



MAKANA

MUNICIPALITY | EASTERN CAPE

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Makana Municipality
Annual Financial Statements
for the year ended 30 June 2017

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Legal form of entity	EC 104 - Local Municipality. The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000; and various other acts and regulations
Nature of business and principal activities	Local Government
Mayoral committee	
Executive Mayor	Cllr N Gaga
Speaker	Cllr Y Vara
Chief Whip	Cllr M Matyumza
MPAC Chairperson	Cllr R Xonxa
	Cllr T Bruintjies
	Cllr C Clark
	Cllr B Fargher
	Cllr M Fatyi
	Cllr Cllr T Gaushe
	Cllr M Gojela
	Cllr D Holm
	Cllr B Jackson
	Cllr M Khubalo
	Cllr E Louw
	Cllr X Madyo
	Cllr N Masoma
	Cllr P Mathyumza
	Cllr A Meyer
	Cllr M Moya
	Cllr N Mtwá
	Cllr L Nase
	Cllr M Nhanha
	Cllr N Pieters
	Cllr M Qotoyi
	Cllr L Sakata
	Cllr T Seyisi
	Cllr S Sodladla
Grading of local authority	Category B
Chief Finance Officer (CFO)	Mrs NF Siwahla
Acting Municipal Manager	Mr D Mlenzana
Registered office	City Hall 86 High Street Grahamstown 6139
Postal address	P O Box 176 Grahamstown 6140
Auditors	Auditor-General South Africa

Makana Municipality

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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)

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, he 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 2018 and, in the light of this review and the current financial position, he 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 2017 and were signed on its behalf by:

Mr D Mlenzana
Acting Municipal Manager

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

	Notes	2017 R	2016 Restated* R
Assets			
Current Assets			
Inventories - General	2	6,819,024	7,898,774
Receivables from exchange and non-exchange transactions	3	44,330	75,888
Receivables from exchange transactions	4	155,767,536	35,760,438
Receivables from non-exchange transactions	5	(7,502,947)	6,935,169
Cash and cash equivalents	6	12,943,044	5,263,670
		<u>168,070,987</u>	<u>55,933,939</u>
Non-Current Assets			
Property, plant and equipment	8	848,763,621	877,197,928
Intangible assets	9	221,076	430,036
Heritage assets	10	33,364,868	33,364,868
Investment property	11	190,110,225	192,008,634
		<u>1,072,459,790</u>	<u>1,103,001,466</u>
Total Assets		<u>1,240,530,777</u>	<u>1,158,935,405</u>
Liabilities			
Current Liabilities			
VAT suspense	7	6,706,138	2,934,558
Consumer deposits	12	2,956,701	2,938,657
Payables from exchange transactions	13	175,711,758	162,225,179
Payables from non- exchange transactions	14	43,956,511	19,246,374
Unspent conditional grants and receipts	15	12,701,549	4,017,068
VAT payable	42	5,620,656	2,047,492
Other financial liabilities	16	526,025	526,025
Employee benefit obligation	17	2,679,520	3,276,820
		<u>250,858,858</u>	<u>197,212,173</u>
Non-Current Liabilities			
Other financial liabilities	16	55,306,350	55,832,375
Employee benefit obligation	17	74,370,093	64,659,889
Provisions	18	3,894,381	3,093,432
		<u>133,570,824</u>	<u>123,585,696</u>
Total Liabilities		<u>384,429,682</u>	<u>320,797,869</u>
Net Assets		<u>856,101,095</u>	<u>838,137,536</u>
Net Assets			
Accumulated surplus		<u>856,101,095</u>	<u>838,137,536</u>

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

	Notes	2017 R	2016 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	19	233,551,494	202,543,006
Rental of facilities and equipment	20	1,279,556	1,166,798
Interest received on debtors	21	18,731,054	16,980,125
Agency services		1,818,248	995,783
Licences and permits		2,360,169	2,220,899
Other income	22	9,921,286	11,615,984
Interest received - investment	21	1,086,258	999,800
Total revenue from exchange transactions		268,748,065	236,522,395
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	62,565,920	53,449,608
Transfer revenue			
Government grants & subsidies	24	114,305,115	116,733,364
Fines, Penalties and Forfeits		492,265	49,016
Total revenue from non-exchange transactions		177,363,300	170,231,988
Total revenue	25	446,111,365	406,754,383
Expenditure			
Employee related costs	26	(179,240,829)	(144,119,649)
Remuneration of councillors	27	(9,636,574)	(9,421,559)
Depreciation and amortisation	28	(61,108,910)	(27,534,559)
Finance costs	29	(17,031,275)	(17,936,925)
Lease rentals on operating lease		(2,051,496)	(7,404,883)
Impairment reversal / (Debt Impairment)	30	65,650,261	(72,490,292)
Repairs and maintenance		(23,637,720)	(44,471,339)
Bulk purchases	31	(116,134,896)	(95,360,918)
Contracted services	32	(35,553,113)	(8,456,107)
Grants and Subsidies	33	(22,330,809)	(2,966,761)
General Expenses	34	(42,735,859)	(62,837,287)
Total expenditure		(443,811,220)	(493,000,279)
Operating surplus (deficit)		2,300,145	(86,245,896)
Loss on disposal of assets and liabilities		(517,761)	(107,881)
Actuarial gains/losses	17	10,394,900	6,870,329
		9,877,139	6,762,448
Surplus (deficit) for the year		12,177,284	(79,483,448)

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2015	917,620,984	917,620,984
Changes in net assets		
Surplus for the year	(79,483,448)	(79,483,448)
Total changes	(79,483,448)	(79,483,448)
Opening balance as previously reported	834,844,536	834,844,536
Adjustments		
Prior year adjustments	9,079,275	9,079,275
Restated* Balance at 01 July 2016 as restated*	843,923,811	843,923,811
Changes in net assets		
Surplus for the year	12,177,284	12,177,284
Total changes	12,177,284	12,177,284
Balance at 30 June 2017	856,101,095	856,101,095

