	<u>-</u>	<u>-</u>

This Grant was allocated to the municipality for purpose of maintaining and building libraries in the community

### Department of Water Affairs

Current-year receipts	538,118	3,561,188
Conditions met - transferred to revenue	(538,118)	(3,561,188)
	<u>-</u>	<u>-</u>

This Grant was transferred to the municipality for the operation and maintenance of sewerage and water schemes transferred from DWA to the municipality and refurbishment of water infrastructure.

### Grant: Regional Bulk Infrastructure

Current-year receipts	-	1,499,084
Conditions met - transferred to revenue	-	(1,499,084)
	<u>-</u>	<u>-</u>



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>INNOWIND</b>		
Current-year receipts	-	1,539,000
Conditions met - transferred to revenue	-	(1,539,000)
	-	-
<b>26. REVENUE</b>		
Service charges	202,543,006	171,250,781
Rental of facilities and equipment	1,166,798	1,023,409
Interest received Debtors	16,980,125	11,092,670
Agency services	995,783	850,378
Licences and permits	2,220,899	2,344,416
Other income	5,587,945	2,774,315
Interest received - investment	643,168	1,401,578
Property rates	53,449,608	53,827,308
Government grants & subsidies	112,809,161	110,611,241
Fines, Penalties and Forfeits	49,016	55,402
	<b>396,445,509</b>	<b>355,231,498</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	202,543,006	171,250,781
Rental of facilities and equipment	1,166,798	1,023,409
Interest received Debtors	16,980,125	11,092,670
Agency services	995,783	850,378
Licences and permits	2,220,899	2,344,416
Other income	5,587,945	2,774,315
Interest received - investment	643,168	1,401,578
	<b>230,137,724</b>	<b>190,737,547</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	53,449,608	53,827,308
<b>Transfer revenue</b>		
Government grants & subsidies	112,809,161	110,611,241
Fines, Penalties and Forfeits	49,016	55,402
	<b>166,307,785</b>	<b>164,493,951</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>27. EMPLOYEE RELATED COSTS</b>		
Basic	98,681,571	94,356,885
Bonus	1,520,490	299,209
Medical aid - company contributions	7,054,586	6,189,411
UIF	891,541	825,907
SDL	1,187,314	1,062,756
Leave payments	457,158	1,080,642
Insurance contribution	683,991	594,156
Pension fund contributions	14,979,981	13,578,567
Overtime payments	9,224,132	7,055,150
Transport allowance	3,651,367	3,304,328
Housing benefits and allowances	1,737,276	263,812
Stand by allowance	636,540	1,146,707
Telephone allowance	213,828	151,228
Medical aid for retired members	3,141,151	5,219,784
Industrial Council Levy	58,723	49,559
	<b>144,119,649</b>	<b>135,178,101</b>
<b>Acting Municipal Manager:</b>		
M Planga	-	55,300
T Mnguni	-	149,559
B Khumalo	-	109,922
MJ Meiring	297,700	-
	<b>297,700</b>	<b>314,781</b>
<b>Chief Financial Officer: NF Siwahla</b>		
Earnings	91,120	-
Allowance	46,853	-
Company contributions	6,600	-
M Crouse (Acting)	98,585	30,915
B Khumalo (Acting)	117,058	153,062
N Balinnwadi-Qwadi (Acting)	-	15,746
	<b>360,216</b>	<b>199,723</b>
<b>Director: Community &amp; Social Services: M Planga</b>		
Earnings	786,194	760,221
Allowance	157,131	142,504
Company contributions	-	11,890
	<b>943,325</b>	<b>914,615</b>
<b>Director: Corporate Services: M Madlavu</b>		
Earnings	550,638	752,339
Allowance	108,225	142,504
Company contributions	-	11,890
E Mager (Acting)	207,676	36,265
	<b>866,539</b>	<b>942,998</b>
<b>Director: Local Economic Development: MJ Meiring</b>		
Earnings	754,030	199,168
Allowance	152,530	37,936
Company contributions	-	3,165
T Sindane (Acting)	-	256,986
	<b>906,560</b>	<b>497,255</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Director: Technical &amp; Infrastructure Services: ET Myalato</b>		
Earnings	-	442,135
Allowance	-	76,049
Company contributions	-	6,345
D Mlenzana (Acting)	532,505	114,456
	<b>532,505</b>	<b>638,985</b>
<b>28. REMUNERATION OF COUNCILLORS</b>		
Executive Mayor	780,725	776,232
Councillors Other allowance	6,230,437	6,340,009
Councillors Cellphone allowance	549,173	536,072
Councillors Travelling allowance	1,861,224	1,805,955
	<b>9,421,559</b>	<b>9,458,268</b>
<b>29. DEPRECIATION AND AMORTISATION</b>		
Property, plant and equipment	21,979,376	22,330,463
Investment property	154,698	154,698
Intangible assets	167,003	221,826
	<b>22,301,077</b>	<b>22,706,987</b>
<b>30. IMPAIRMENT OF ASSETS</b>		
<b>Impairments</b>		
Property, plant and equipment	138,339,696	-
Microsoft licences no longer in use as the municipality has now the bulk server licences not the individual.		
Heritage assets	604,600	1,243,332
The heritage building was vandilised.		
Microsoft licences no longer in use as the municipality has now the bulk server licences not the individual.	-	102,798
	<b>138,944,296</b>	<b>1,346,130</b>
<b>31. FINANCE COSTS</b>		
Capitalised	4,262,844	8,371,006
Other interest paid	14,737,425	9,513,065
	<b>19,000,269</b>	<b>17,884,071</b>
The finance costs includes Eskom, landfill site, DBSA and other interest paid for late payments.		
<b>32. DEBT IMPAIRMENT</b>		
Debt impairment	182,764,755	66,325,870
<b>33. BULK PURCHASES</b>		
Electricity	93,733,596	79,293,639
Water	1,627,322	2,743,120
	<b>95,360,918</b>	<b>82,036,759</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>34. CONTRACTED SERVICES</b>		
Consultant and Professional Fees	8,383,361	4,490,553
<p>The professional fees is made out of consulting fees for services rendered i.e debt collectors, financial system and other.</p>		
<b>35. GRANTS AND SUBSIDIES PAID</b>		
<b>Other subsidies</b>		
Grants in aid	68,021	1,000
Free basic services	459,239	496,487
Makana Tourism	986,345	748,023
Internship programme	856,665	1,393,859
Rhodes	-	17,706
	<b>2,370,270</b>	<b>2,657,075</b>
<b>36. GENERAL EXPENSES</b>		
Audit Fees	4,470,205	12,659,656
Administration Charges	3,609,012	2,710,199
Advertising	952,237	755,558
Audit Committee	126,500	110,169
Bank charges	616,661	343,322
Chemicals	12,286	64,030
Cleaning and materials	142,897	149,768
Commission paid	1,820,909	1,399,944
Complaints: water and electricity	129,532	90,393
Conferences and seminars	693,059	522,969
Consumable Tools	4,270	-
Council events and projects	2,545,745	2,586,674
Electricity and Water	11,768,027	17,345,662
Electricity connection	2,471,408	820,411
Fuel and oil	4,921,582	3,965,003
Grants and Subsidies	1,152,584	506,063
Insurance	1,082,838	1,338,026
Internal Audit Fees	54,906	7,677
Interviews and Relocation Expenses	433,165	282,085
Legal Fees	6,751,279	3,281,201
License Cards	586,069	584,930
Materials and stores	5,204,093	623,231
Other expenses	1,556,653	2,501,838
Postage and courier	981,697	837,471
Printing and stationery	51,663	58,780
Protective clothing	374,592	185,257
Refuse bags	243,513	378,369
Security (Guarding of municipal property)	2,419,207	2,581,803
Subsistence and Traveling	307,152	266,399
Telephone and fax	2,985,563	2,738,007
Training	751,691	432,140
Uniforms	71,965	53,992
Valuation expenses	1,331,902	124,035
	<b>60,624,862</b>	<b>60,305,062</b>
<b>37. AUDITORS' REMUNERATION</b>		
Audit Fees	4,470,205	12,659,656