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

	Note(s)	2017 R	2016 Restated* R
Cash flows from operating activities			
Receipts			
Cash receipts from customers		275,407,028	224,295,355
Grants		112,895,290	116,273,679
Interest income		1,086,258	999,800
		<u>389,388,576</u>	<u>341,568,834</u>
Payments			
Employee costs		(188,845,897)	(160,411,537)
Suppliers		(117,105,707)	(186,344,960)
Finance costs		(9,276,078)	(8,842,666)
		<u>(315,227,682)</u>	<u>(355,599,163)</u>
Net cash flows from operating activities	36	<u>74,160,894</u>	<u>(14,030,329)</u>
Cash flows from investing activities			
Purchase of moveable and immovable assets	8	(26,132,610)	(10,745,107)
Purchase of investment property	11	-	7,090,000
		<u>(26,132,610)</u>	<u>(3,655,107)</u>
Net cash flows from investing activities		<u>(26,132,610)</u>	<u>(3,655,107)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(526,025)	1,290,122
		<u>(526,025)</u>	<u>1,290,122</u>
Net increase/(decrease) in cash and cash equivalents		48,028,284	(17,685,436)
Cash and cash equivalents at the beginning of the year		5,263,670	21,658,984
Cash and cash equivalents at the end of the year	6	<u>53,291,954</u>	<u>3,973,548</u>

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Annual Financial Statements for the year ended 30 June 2017

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	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	306,690,000	(63,981,000)	242,709,000	233,551,494	(9,157,506)	Note 42
Rental of facilities and equipment	811,000	-	811,000	1,279,556	468,556	Note 42
Interest received (trading)	16,759,000	-	16,759,000	18,731,054	1,972,054	Note 42
Agency services	-	-	-	1,818,248	1,818,248	Note 42
Licences and permits	-	-	-	2,360,169	2,360,169	Note 42
Other income - (rollup)	2,185,000	-	2,185,000	9,921,286	7,736,286	Note 42
Interest received - investment	-	-	-	1,086,258	1,086,258	Note 42
Total revenue from exchange transactions	326,445,000	(63,981,000)	262,464,000	268,748,065	6,284,065	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	65,215,000	-	65,215,000	62,565,920	(2,649,080)	Note 42
Transfer revenue						
Government grants & subsidies	91,292,000	-	91,292,000	114,305,115	23,013,115	Note 42
Fines, Penalties and Forfeits	3,239,000	-	3,239,000	492,265	(2,746,735)	Note 42
Total revenue from non-exchange transactions	159,746,000	-	159,746,000	177,363,300	17,617,300	
Total revenue	486,191,000	(63,981,000)	422,210,000	446,111,365	23,901,365	
Expenditure						
Personnel	(144,631,000)	(20,637,000)	(165,268,000)	(179,240,829)	(13,972,829)	Note 42
Remuneration of councillors	(10,497,000)	-	(10,497,000)	(9,636,574)	860,426	Note 42
Depreciation and amortisation	(31,639,000)	-	(31,639,000)	(61,108,910)	(29,469,910)	Note 42
Finance costs	-	(9,700,000)	(9,700,000)	(17,031,275)	(7,331,275)	Note 42
Lease rentals on operating lease	-	-	-	(2,051,496)	(2,051,496)	Note 42
Bad debts written off	-	-	-	65,650,261	65,650,261	Note 42
Repairs and maintenance	-	-	-	(23,637,720)	(23,637,720)	Note 42
Bulk purchases	(104,404,000)	33,301,000	(71,103,000)	(116,134,896)	(45,031,896)	Note 42
Contracted Services	(28,408,000)	-	(28,408,000)	(35,553,113)	(7,145,113)	Note 42
Transfers and Subsidies	(50,515,000)	-	(50,515,000)	(22,330,809)	28,184,191	Note 42
General Expenses	(116,097,000)	61,017,000	(55,080,000)	(42,735,859)	12,344,141	Note 42
Total expenditure	(486,191,000)	63,981,000	(422,210,000)	(443,811,220)	(21,601,220)	
Operating surplus	-	-	-	2,300,145	2,300,145	
Loss on disposal of assets and liabilities	170,043,000	-	170,043,000	(517,761)	(170,560,761)	Note 42
Actuarial gains/losses	-	-	-	10,394,900	10,394,900	Note 45
	170,043,000	-	170,043,000	9,877,139	(160,165,861)	
Surplus before taxation	170,043,000	-	170,043,000	12,177,284	(157,865,716)	

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Annual Financial Statements for the year ended 30 June 2017

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	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	170,043,000		- 170,043,000	12,177,284	(157,865,716)	

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Annual Financial Statements for the year ended 30 June 2017

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	
Statement of Financial Position						
Assets						
Current Assets						
Inventories - General	16,568,000	-	16,568,000	6,819,024	(9,748,976)	Note 42
Current portion of Long term receivables	30,000	-	30,000	-	(30,000)	
Receivables from non-exchange transactions	52,347,000	-	52,347,000	(7,502,947)	(59,849,947)	Note 42
Receivables from exchange and non-exchange transactions	-	-	-	44,330	44,330	Note 42
Consumer debtors	189,260,000	-	189,260,000	155,767,536	(33,492,464)	Note 42
Cash and cash equivalents	20,473,000	-	20,473,000	12,943,044	(7,529,956)	Note 42
	278,678,000	-	278,678,000	168,070,987	(110,607,013)	
Non-Current Assets						
Investment property	151,000	-	151,000	190,110,225	189,959,225	Note 42
Property, plant and equipment	908,810,000	-	908,810,000	848,763,621	(60,046,379)	Note 42
Intangible assets	12,000,000	-	12,000,000	221,076	(11,778,924)	Note 42
Heritage assets	-	-	-	33,364,868	33,364,868	Note 42
Other non-current assets	234,263,000	-	234,263,000	-	(234,263,000)	
	1,155,224,000	-	1,155,224,000	1,072,459,790	(82,764,210)	
Total Assets	1,433,902,000	-	1,433,902,000	1,240,530,777	(193,371,223)	
Liabilities						
Current Liabilities						
Other financial liabilities	4,400,000	-	4,400,000	526,025	(3,873,975)	Note 42
VAT suspense	-	-	-	6,706,138	6,706,138	Note 42
Payables from exchange transactions	263,776,000	-	263,776,000	175,711,755	(88,064,245)	Note 42
Taxes and transfers payable (non-exchange)	-	-	-	43,956,511	43,956,511	Note 42
VAT payable	-	-	-	5,620,656	5,620,656	Note 42
Consumer deposits	2,474,000	-	2,474,000	2,956,701	482,701	Note 42
Employee benefit obligation	-	-	-	2,679,520	2,679,520	Note 42
Unspent conditional grants and receipts	-	-	-	12,701,549	12,701,549	Note 42
Provisions	10,354,000	-	10,354,000	-	(10,354,000)	Note 42
	281,004,000	-	281,004,000	250,858,855	(30,145,145)	
Non-Current Liabilities						
Other financial liabilities	60,534,000	-	60,534,000	55,306,350	(5,227,650)	Note 42
Employee benefit obligation	-	-	-	74,370,093	74,370,093	Note 42
Provisions	49,307,000	-	49,307,000	3,894,381	(45,412,619)	Note 42
	109,841,000	-	109,841,000	133,570,824	23,729,824	
Total Liabilities	390,845,000	-	390,845,000	384,429,679	(6,415,321)	
Net Assets	1,043,057,000	-	1,043,057,000	856,101,098	(186,955,902)	

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Annual Financial Statements for the year ended 30 June 2017

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	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Other NDR	5,749,000	-	5,749,000	-	(5,749,000)	Note 42
Accumulated surplus	1,037,308,000	-	1,037,308,000	856,101,098	(181,206,902)	Note 42
Total Net Assets	1,043,057,000	-	1,043,057,000	856,101,098	(186,955,902)	

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Annual Financial Statements for the year ended 30 June 2017

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	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	57,240,000	-	57,240,000	57,464,040	224,040	Note 42
Service charges	226,079,000	-	226,079,000	214,645,476	(11,433,524)	Note 42
Grants	259,518,000	(126,875,000)	132,643,000	112,809,161	(19,833,839)	Note 42
Other receipts	36,100,000	-	36,100,000	-	(36,100,000)	Note 42
	578,937,000	(126,875,000)	452,062,000	384,918,677	(67,143,323)	
Payments						
Employee costs	(351,972,000)	-	(351,972,000)	(153,627,318)	198,344,682	Note 42
Suppliers	(5,000,000)	-	(5,000,000)	(218,979,176)	(213,979,176)	Note 42
Other payments	(37,901,000)	-	(37,901,000)	-	37,901,000	Note 42
	(394,873,000)	-	(394,873,000)	(372,606,494)	22,266,506	
Net cash flows from operating activities	184,064,000	(126,875,000)	57,189,000	12,312,183	(44,876,817)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(170,043,000)	126,875,000	(43,168,000)	-	43,168,000	Note 42
Cash flows from financing activities						
Repayment of other financial liabilities	(5,500,000)	-	-	-	-	
Net increase/(decrease) in cash and cash equivalents	8,521,000	-	14,021,000	12,312,183	(1,708,817)	Note 42
Cash and cash equivalents at the beginning of the year	2,609,000	-	2,609,000	-	(2,609,000)	Note 42
Cash and cash equivalents at the end of the year	11,130,000	-	16,630,000	12,312,183	(4,317,817)	

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

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 and Separate Financial Statements
GRAP 7	Accounting for Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
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 18	Segment Reporting
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	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions Between Entities Under Common Control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

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

GRAP 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interests in Other Entities
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources

Interpretations Issued and Effective

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

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)

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 is in conformity with South African Standards of GRAP which 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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of receivable 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 18 - Provisions.

Effective interest rate

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

Makana Municipality

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Accounting Policies

1.4 Consistency of presentation

The presentation and classification of items in the financial statements is the same as in the previous reporting period.

1.5 Offsetting

Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a standard of GRAP.

1.6 Investment property

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

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

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

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

Investment property is initially recognised at cost. 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 - buildings	60years

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.

1.7 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.

Makana Municipality

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Accounting Policies

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

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

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

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

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

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

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

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

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

The Municipality used 20% for residual value on the motor vehicles.

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

Item	Depreciation method	Average useful life
Land	Straight line	Land is not depreciated
INFRASTRUCTURE ASSETS	Straight line	
• Aviation		20-50
• Electricity		5-50
• Refuse		10-100
• Roads		20-120
• Storm water		10-50
• Water supply		10-80
• Sanitation		10-60
• Transport		10-80
COMMUNITY ASSETS	Straight line	
• Buses		10-30
• Cemeteries		30 years
• Community Halls		30 years
• Fire, Safety & Emergency		10-100
• Museums & Art Galleries		10-100
• Parks & Gardens		5-50
• Recreational Facilities		15-100
• Social Renting Housing		10-100
• Sportsfields		20-30
• Swimming Pools		10-20
•		

Makana Municipality

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Accounting Policies

OTHER ASSETS	Straight line	
• Civil Land & Building		20-100
• Computer Hardware & Equipment		2-5
• 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
BUILDINGS	Straight line	
• Other Buildings		10-100
• Historical Building		10-200

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.

1.8 Intangible assets

An asset is identifiable if it either:

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

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.

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Accounting Policies

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

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

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

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

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

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

Internally generated 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	x 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).

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality. Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

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Accounting Policies

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use. Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

Initial measurement

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

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).

1.10 Financial instruments

1.11 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.

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Accounting Policies

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.

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.

1.12 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.

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Accounting Policies

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.

1.13 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

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Accounting Policies

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.

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Accounting Policies

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.

1.14 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.

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Accounting Policies

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 oversized or overcapacity asset. Oversized 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

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.

1.15 Employee benefits

1.16 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.

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Accounting Policies

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.

1.17 Current portion of Long term receivables

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.

1.18 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 2017

Accounting Policies

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.

1.19 Revenue from non-exchange transactions

1.20 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.

1.21 Investment income

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

1.22 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.

1.23 Segment information

A segment is an activity of an entity:

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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

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.

1.24 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.

1.25 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.

1.26 Events after reporting date

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

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

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

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

1.27 Comparative figures

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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.28 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.

1.29 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.

1.30 Irregular expenditure

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

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the 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.