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>38. CASH GENERATED FROM OPERATIONS</b>		
Deficit	(317,975,174)	(57,297,321)
<b>Adjustments for:</b>		
Depreciation and amortisation	22,301,077	22,706,987
Gain on sale of assets and liabilities	107,881	21,253
Impairment deficit	138,944,296	-
Debt impairment	182,764,755	66,325,870
Movements in retirement benefit assets and liabilities	462,348	(24,424,290)
Movements in provisions	1,544,540	26,554,865
Movement in tax receivable and payable	24,345,758	28,651,292
Other no-cash items	41,364,336	69,612,467
Finance costs (non-cash)	10,157,603	-
Contributions to allowances	68,230,355	-
<b>Changes in working capital:</b>		
Inventories General	3,265,720	3,665,872
Consumer debtors	(168,509,380)	(28,336,262)
Other receivables from non-exchange transactions	(6,863,949)	27,491,527
Inventories Water	(54,216)	148,942
Payables from exchange transactions	(9,464,932)	(87,676,515)
VAT	(101,377)	12,628,148
Taxes and transfers payable (non exchange)	14,052,602	-
Unspent conditional grants and receipts	(482,129)	-
Consumer deposits	123,948	-
	<b>4,214,062</b>	<b>60,072,835</b>
<b>39. COMMITMENTS</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	33,448,130	18,771,627
	<b>33,448,130</b>	<b>18,771,627</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	33,448,130	18,771,627
	<b>33,448,130</b>	<b>18,771,627</b>
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Professional fees	4,463,949	-
	<b>4,463,949</b>	<b>-</b>
<b>Total operational commitments</b>		
Already contracted for but not provided for	4,463,949	-
	<b>4,463,949</b>	<b>-</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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### 40. RISK MANAGEMENT

#### Financial risk management

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

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the 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 Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. There has not been any reviews conducted during the year which exposed the municipality to high financial risks. Further quantitative disclosures are included throughout these Annual Financial Statements

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

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

#### Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances. The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made. Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

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

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable. The municipality is not exposed to credit interest rate risk as the municipality has no borrowings. The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### Credit risk

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

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

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor (impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

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

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

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.

Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

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

The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument	2016	2015
Receivables from exchange transactions	181,860,202	102,035,576
Receivables from non-exchanged transactions	46,445,726	44,801,157
Cash and cash equivalents	10,348,054	21,654,903

### 41. UNAUTHORISED EXPENDITURE

Opening Balance	225,168,585	193,387,100
Expenditure for the year	312,678,152	31,781,485
	<b>537,846,737</b>	<b>225,168,585</b>

The municipality incurred unauthorised expenditure due to non cash items that were not budgeted for during the current year.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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Depreciation: The municipality changed its accounting policy from fair value to cost model in terms of accounting for its investment property. Depreciation for investment property was not budgeted for.

Debt Impairment: During the year, the municipality reviewed its age analysis and identified some debtors to be written off.

Finance costs: Finance costs for landfill site were more than budgeted for, as budget was based on prior year figure

### 42. FRUITLESS AND WASTEFUL EXPENDITURE

Opening Balance	1,069,513	1,063,390
Expenditure for the year	9,929,155	5,766,340
Expenditure condoned by council	-	(5,760,217)
	<b>10,998,668</b>	<b>1,069,513</b>

These are as a result of interest paid on overdue payments which are not in compliance with MFMA s65(e) which states that all money owed by the municipality be paid within 30 days of receiving the relevant invoice or statement and penalties from SARS.

No disciplinary action has been taken yet with regards to the expenditure disclosed above, still under investigation.

### 43. IRREGULAR EXPENDITURE

Opening balance	89,914,122	68,235,558
Add: Irregular Expenditure - current year	37,880,291	21,678,564
	<b>127,794,413</b>	<b>89,914,122</b>

#### Analysis of expenditure awaiting condonation per age classification

Current year	37,880,291	21,678,564
Prior years	89,914,122	68,235,558
	<b>127,794,413</b>	<b>89,914,122</b>

#### Details of irregular expenditure – current year

Irregular expenditure on contracts	SCM processes not followed	37,880,291
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#### Details of irregular expenditure - prior year

Irregular expenditure on contracts	SCM processes not followed	21,678,564
		<b>21,678,564</b>

The irregular expenditure above is still under investigation.

### 44. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

#### Audit fees

Opening balance	12,659,656	8,000,708
Current year subscription / fee	3,104,088	4,658,948
Amount paid - current year	(4,470,205)	-
	<b>11,293,539</b>	<b>12,659,656</b>

Balanced unpaid (included in Creditors). In terms of section 65 (e) and (f) of the MFMA the municipality must pay all money owing within 30 days of receiving the relevant invoice or statement and also comply with all relevant Statutory commitments. The municipality and the Office of Auditor General have entered in a payment agreement plan.



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>PAYE and UIF</b>		
Opening balance	-	4,172,091
Current year subscription / fee	31,556,060	14,128,811
Amount paid - current year	(30,197,904)	(18,300,902)
	<b>1,358,156</b>	<b>-</b>

### VAT

VAT receivable	101,377	-
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VAT returns have been submitted by the due date throughout the year. VAT is payable on receipts basis. Only when payment is received from debtors, VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies.

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
30 June 2016			
Councillor X Madyo	-	335	335
Councillor P Ranchhod	-	2,387	2,387
Councillor B Jackson	-	212	212
	<b>-</b>	<b>2,934</b>	<b>2,934</b>
30 June 2015			
Councillor E Louw	8,761	61,230	69,991
Councillor L May	-	25,550	25,550
	<b>8,761</b>	<b>86,780</b>	<b>95,541</b>

## 45. BUDGET DIFFERENCES

### Material differences between budget and actual amounts

#### Statement of Financial Performance - Revenue

Service charges - Electricity revenue was increased during the adjustment budget. Collection of arrears did not realise as anticipated due to incorrect billing receipts and interest on receivables in budgeted numbers for service charges.

Interest earned – More revenue realised on outstanding receivables.

Other income from exchange transactions – infrastructure Levy not billed due to insufficient public participation.

Interest earned - external investments was received from MIG grant.

Licences & Permits – Budget was based on previous year receivables

Fines- The amount recognised as revenue is less than the budgeted amount due to Enatis not functioning for a period of 10 months.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016 R	2015 R
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### Statement of financial performance: Expenditure

Depreciation, amortisation and impairment losses Depreciation is budgeted as if capital expenditure will be 100%. Depreciation is higher due to capital expenditure and work in progress.

Debt impairment Debtors impairment is lower than budgeted for as a result of the increased average payment ratios of individual rate payers and consumers.

The adjustments made between the approved budget and the actual expenditure include virements that were made after the approval of the final adjustment budget on 26 May 2016.

Employee costs of 92% is due to excessive overtime and employees' and absorption of contract workers, medical aid cost for permanent employees and housing allowance for employees earning less than R5000 a month.

Bad debts written off –Actual increased due to data cleansing and settlement agreements

Transfers and Subsidies – Indigent subsidy is incorrectly classified

### Statement of financial position

Inventories Inventory for electrical and main stores was overstated and has been corrected. The budgeted amount is more than the actual at year end due to unpredictability of consumer stores purchases and stores issues

Operating Lease assets – No provision were made

Receivables from non- exchange transactions – The budget was overstated due to payment ratio on property rates was higher than anticipated

Intangible assets -The conditions of intangible assets were assessed during the current year under review

Investment property Budget was based on the 2014/2015 annual financial statements. Fair value adjustment and correction of an error where certain properties identified as investment property were transferred to investment property that affected the actuals, therefor the material variance

Payables from exchange transactions -the higher increase in year- end trade payables did not realise as expected. This was unknown at time when the adjustment budget was approved.