1.31 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.

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

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.

1.32 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.

1.33 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.

1.34 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.35 Share capital / contributed capital

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
2. INVENTORIES - GENERAL		
Land	4,017,500	3,545,000
Consumable stores	1,165,610	2,108,429
Electricity	1,635,914	2,245,345
	6,819,024	7,898,774

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.

2.1 Inventories recognised as an expense during the year

Cleaning and materials	60,211	142,897
Consumables	-	4,270
Materials and stores	10,945,092	5,204,093
Printing and stationery	14,772	51,663
Protective clothing	107,106	374,592
Refuse bags	292,795	243,513
Uniforms	82,331	71,965
	11,502,307	6,092,993

3. INVENTORY - WATER

Water	44,330	75,888
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Water includes stock in reservoirs and reticulation.

4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Gross balances

Electricity	40,447,105	60,303,372
Refuse	20,963,560	28,680,505
Sewerage	39,083,795	54,675,748
Water	117,029,755	132,430,647
Other	127,561,478	14,638,583
	345,085,693	290,728,855

Less: Allowance for impairment

Electricity	(25,885,939)	(41,017,953)
Refuse	(3,938,415)	(27,562,817)
Sewerage	(37,668,159)	(52,695,081)
Water	(113,702,446)	(125,569,368)
Other	(8,123,198)	(8,123,198)
	(189,318,157)	(254,968,417)

Makana Municipality

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Notes to the Annual Financial Statements

	2017 R	2016 R
Net balance		
Electricity	14,561,166	19,285,419
Refuse	17,025,145	1,117,688
Sewerage	1,415,636	1,980,667
Water	3,327,309	6,861,279
Other	119,438,280	6,515,385
	<u>155,767,536</u>	<u>35,760,438</u>
Electricity		
Current (0 -30 days)	8,961,112	15,021,274
31 - 60 days	6,096,528	6,635,449
61 - 90 days	1,780,657	4,375,041
91 - 120 days	3,031,410	3,125,417
121 - 365 days	20,577,398	31,146,191
Allowance for doubtful debts	(25,885,939)	(41,017,953)
	<u>14,561,166</u>	<u>19,285,419</u>
Water		
Current (0 -30 days)	6,722,426	5,284,590
31 - 60 days	4,042,521	4,116,940
61 - 90 days	3,484,262	3,739,371
91 - 120 days	4,937,318	2,347,194
121 - 365 days	97,843,228	116,943,053
Allowance for doubtful debts	(113,702,446)	(125,569,869)
	<u>3,327,309</u>	<u>6,861,279</u>
Sewerage		
Current (0 -30 days)	1,278,252	1,190,295
31 - 60 days	768,047	836,458
61 - 90 days	674,221	668,681
91 - 120 days	653,548	584,911
121 - 365 days	35,709,726	51,395,976
Allowance for doubtful debts	(37,668,158)	(52,695,654)
	<u>1,415,636</u>	<u>1,980,667</u>
Refuse		
Current (0 -30 days)	626,616	738,007
31 - 60 days	457,439	499,043
61 - 90 days	407,610	440,137
91 - 120 days	398,118	436,590
121 - 365 days	19,073,776	26,566,729
Allowance for doubtful debts	(3,938,414)	(27,562,818)
	<u>17,025,145</u>	<u>1,117,688</u>
Other (specify)		
Current (0 -30 days)	4,518,536	114,913
31 - 60 days	3,713,041	292,734
61 - 90 days	2,741,826	88,546
91 - 120 days	3,077,069	119,891
121 - 365 days	112,773,530	7,832,530
Allowance for doubtful debts	(7,385,722)	(1,933,229)
	<u>119,438,280</u>	<u>6,515,385</u>

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
Reconciliation of allowance for impairment		
Balance at beginning of the year	(254,968,417)	(238,847,415)
Contributions to allowance	-	(58,408,959)
Debt impairment written off against allowance	65,650,260	42,287,957
	<u>(189,318,157)</u>	<u>(254,968,417)</u>

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Sundry Deposits	55,330	52,403
Consumer debtors - Rates	37,705,104	52,146,147
Impairment on assessment rates debtors	(45,263,381)	(45,263,381)
	<u>(7,502,947)</u>	<u>6,935,169</u>

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

Opening balance	(58,755,894)	(45,263,381)
Provision for impairment	-	(14,081,333)
Amounts written off as uncollectible	-	588,820
	<u>(58,755,894)</u>	<u>(58,755,894)</u>

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Current Investments	8,905,616	1,390,426
Bank Accounts	4,037,428	3,873,244
	<u>12,943,044</u>	<u>5,263,670</u>

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 2017

Notes to the Annual Financial Statements

	2017 R			2016 R		
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
First National Bank - Current Account - 620 312 32531	4,037,428	3,828,302	5,786,560	4,037,428	3,828,302	5,786,560
Standard Bank - Current Account -081 999 356	-	44,941	3,726,783	-	44,941	3,726,783
First National Bank - Call account - 620 733 69607	-	-	1,004	-	-	1,004
First National Bank - Call Account - 622 334 11884	5,308,016	(41)	2,638,507	5,308,016	(46)	2,638,507
First National Bank - Call Account - 620 523 37 865	-	-	20,144	-	-	20,144
First National Bank - 12 Months Deposits - 715 388 11574	479,764	446,292	418,000	479,764	446,292	418,000
Standard Bank - 12 Months Deposits - 088 807 657004	425	425	171,682	425	426	171,682
Standard Bank - 12 Months Deposits - 088 812 685-001/4/7	1,507	1,507	374,425	1,507	1,507	374,425
Standard Bank - Call Account - 088 822 370-002	45,149	42,313	7,537,325	45,149	42,313	7,537,325
GBS Mutual - 32 Days Notice - 305 970 0053	154,736	210,850	204,052	154,736	210,850	204,052
GBS Mutual - 12 Months Deposits - 225 060 4545	181,902	169,637	159,388	181,902	169,637	159,388
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	137,779	131,812	126,761	137,779	131,812	126,761
ABSA - 12 Months Deposits - 204 758 4346	46,631	43,435	-	46,631	43,436	-
BASA - 12 Months Deposits - 204 947 8169	10,815	10,107	-	10,815	10,107	-
Nedbank - Call Account - 037881065141/00001	87,890	82,776	77,978	87,890	82,776	77,978
Standard Bank - 12 Months Deposits - 088 805 662-002	163	164	75,703	163	163	75,703
Standard Bank - 12 Months Deposits - 088 812 723-001	415	416	167,462	415	415	167,462
GBS Mutual - Fixed deposit - 022 50604623	6,000	6,000	-	6,000	-	-
GBS Mutual - Fixed deposit - 022 50604461	4,000	4,000	-	4,000	-	-
GBS Mutual - Fixed deposit - 022 50604450	50	50	-	50	-	-
GBS Mutual - Fixed deposit - 022 50604449	100	100	-	100	-	-
First National Bank - Current Account - 6263312966321	31,851	-	-	31,851	-	-
Nedbank - call Account - 145027119992	25,213	-	-	25,213	-	-
Nedbank - Call Account - 145027119998	15,542	-	-	15,542	-	-
GBS Mtual - Fixed Deposit - 02250604335	3,000	3,000	-	3,000	-	-
GBS Mtual - Fixed Deposit - 02250604357	20,000	20,000	-	20,000	-	-
GBS Mtual - Fixed Deposit - 02250604380	967	1,034	-	967	-	-