Unspent conditional grants and receipts - The was no provision made for the unspent due to the fact the disaster grant was received in 2014/15 financial year and National treasury did not approved the roll-over application.

Provisions - The material variance amount relates to the change in provision for rehabilitation for landfill sites requirements and conditions for the closure of landfill sites.

### Differences between the final budget and the adjusted

#### Service Charges

Electricity revenue was increased during the adjustment budget. Collection of arrears did not realise as anticipated due to incorrect billing receipts and interest on receivables in budgetd numbers for service charges. Electricity revenue was increased during the adjustment budget. Collection of arrears did not realise as anticipated due to incorrect billing receipts and interest on receivables in budgeted numbers for service charges

#### Other Income

The other income was reduced due to infrastructure levy not billed due to insufficient public participation.

#### Government Grants and Subsidies

The increase is due to approval of roll over for MIG administration costs, FMG and EPWP unspent portion.

#### Personnel costs

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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The employee costs increased to cater absorption of contract workers and company costs.

**Bulk purchases** is due to payment arrangement on bulk account.

**General Expenses** were increased due to operational costs and legal charges.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

2016 R	2015 R
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### 46. CONTINGENCIES

The known contingent liabilities and assets as at 30 June 2016 are estimated a R43 001 616 for liabilities and R950 575 for assets, for 2014/15 R49 123 142 for liabilities and R790 575 for assets,

#### Contingent liabilities

Below is a list of possible liability claims where the outcome was unknown as at 30 June 2016 and 30 June 2015 with the maximum unforeseen liability for the municipality.

Solethu Energy PTY (LTD)// Makana. The claim amount is R151 491.54 ( 14/15 and 15/16)

Ndlambe Electrical//Makana, The dispute is in relation to the amount claimed. The municipality is likely to pay the claimed amount of R2 086 956.53 in 2014/15. The case was settled and closed before the year end (30 June 2016)

Mkhuzo//Makana, Matter is set down at SALGBC 21st September 2015 for arbitration. Criminal matter finalised , Ms Mkhuzo found not guilty. It is likely that municipality will pay or reinstate the employee. The matter was finalised during 2016 and the claimant found not guilty.

Z. Nontshinga // Makana, Joined as 3rd party in MVA Claim. The contingent is R244 500.( 14/15 and 15/16)

Mthombo Resorts//Makana, Breach of lease agreement, non-payment of rent. The amount claimed by Mthombo is R9 300 000. (14/15 and 15/16).

Blunden Tours, Summons R22 000.00. The municipality is likely to pay R16 000.(14/15)

Bowles // Makana, traffic officer Bafo arrested Mr. Bowles, was taken on appeal, outcome of the appeal not yet known. The claim amount is R48 327 for 14/15. The case is closed in 2016.

Telkom SA // Makana, damages caused to Telkom lines. The claim amount is R56 000. (14/15 and 15/16)

Ndonyeli//Makana, Egazini eviction, applicant appealed, set down matter. The claim amount is R39 196 for (14/15 and 15/16).

Give Ziyawa//Makana, Breach of Contract. The claim amount is R26 000 000 for 14/15. The outstanding amount is R2 194 500 for 15/16.

Valley Environpreneurs//Makana, professional consulting engineers, letter of demand get information and instructions. The claim amount R214 830, stand until Claimant comes forward. (14/15 and 15/16)

Bates and Konstant: This claim is with regard to the failure to empty conservation tank to the amount of R300 000 for 14/15 and R75 000 for 15/16.

Urban Dynamics EC Inc //Makana, with regards to Development of land use, business plan non-payment. The claimed amount is R200 000 plus 15.5% =R231 000 .(14/15). The case closed in 2016.

Durchame Consulting//Makana, the dispute is over an amount owed for assisting in preparing the AFS. The claim amount is R1,479,538.96 for (14/15 and 15/16)

SAMWU/Makana, MOU strike. R80 346 for 14/15 and R80 000 for 15/16.

SANTAM//Makana. The claim is R8 889.12. (14/15 and 15/16)

Brinkman Ndayi McALL // Makana municipality: This is a claim with regards to summons issued for the professional services rendered to the amount of R662 169.38.(14/15 and 15/16)

PinZon Traders 8 PTY (LTD)// Makana regarding the rezoning matter. The claimant has not yet come forward with claim

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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Matthew Theijssen // Makana Municipality: This is a claim with regards to the civil action, unlawful arrest by the traffic officer, Bafo, to the amount of R200 000, matter sub judice ready for trial,(14/15 and 15/16)  
Bonisile Jamela//Makana: This is a claim regarding municipal workers damaging a wall of an applicant to the amount of R3 471.51 (14/15 and 15/16)  
Masuku Dube Tiffllin//Makana, non-payment of service Roads and Stormwater Project Alicedale.The claim amount is R382 155.22 for 14/15 and settled in 15/16.  
Lunotech//Makana, supply of Electrical goods. The claim amount is R681 343.80 for 2014/15 and 2015/16  
SALGBC//Makana, Arbitration cost orders, for 2014/15 and 2015/16. The municipality is likely to pay R20,000 for (2014/15 and 2015/16)  
WRC//Makana. The claim is R9 620 ( 14/15 and 15/16)

Green Body Corporate v Makana Municipality: This is a claim with regards to the damages to property done by the municipal truck BPX 663 EC to the amount R6209.(14/15 and 15/16)  
Power Construction//Makana, Retention fee, stay of the road is very poor DTIS to assess if the contract should get retention fee or fix the road. Makana entered into a payment plan, the estimated cost R295 000 2014/15, In 2015/16 the case is closed.

Aecom/Makana Matter was a contractual matter due non-payment for services rendered. R599 999.99 for 2014/15 and closed in 2015/16.

MBSA/Makana R59 605.20, for 2014/15 and 2015/16.

Sala Pension Fund/Makana R1,545,122.88 for 2014/15 and 2015/16.

M Boma/Makana, employee dismissed recover monies owed by him to makana municipality R80 000 for 2014/15 and 2015/16.

Preston/Makana R1,152,920.47 for 2014/15 and closed in 2016 no file or document found.

Ngcelwane/Makana,labour matter dismissal,makana must comply with award and pay applicant, R270 000 for 2014/15 and 2015/16.

P Naidoo/Makana, R150 000 for 2014/15 and 2015/16.

T Bulana/Makana, letter of demand, death of cow inour impound. R35 000 for 2014/15 and 15/16.

Aurecon/Makana, amount claimed for services rendered, R1 011 171.19 for 2014/15 and 2015/6.

SALA/Makana, penalty in late payment of employee contributions, R3 960 for 2014/15 and 2015/16.

Kabuso/Makana, notice of taxation internal audit recommends settlement, R30 000 for 2014/15 and R7000 2015/16.

Makana unity league, compliance order in respect to landfill site. R120 000 for 2015/16.

Agric E/C/Makana order in respect to poor roads infrastructure, R120 000.

Bigen Africa/ Makana lawsuit for drawing up business plan R200 000 for 2014/15 and 2015/16.

Rlley/Makana, motor vehicle damages claim R92 780.39 2015/16t

Aquaculture innovation CC/Makana, law suit in respect to dead fish due to power failure, R159 900.

Thembakazi Mpfu//Makana, Municipal truck collided with her house. The claim amount is R212 262. (14/15 and 15/16)  
M Madlavu/Makana Municipality, Mr Madlavu has launched proceedings in the SALGBC alleging that he was unfairly dismissed by Makana. The arbitration proceedings are set down for hearing on 1 and 2 September 2016. If the dismissal is found to be unfair, the remedy sought by Mr Madlavu is retrospective reinstatement. Makana will accordingly have to pay back Mr Madlavu 7 months's salary at his salary as at date of dismissal. the legal costs for the arbitration proceedings will be approximately R100 0000. (15/16)

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

2016	2015
R	R

### Contingent assets

Below is a list of possible assets where the outcome was unknown as at 30 June 2016 and 30 June 2015 with the maximum unforeseen asset for the Municipality:

M Boma v Makana Municipality: This is a claim with regards to benefits not due paid to the employee to the value of R311 597 in 2014/15 and 15/16.

Dr Naidoo// Makana. Dismissed 3/3/2014 conciliation failed 2/5/2014 Writ of executions for wasted legal cost dating back 2007, Recover our costs of R443 978.92 for 2014/15 and 2015/16.

T Bulana// Makana Municipality: This is a claim with regards to the death of a cow in municipality's impound to the amount of R35 000. 114/15 and 15/16

Notyawa//Makana Municipality, Notice of Motion in respect to setting aside of the decision of non appointment to the post of Municipal Manager. R160 000 with costs in favour of Makana to be recovered from applicant.(15/16).

### 47. RELATED PARTIES

#### Relationships

Accounting officer

Members of key management

Refer to accounting officer's report note

Acting Municipal Manager - MJ Meiring

Chief Financial Officer - NF Siwahla

Acting Corporate Services - E Mager

Technical & Infrastructure Services - D Mlenzana

Community and Social Services - M Planga

Local Economic Development - MJ Meiring

Refer to note 28 for the disclosure of the remuneration of Key Management (s56 Managers)

The Councillors of the Municipality are as follows:

N Gaga ( Mayor and Chair of Executive Committee)

N Masoma ( Portfolio Head - Technical & Infrastructure Services)

M Matyumza (Portfolio Head - Community and Social Services)

E Louw (Portfolio Head - Corporate Services)

T Ngeleza (Portfolio Head - Finance)

MS Tame (Portfolio Head - Local Economic Development)

Y Vara ( Speaker of the Council)

MPG Notyawa

BW Fargher

M Gojela

BPN Jackon

MM Khubalo

MG Madinda

XG Madyo

L May

N Meti

B Bonani

NR Plaatjie

LM Reynolds

NC Tyantsula

JC Wells

K Jela

MC Booyesen

Councillors' remuneration is disclosed in note 29.

### 48. CHANGES IN ACCOUNTING POLICY

The annual financial statements have been prepared in accordance with GRAP on a basis consistent with the prior year.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### Investment property

During the year, the municipality changed its accounting policy with respect to the treatment of Investment property to conform with the benchmark treatment of GRAP 16.