Makana Municipality

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Notes to the Annual Financial Statements

					2017 R		2016 R
GBS Mtual - Fixed Deposit - 02250604391	5,000	5,000	-	5,000	-	-	-
GBS Mtual - Fixed Deposit - 02250604438	4,000	4,000	-	4,000	-	-	-
GBS Mtual - Fixed Deposit - 02250604472	4,500	4,500	-	4,500	-	-	-
GBS Mtual - Fixed Deposit - 02250604494	3,600	3,600	-	3,600	-	-	-
GBS Mtual - Fixed Deposit - 02250604531	4,000	4,000	-	4,000	-	-	-
GBS Mtual - Fixed Deposit - 02250604553	6,700	6,700	-	6,700	-	-	-
GBS Mtual - Fixed Deposit - 02250604564	5,400	5,400	-	5,400	-	-	-
GBS Mtual - Fixed Deposit - 02250604597	3,200	3,200	-	3,200	-	-	-
GBS Mtual - Fixed Deposit - 027680101015	2,000	2,000	-	2,000	-	-	-
GBS Mtual - Fixed Deposit - 03059704019	14,000	14,000	-	14,000	-	-	-
GBS Mtual - Fixed Deposit - 03059704380	1,811,905	-	-	1,811,905	-	-	-
Total	12,629,866	5,265,738	21,651,992	12,629,866	5,179,149	21,651,992	

Other Cash and Cash Equivalents

7. VAT SUSPENSE

VAT Suspense (6,713,420) (2,934,558)

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

8. PROPERTY, PLANT AND EQUIPMENT

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	76,365,411	-	76,365,411	76,365,411	-	76,365,411
Buildings	113,236,400	(14,554,942)	98,681,458	113,236,400	(12,493,677)	100,742,723
Infrastructure	548,515,609	(139,954,169)	408,561,440	575,185,790	(104,083,632)	471,102,158
Community	50,571,670	(24,548,531)	26,023,139	50,215,907	(10,916,641)	39,299,266
Other property, plant and equipment	44,378,705	(23,274,402)	21,104,303	44,679,023	(21,377,894)	23,301,129
Work in progress Infrastructure	212,126,803	-	212,126,803	160,165,978	-	160,165,978
Work in progress Community	4,274,531	-	4,274,531	4,432,073	-	4,432,073
Landfill site	1,951,843	(325,307)	1,626,536	1,951,843	(162,653)	1,789,190
Total	1,051,420,972	(202,657,351)	848,763,621	1,026,232,425	(149,034,497)	877,197,928

Makana Municipality

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Figures in Rand

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Total
Land	76,365,411	-	-	76,365,411
Buildings	100,742,723	-	(2,061,265)	98,681,458
Infrastructure	471,102,158	-	(62,540,718)	408,561,440
Community	39,299,266	355,763	(13,631,890)	26,023,139
Other property, plant and equipment	23,301,129	577,746	(2,774,572)	21,104,303
Work in progress Infrastructure	160,165,978	51,960,825	-	212,126,803
Work in progress Community	4,432,073	-	(157,542)	4,274,531
Landfill site	1,789,190	-	(162,654)	1,626,536
	877,197,928	52,894,334	(81,328,641)	848,763,621

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
Land	76,365,411	-	-	-	76,365,411
Buildings	102,803,988	-	-	(2,061,265)	100,742,723
Infrastructure	485,983,814	-	-	(14,881,656)	471,102,158
Community	40,447,244	427,495	-	(1,575,473)	39,299,266
Other property, plant and equipment	22,927,721	3,465,227	(455,044)	(2,636,775)	23,301,129
Work in progress Infrastructure	132,976,091	27,189,887	-	-	160,165,978
Work in progress Community	4,432,073	-	-	-	4,432,073
Landfill site	1,951,844	-	-	(162,654)	1,789,190
	867,888,186	31,082,609	(455,044)	(21,317,823)	877,197,928

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 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
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9. INTANGIBLE ASSETS

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,137,881	(916,805)	221,076	1,137,881	(707,845)	430,036

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	430,036	(208,960)	221,076

Reconciliation of intangible assets - 2016

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

Pledged as security

No intangible assets are pledged as security.

10. HERITAGE ASSETS

	2017			2016		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical Assets	34,608,200	(1,243,332)	33,364,868	34,608,200	(1,243,332)	33,364,868

Reconciliation of heritage assets 2017

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

Reconciliation of heritage assets 2016

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

Pledged as security

No heritage assets are pledged as security.

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017	2016
	R	R

11. INVESTMENT PROPERTY

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	191,877,500	(1,767,275)	190,110,225	193,555,000	(1,546,366)	192,008,634

Reconciliation of investment property - 2017

	Opening balance	Transfers	Depreciation	Total
Investment property	192,008,634	(1,677,500)	(220,909)	190,110,225

Reconciliation of investment property - 2016

	Opening balance	Transfers	Depreciation	Total
Investment property	195,708,332	(3,545,000)	(154,698)	192,008,634

No investment property has been pledged as security.

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

12. CONSUMER DEPOSITS

Electricity and water	2,956,701	2,938,657
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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.

13. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	162,425,767	130,859,698
Payments received in advance	139,388	135,659
Retentions	1,667,779	1,553,824
Debtors with Credit Balances	11,478,824	29,675,998
	175,711,758	162,225,179

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.

14. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Other Creditor	19,483,372	3,191,555
Bonus Provision	5,381,855	4,453,052
Leave Provision	18,720,158	11,601,767
Refundable deposits	371,126	-
	43,956,511	19,246,374

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
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Bonus provision - 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.

Leave provision - 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.

Refundable deposits is made out of third party payments outstanding at year end.

15. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	929,784	-
Expanded Public Works program (EPWP)	4,036	141,068
Department of Water affairs(DWA)	1,403,509	-
Department of Minerals & Energy(DME)	3,758,961	-
Provincial : Other Grants	2,729,259	-
Disaster Grant	3,876,000	3,876,000
	12,701,549	4,017,068

The nature and extent of government grants recognised in the annual financial statements are 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.

16. LONG TERM LOAN

Designated at fair value

Bank loan	55,832,375	56,358,400
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 which started on 31 January 2017.		

Non-current liabilities

Designated at fair value	55,306,350	55,832,375
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Current liabilities

Designated at fair value	526,025	526,025
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Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
17. 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	70,373,179	61,362,940
Long service awards	6,676,434	6,573,769
	77,049,613	67,936,709
Current portion of liability	2,679,520	3,276,820
Non-current portion of liability	74,370,093	64,659,889
	77,049,613	67,936,709
Post retirement health care benefit liability		
<p>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 Cros-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.</p>		
The members of the Post-employment Health Care Benefit Plan are made up as follows:		
In-service (employee) members	408	386
In-service (employee) members	268	320
In-service (employee) members	66	61
	742	767
The liability in respect of past service has been estimated as follow:		
In-service (employee) members	32,393,834	29,168,920
In-service (employee) non-members	6,223,886	6,951,484
Continuation (retiree and widow) members	31,755,459	25,242,536
	70,373,179	61,362,940
The municipality makes monthly contributions for health-care arrangements to the following Medical Aid Schemes		
<p>Bonitas Samwumed Keyhealth Hosmed LA Health</p>		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	61,362,940	61,612,536
Net expense recognised in the statement of financial performance	9,010,239	(249,596)
	70,373,179	61,362,940

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
The amounts recognised in the statement of financial performance are as follows		
Current service cost	3,355,270	3,098,268
Interest cost	5,634,155	5,468,733
Actuarial (gains) losses	(8,959,981)	(6,870,329)
Curtailment	(2,064,036)	(1,946,268)
Past service cost	11,044,831	-
	9,010,239	(249,596)

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.

Discount rates used	9.63 %	9.34 %
Expected rate of return on reimbursement rights	- %	0.86 %
Medical cost trend rates	- %	8.40 %
Expected increase in salaries	8.27 %	8.35 %
Expected pension increases	6.09 %	7.02 %
Proportion of employees opting for early retirement	2.05 %	1.24 %
Expected increase in healthcare costs	7.92 %	5.93 %
Future changes in maximum state healthcare benefits	- %	3.22 %
Other material actuarial assumptions [provide details]	- %	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

	2017 R	2016 R	2015 R	2014 R	2013 R
Defined benefit obligation	70,373,000	61,362,940	61,362,940	57,100,887	45,862,298
Surplus (deficit)	(70,373,000)	(61,362,940)	(61,362,940)	(57,100,887)	(45,862,298)
Experience adjustments on plan liabilities	(340,000)	(899,000)	(789,000)	4,866,000	(7,717,000)

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
Long -service awards		
Changes in the present value of the defined benefit obligation are as follows:		
	6,573,769	5,861,625
	102,665	712,144
	6,676,434	6,573,769
The amount recognised in the Statement of Financial Position are as follows:		
The total economic entity contribution to such schemes	6,592,956	6,584,080
The amount recognised as an expense for defined contribution plans is	102,665	712,144
Net expense recognised in the statement of financial performance		
Current Service Costs	1,038,426	865,251
Interest costs	499,158	426,026
Actuarial Gain	(1,434,919)	202,761
Benefits paid	-	(781,894)
	102,665	712,144

18. PROVISIONS

Reconciliation of provisions - 2017

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	3,093,432	800,949	3,894,381

Reconciliation of provisions - 2016

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	2,457,213	636,219	3,093,432

The Municipality has an obligation to restore three landfill 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.

19. SERVICE CHARGES

Service charges	46,969	31,397
Sale of electricity	130,626,666	135,221,603
Sale of water	66,686,740	40,778,025
Sewerage and sanitation charges	24,371,763	19,286,627
Refuse removal	11,819,356	7,225,354
	233,551,494	202,543,006

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
20. RENTAL OF FACILITIES AND EQUIPMENT		
Premises		
Encroachments	1,144,102	1,012,733
Venue hire	95,557	133,603
	1,239,659	1,146,336
Facilities and equipment		
Amenities	39,897	20,462
	1,279,556	1,166,798
21. INTEREST REVENUE		
Interest revenue		
Bank	1,086,258	999,800
Interest charged on trade and other receivables	18,731,054	16,980,125
	19,817,312	17,979,925
22. OTHER INCOME		
Administration/sale of plots	302,882	479,354
Advertising fees	-	277
Building Plans	427,292	198,421
Grazing fees	25,613	23,608
Weighbridge fees	932	240
Sundry revenue	9,135,558	4,907,511
Search fees	10,515	17,646
Printing and photocopies	3,601	17,136
Refuse bags and bins	8,073	22,268
Vacuum tanker	-	31,992
Donations	5,000	5,655,799
Other income	1,820	261,732
	9,921,286	11,615,984