The Municipality changed its measurement of investment property from fair value model to cost model. This was to achieve fairer presentation of investment property

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2015 is as follows:

### Statement of financial position

#### Investment property

Previously stated	190,233,500	201,302,330
Adjustment	(2,087,288)	(13,001,420)
	<u>188,146,212</u>	<u>188,300,910</u>

### Statement of Financial Performance

#### Depreciation

Adjustment	<u>(154,698)</u>	<u>(154,698)</u>
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## 49. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to disclose and provide information that is more relevant to the users of the financial statements and to show each material class of similar items separately in the financial statements. Thus to present items of dissimilar nature or function separately in the financial statements.

- The **accrued bonus** of R6 405 302 was incorrectly mapped under employee costs, that resulted in increase in employee costs and increase in payables.
- The **interest on investment** of R1 401 578 was included under interest on debtors, separated it for the purpose of cashflow calculations.
- The **employee related costs** were remapped as some accounts were allocated to incorrect votes, the salaries of R80 913 was incorrectly mapped to overtime(R53 004) and Allowance Housing (R27 909),The medical aid of R2 287.2 was allocated to Group life Assurance, The defined contributions of R5 023.58 was allocated to medical aid, the allowance Transport of R6 728.8 was allocated to defined contributions,the allowance telephone of R4 750 was allocated to transport allowance.
- The **general expenditure** was remapped as some accounts were allocated to incorrect votes, the petrol and oil of R147 was incorrectly mapped to council projects expense, the administration charges of R5 845 were shown on the face of the statement of financial performance remapped it to administration charges under general expenditure, The printing and stationery of R45 432 was incorrectly mapped to advertising(R9 659) and other expenditure (R35 773), the other expenditure of R2 426 was incorrectly mapped to advertising, the Electricity and Water of R423 576 was incorrectly mapped to other expenses, the complaints: water and electricity of R1 242 was incorrectly mapped under other expenditure.
- The **gain/loss on disposal of assets and liabilities** of R53 315 was incorrectly mapped under other expenditure.
- The **non-current portion of loan** of R4 127 932 was incorrectly mapped to current portion.
- The **grants and subsidies paid** for free basic services are remapped to services charges.

The effects of the reclassification are as follows:

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### Statement of financial position - extract

	Comparative figures previously reported	Reclassificatio n	After reclassification
Consumer debtors	174,750,162	(174,750,162)	-
Receivables from exchange transactions	-	174,750,162	174,750,162
Payables from non-exchange - Accrued bonus	-	(6,405,302)	(6,405,302)
Current portion of loan	(4,127,932)	4,127,932	-
Non-current portion of loan	(50,940,346)	(4,127,932)	(55,068,278)
<b>Total</b>	<b>119,681,884</b>	<b>(6,405,302)</b>	<b>113,276,582</b>

### Statement of financial performance - extract

	Comparative figures previously reported	Reclassificatio n	After reclassification
Employee related costs- Bonus	(6,106,093)	6,405,302	299,209
Grants and subsidies paid	(196,610,041)	28,151,369	(168,458,672)
Service charges	30,808,444	(28,151,369)	2,657,075
Interest received -Debtors	12,494,247	(1,401,578)	11,092,669
Interest received - Investment	-	1,401,578	1,401,578
Employee related costs-Salaries	95,431,647	80,912	95,512,559
Employee related costs-Medical Aid	6,192,148	(2,737)	6,189,411
Employee related costs -Group life insurance	596,447	(2,291)	594,156
Employee related costs - Defined contribution plans	13,582,143	(1,705)	13,580,438
Employee related costs-Overtime	7,108,154	(53,004)	7,055,150
Employee related costs - Transport Allowance	3,302,418	1,910	3,304,328
Employee related costs- Housing Allowance	291,721	(27,909)	263,812
Employee related costs-Telephone Allowance	146,406	4,822	151,228
General expenditure-Council events and projects	2,586,821	(147)	2,586,674
General expenditure - Fuel and Oil	3,964,856	147	3,965,003
General expenditure - Advertising	768,363	(12,805)	755,558
General expenditure - Printing and Stationery	13,348	45,432	58,780
General expenditure- Electricity and Water	16,922,086	423,576	17,345,662
General expenditure - Complaints: water and electricity	89,151	1,242	90,393
General expenditure - Administration charges	2,704,354	5,845	2,710,199
General expenditure -Other expenses	3,025,242	(422,617)	2,602,625
General expenditure - Conference and seminars	510,325	12,644	522,969
Gain/loss on disposal of assets and liabilities	32,062	(53,315)	(21,253)
<b>Total</b>	<b>(2,145,751)</b>	<b>6,405,302</b>	<b>4,259,551</b>



# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 50. PRIOR PERIOD ERRORS

## Statement of Financial Position

	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Note(s)				
<b>Assets</b>				
<b>Current Assets</b>				
Inventories General	15,371,580	(3,516,931)	-	11,854,649
Inventories Water	170,614	(148,942)	-	21,672
Consumer debtors	174,750,162	-	174,750,162	-
Receivables from exchange transactions	2,499,663	(142,537,727)	(174,750,162)	34,712,098
Receivables from non-exchange transactions	46,606,383	(41,984,190)	-	4,622,193
Cash and cash equivalents	18,178,425	3,480,559	-	21,658,984
VAT Suspense	-	14,550,952	-	14,550,952
Operating lease asset	28,009	(28,009)	-	-
<b>Non-Current Assets</b>				
Property, plant and equipment	852,541,846	105,066,629	-	957,608,475
Intangible assets	706,714	(109,675)	-	597,039
Heritage assets	29,008,049	4,356,819	-	33,364,868
Investment property	190,233,500	(2,087,288)	-	188,146,212
Investment	141,719	(141,719)	-	-
	<b>1,072,631,828</b>	<b>107,084,766</b>	<b>-</b>	<b>1,179,716,594</b>
<b>Total Assets</b>	<b>1,330,236,664</b>	<b>(63,099,522)</b>	<b>-</b>	<b>1,267,137,142</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Consumer deposits	2,321,154	493,555	-	2,814,709
Payables from exchange transactions	177,994,210	(37,392,739)	-	140,601,471
Payables from non-exchange transactions	32,680,011	(9,765,806)	6,405,302	16,508,903
Unspent conditional grants and receipts	4,499,197	-	-	4,499,197
Long term loan: current portion	4,127,932	-	4,127,932	-
Employee benefit obligation: current portion	2,728,362	-	-	2,728,362
VAT payable	12,628,148	(12,628,148)	-	-
	<b>236,979,014</b>	<b>(59,293,138)</b>	<b>10,533,234</b>	<b>167,152,642</b>
<b>Non-Current Liabilities</b>				
Employee benefit obligation: current portion	64,745,999	-	-	64,745,999
Long term loan: current portion	50,940,346	-	(4,127,932)	55,068,278
Provisions	815,876	26,521,108	-	27,336,984
	<b>116,502,221</b>	<b>26,521,108</b>	<b>(4,127,932)</b>	<b>147,151,261</b>
<b>Total Liabilities</b>	<b>353,481,235</b>	<b>(32,772,030)</b>	<b>6,405,302</b>	<b>314,303,903</b>
<b>Net Assets</b>	<b>976,755,429</b>	<b>(30,327,492)</b>	<b>(6,405,302)</b>	<b>952,833,239</b>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Net Assets</b>		
Reserves		
Other NDR	5,446,516	(5,446,516)
Accumulated surplus	971,308,912	(18,475,673)
<b>Total Net Assets</b>	<b>976,755,428</b>	<b>(23,922,189)</b>

### Cash and cash equivalents

The bank reconciliation was not properly done in the prior period, that resulted in understatement of cash and cash equivalents.

### Receivables from exchanged transactions

The receivables from exchanged transactions were restated because there accounts that were not moving since 2013 and reclassification of some accounts. The impairment of debtors was not properly calculated that resulted in overstatement of debtors in the prior period.

### Inventory General

The inventory was restated as it was incorrectly accounted in the prior year.

### VAT Suspense

Correction on VAT accounting in prior year relating to creditors and debtors, the Vat suspense account is shown separately to properly account for VAT control as per SARS statements.

### Receivables from non-exchange transactions

Includes the reversal of accounts previously incorrectly captured and the reclassification of creditors with debit balances. The impairment of debtors was not properly calculated that resulted in overstatement of debtors in the prior period.

### Property Plant and Equipment

Property, Plant and Equipment were restated as a result of a thorough verification of asset performed by management these have results in changes furthermore there have been reclassifications in the PPE which have resulted in an increased amount versus the previous period.

### Accumulated Surplus

Accumulated surplus was restated to account for corrections on assets, liabilities and expenditure.

### Heritage Assets

This is a result of a change in accounting policy from fair value accounting to cost, with the application of directive 11 the cost have been restated to their deemed cost as on initial recognition. The accounting policy has been applied retrospectively.

### Investment Properties

This is a result of a change in accounting policy from fair value accounting to cost, with the application of directive 11 the cost have been restated to their deemed cost as on initial recognition. The accounting policy has been applied retrospectively.

### Operating lease receivables

The operating lease is written off as the Municipality does not have lease receivables.

### Payables from exchange transactions

This is as a result of prior period journals and correction of reclassification of accounts creditors with debit balances.

### Inventories Water

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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The calculation of water inventory was not properly done in the prior period.

### **Consumer Deposits**

The consumer deposits were restated in order to agree with the listing of deposits generated from the system.

### **VAT Suspense**

The VAT suspense account was not disclosed separately in the previous financial period, management has separated the financial statement line items for the suspense accounts and statements which has been submitted and agreed to SARS.