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
23. PROPERTY RATES		
Rates received		
Property rates	63,699,215	57,106,845
Less: Income forgone	(1,133,295)	(3,657,237)
	62,565,920	53,449,608
Valuations		
Residential	5,357,056,525	22,127,088
Commercial	806,428,300	10,752,972
State	788,160,700	12,639,627
Undetermined	656,575,647	384,826
Agricultural	2,117,414,200	2,194,112
Industrial	261,146,100	1,662,875
Educational	1,677,115,850	11,302,543
Institutional	5,148,800	57,234
	1,669,046,122	61,121,277

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 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
24. GOVERNMENT GRANTS AND SUBSIDIES		
Operating grants		
Equitable share	77,008,000	75,454,000
Municipal System Improvement Grant (MSIG)	-	930,000
Department Sport, Recreation, Arts & Culture	3,508,772	3,985,000
Finance Management Grant (FMG)	1,810,000	2,021,992
Other Government: LG Seta	195,137	165,600
Fire Subsidy grant	2,806,300	2,400,502
Expanded Public Works Programme (EPWP)	1,000,000	1,137,137
	86,328,209	86,094,231
Capital grants		
DWA	3,962,437	538,118
Municipal Infrastructure Grant (MIG)	24,014,469	30,101,015
	27,976,906	30,639,133
	114,305,115	116,733,364
Disaster		
Included in above are the following grants and subsidies received:		
	3,876,000	3,876,000
Municipal Infrastructure Grant		
Current-year receipts	24,610,784	29,641,330
Conditions met - transferred to revenue	(23,681,000)	(29,641,330)
	929,784	-
<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>		
Finance Management Grant		
Balance unspent at beginning of year	-	346,992
Current-year receipts	1,810,000	1,675,000
Conditions met - transferred to revenue	(1,810,000)	(2,021,992)
	-	-
<p>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</p>		
Municipal Systems Improvement Grant		
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-

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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
Expanded Public Works program		
Balance unspent at beginning of year	141,068	276,205
Current-year receipts	1,000,000	1,002,000
Conditions met - transferred to revenue	(1,137,032)	(1,137,137)
	4,036	141,068

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

Other Grants: LG Seta

Current-year receipts	195,137	165,600
Conditions met - transferred to revenue	(195,137)	(165,600)
	-	-

Department of Sport, Recreation, Arts & Culture

Current-year receipts	4,000,000	3,985,000
Conditions met - transferred to revenue	(4,000,000)	(3,985,000)
	-	-

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

Department of Water Affairs

Current-year receipts	1,403,509	538,118
Conditions met - transferred to revenue	-	(538,118)
	1,403,509	-

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.

INEG

Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(241,039)	-
	3,758,961	-

This Grant was allocated to the municipality for electricity infrastructure

Provincial: Other Grants

Current-year receipts	2,730,159	-
Conditions met - transferred to revenue	(900)	-
	2,729,259	-

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
25. REVENUE		
Service charges	233,551,494	202,543,006
Rental of facilities and equipment	1,279,556	1,166,798
Interest received Debtors	18,731,054	16,980,125
Agency services	1,818,248	995,783
Licences and permits	2,360,169	2,220,899
Other income	9,921,286	11,615,984
Interest received - investment	1,086,258	999,800
Property rates	62,565,920	53,449,608
Government grants & subsidies	114,305,115	116,733,364
Fines, Penalties and Forfeits	492,265	49,016
	446,111,365	406,754,383
 The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	233,551,494	202,543,006
Rental of facilities and equipment	1,279,556	1,166,798
Interest received Debtors	18,731,054	16,980,125
Agency services	1,818,248	995,783
Licences and permits	2,360,169	2,220,899
Other income	9,921,286	11,615,984
Interest received - investment	1,086,258	999,800
	268,748,065	236,522,395
 The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	62,565,920	53,449,608
Transfer revenue		
Government grants & subsidies	114,305,115	116,733,364
Fines, Penalties and Forfeits	492,265	49,016
	177,363,300	170,231,988

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
26. EMPLOYEE RELATED COSTS		
Basic	107,656,836	98,681,571
Bonus	1,359,065	1,520,490
Medical aid - company contributions	9,499,387	7,054,586
UIF	1,054,394	891,541
SDL	1,337,618	1,187,314
Leave payments	9,457,417	457,158
Insurance contribution	810,666	683,991
Pension fund contributions	29,008,168	14,979,981
Overtime payments	9,811,864	9,224,132
Transport allowance	3,718,305	3,651,367
Housing benefits and allowances	1,895,882	1,737,276
Stand by allowance	914,004	636,540
Telephone allowance	317,108	213,828
Medical aid for retired members	2,336,141	3,141,151
Industrial Council Levy	63,974	58,723
	179,240,829	144,119,649
 Acting Municipal Manager: Various		
Earnings	327,930	297,700
 Chief Financial Officer: NF Siwahla		
Earnings	625,081	91,120
Allowance	343,562	46,853
Company contributions	11,038	6,600
	979,681	144,573
 Acting Chief Financial Officer: Colleen Mani		
Company contributions	32,691	98,585
Acting allowance	-	117,058
	32,691	215,643
 Director: Community & Social Services: M Planga		
Earnings	828,617	786,194
Allowance	178,901	157,131
Company contributions	13,052	-
	1,020,570	943,325
 Director: Corporate Services: M Madlavu		
Earnings	90,679	550,638
Allowance	-	108,225
Company contributions	1,056	-
	91,735	658,863
 Acting Director: Corporate Services: Various		
Earnings	148,481	207,676
 Director: Local Economic Development: MJ Meiring		
Earnings	789,208	754,030
Allowance	180,306	152,530
Company contributions	12,835	-
	982,349	906,560

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
Director: Technical & Infrastructure Services: D Mlenzane		
Earnings	748,647	339,440
Allowance	158,094	8,760
Company contributions	10,567	-
Acting allowance	-	163,403
	917,308	511,603

27. REMUNERATION OF COUNCILLORS

Executive Mayor	781,303	780,725
Councillors Other allowance	6,333,825	6,230,437
Councillors Cellphone allowance	580,396	549,173
Councillors Travelling allowance	1,941,050	1,861,224
	9,636,574	9,421,559

28. DEPRECIATION AND AMORTISATION

Property, plant and equipment	56,921,038	27,104,096
Investment property	3,978,912	263,460
Intangible assets	208,960	167,003
	61,108,910	27,534,559

29. FINANCE COSTS

Provisions	3,724,213	9,249,282
Interest paid	13,307,062	8,687,643
	17,031,275	17,936,925

The finance costs includes Eskom, landfill site, DBSA and other interest paid for late payments.