### **Payables from non-exchange**

This has been restated a result of payables which were noted to not exist based on poor movement and no claims history.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

		2016 R	2015 R
<b>Statement of Financial Performance</b>			
	Audited	Prior year adjustments	Reclassifying adjustments
Note(s)	R	R	R
			Restated R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	196,610,041	2,792,109	28,151,369
Rental of facilities and equipment	1,023,409	-	-
Interest received (trading)	12,494,248	-	1,401,578
Agency services	850,378	-	-
Licences and permits	2,344,416	-	-
Other income	1,892,183	767,132	-
Interest received - investment	-	-	(1,401,578)
<b>Total revenue from exchange transactions</b>	<b>215,214,675</b>	<b>3,559,241</b>	<b>28,151,369</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	53,827,308	-	-
<b>Transfer revenue</b>			
Government grants & subsidies	110,611,241	-	-
Fines, Penalties and Forfeits	55,402	-	-
<b>Total revenue from non-exchange transactions</b>	<b>164,493,951</b>	<b>-</b>	<b>-</b>
<b>Total revenue</b>	<b>379,708,626</b>	<b>3,559,241</b>	<b>28,151,369</b>
<b>Expenditure</b>			
Employee related costs	(129,930,343)	1,245,687	6,493,445
Remuneration of councillors	(9,458,268)	-	-
Administration	(5,845)	-	(5,845)
Depreciation and amortisation	(33,443,447)	10,736,460	-
Impairment loss/ Reversal of impairments	(155,476)	(1,190,654)	-
Finance costs	(16,455,888)	(1,428,183)	-
Debt Impairment	-	(66,325,870)	-
Lease rentals on operating lease	(1,010,882)	516	-
Repairs and maintenance	(10,136,456)	(2)	-
Bulk purchases	(82,036,759)	-	-
Contracted services	(4,490,552)	(1)	-
Grants and subsidies paid	(30,808,444)	-	(28,151,369)
General Expenses	(60,249,956)	(88,034)	(135,613)
<b>Total expenditure</b>	<b>(378,182,316)</b>	<b>(57,050,081)</b>	<b>(21,799,382)</b>
<b>Operating surplus (deficit)</b>	<b>1,526,310</b>	<b>(53,490,840)</b>	<b>6,351,987</b>
Loss/Gain on disposal of assets	32,062	-	53,315
Fair value adjustments	(11,068,830)	11,068,830	-
Actuarial gains/losses	1,047,113	-	-
	<b>(9,989,655)</b>	<b>11,068,830</b>	<b>53,315</b>
<b>Surplus (deficit) for the year</b>	<b>(8,463,345)</b>	<b>(42,422,010)</b>	<b>6,405,302</b>
<b>Employee costs</b>			

The provision for bonus was incorrectly included under employee costs, reclassified to other payables.

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### Interest received

The interest for investment was reclassified from interest on debtors and shown separately.

### Service Charges

The service charges were reduced due to remapping of free basic service from grants and subsidies paid to service charges.

### General Expenses

General expenditure restated to correct expenditure that has been incorrectly included on general expenditure that relates to other type of expenditure.

### Other Income

On the other income there were income that were incorrectly accounted.

### Debt Impairment

The debtors in the prior period were not impaired, the recalculation of impairment was made to restate the figures.

### Depreciation and Impairment

The depreciation was incorrectly assessed in the prior period and there is a change model of investment property from fairvalue model to cost model, the impairment of some assets were not assessed for impairment in the prior period.

### Fair value adjustment

The Municipality changed the measurement of investment property from fair value model to cost model.

### Disclosure - Irregular Expenditure

Previously disclosed	81,668,942	-
Adjustment	8,245,180	-
Total	89,914,122	-

### Cash flow statement

#### 51. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

During 2015/16 and 2014/15 financial year the following goods and services were procured deviated from the provisions of paragraph 12(1)(d)(i) as stated above but in line with paragraph 36 of SCM regulations. The reasons for these deviations from normal SCM regulations were documented and reported to the accounting officer who considered and subsequently approved them:

Classification of deviations	2016	2015
Sole Supplier	59,680	
172,009 Emergency	1,660,434	
1,720,308 Other	<u>211,655</u>	
<b>174,487 Total</b>	<b><u>1,931,769</u></b>	
<b><u>2,066,804</u></b>		

#### 52. BULK ELECTRICITY WATER LOSS

Electricity: 2016	Purchased during the year	Sold during the year	Unaccounted for
units (kWh)	<u>39,945,697</u>	<u>(13,562,649)</u>	<u>26,383,048</u>

# Makana Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>Calculated as follows:</b>	%	Distribution
Bulk	60.70 %	63,522,631
		Value 38,556,285

Electricity losses occur due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, fault meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

<b>Water Losses</b>	Lost units	Cost per KL	Value
Unaccounted water losses	497,369	1.06	526,700

Water losses occur due to inter alia, leakages, the tampering of meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters.

<b>Electricity 2015</b>	Purchased during the year	Sold during the year	Unaccounted for
units (kWh)	(65,342,451)	111,746,527	46,404,076

<b>Calculated as follows:</b>	%	Distribution	Value
Bulk	47.64 %	65,342,451	31,129,086

Electricity losses occur due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, fault meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

<b>Water Losses</b>	Lost units	Cost per KL	Value
Unaccounted water losses	497,369	1.18	585,547

Water losses occur due to inter alia, leakages, the tampering of meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of meters to find faulty meters and repair them. The treated water was only recorded from October 2013 hence the outcome as indicated above.

### 53. EVENTS AFTER THE REPORTING DATE

The following events after reporting date that would have a material impact to the readers of the financial statements occurred:

- The Municipality elections took place on the 3rd August 2016, which will result in the change of council and formation of new council.
- Part of the change in council mentioned above, would be a reduction/increase in some of the ward, meaning a reduction/increase in the amount to be provided as Equitable Share.