30. DEBT IMPAIRMENT

Debt impairment	(65,650,261)	72,490,292
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The debt impairment is made out of the movement allowance of R29,613,515 and the bad debts of R42,876,777.

31. BULK PURCHASES

Electricity	110,701,988	93,733,596
Water	5,432,908	1,627,322
	116,134,896	95,360,918

32. CONTRACTED SERVICES

Consultant and Professional Fees	35,553,113	8,456,107
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The professional fees is made out of consulting fees for services rendered i.e debt collectors, financial system and other.

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
33. GRANTS AND SUBSIDIES PAID		
Other subsidies		
Grants in aid	-	68,021
Free basic services	19,922,281	459,239
Makana Tourism	850,000	986,345
Internship programme	1,558,528	1,453,156
	22,330,809	2,966,761
34. GENERAL EXPENSES		
Audit Fees	3,919,406	4,470,205
Administration Charges	1,841,942	3,610,396
Advertising	709,725	984,150
Audit Committee	94,432	126,500
Bank charges	273,796	616,661
Chemicals	3,347	12,286
Cleaning and materials	60,211	142,897
Commission paid	1,295,151	1,820,909
Complaints: water and electricity	85,160	129,532
Conferences and seminars	1,063,803	705,057
Consumable Tools	-	4,270
Council events and projects	793,474	3,345,745
Electricity and Water	7,400,494	11,768,027
Electricity connection	13,626	2,471,408
Fuel and oil	293,605	4,832,588
Grants and Subsidies	949,132	1,152,584
Insurance	599,022	1,082,838
Internal Audit Fees	-	54,906
Interviews and Relocation Expenses	228,545	433,165
Legal Fees	2,577,188	7,552,486
License Cards	567,018	587,825
Materials and stores	10,401,495	5,706,866
Other expenses	3,414,600	1,557,503
Postage and courier	968,508	981,697
Printing and stationery	14,772	55,248
Protective clothing	107,106	374,592
Refuse bags	292,795	252,051
Security (Guarding of municipal property)	206,639	2,529,710
Subsistence and Traveling	265,139	307,152
Telephone and fax	3,493,487	3,012,475
Training	719,910	751,691
Uniforms	82,331	71,965
Valuation expenses	-	1,331,902
	42,735,859	62,837,287
35. AUDITORS' REMUNERATION		
Audit Fees	3,919,406	4,470,205

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
36. CASH GENERATED FROM (USED IN) OPERATIONS		
Surplus (deficit)	12,177,284	(79,483,448)
Adjustments for:		
Depreciation and amortisation	61,108,910	27,534,559
Gain on sale of assets and liabilities	517,761	107,881
Debt impairment	(65,650,261)	72,490,292
Actuarial gain	(10,394,900)	(6,870,329)
Changes in working capital:		
Inventories	2,763,211	356,659
Receivables from exchange transactions	10,067,878	(58,321,600)
Other receivables from non-exchange transactions		-
Receivables from exchange and non-exchange transactions	(18,520,277)	(6,863,949)
Payables from exchange transactions	44,317,259	24,361,178
Payables from exchange transactions		-
VAT	7,352,026	4,982,050
Unspent conditional grants and receipts	10,095,206	(482,129)
Consumer deposits	18,044	123,948
Provisions	800,949	701,882
Employee benefit	19,507,804	7,332,677
	74,160,894	(14,030,329)

37. COMMITMENTS

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	14,019,097	35,053,698
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Total capital commitments

Already contracted for but not provided for	14,019,097	35,053,698
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38. 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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2017	2016
R	R

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 2017

Notes to the Annual Financial Statements

	2017 R	2016 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	2017	2016
Receivables from exchange transactions	44,488,400	35,760,438
Receivables from non exchange transaction	25,475,902	6,935,169
Cash and cash equivalents	12,138,866	5,263,670

39. UNAUTHORISED EXPENDITURE

Unauthorised expenditure	225,168,585	225,168,585
Expenditure for the year	38,949,948	33,496,342
	264,118,533	258,664,927

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

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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
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Finance costs: Finance costs for landfill site were more than budgeted for, as budget was based on prior year figure

40. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	10,998,668	1,069,513
Incurring - current year	5,540,986	9,929,155
Written off during the year	(713,711)	-
	15,825,943	10,998,668

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.

41. IRREGULAR EXPENDITURE

Opening balance	142,028,019	89,914,122
Add: Irregular Expenditure - current year	4,451,548	52,113,897
	146,479,567	142,028,019

Analysis of expenditure awaiting condonation per age classification

Current year	4,451,548	52,113,897
Prior years	142,028,019	89,914,122
	146,479,567	142,028,019

Details of irregular expenditure – current year

-

Details of irregular expenditure - prior year

Condoned by (condoning authority)

-

42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Audit fees

Opening balance	11,293,539	12,659,656
Current year subscription / fee	3,919,406	4,470,205
Amount paid - current year	(3,621,715)	(4,470,205)
	11,591,230	12,659,656

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.

PAYE and UIF

Opening balance	1,358,156	-
Current year subscription / fee	18,383,598	31,556,060
Amount paid - current year	(18,271,031)	(30,197,904)
	1,470,723	1,358,156

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
VAT		
VAT payable	5,620,656	2,047,492

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 2017:

43. 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.

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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2017	2016
R	R

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

Statement of financial performance

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. 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

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 2017

Notes to the Annual Financial Statements

2017	2016
R	R

44. CONTINGENCIES

The known contingent liabilities and assets as at 30 June 2017 are estimated a R22,518,432 for liabilities and R311,597 for assets, for 2015/16 R46,275,490 for liabilities and R950,575 for assets,

Contingent liabilities

Below is a list of possible liability claims where the outcome was unknown as at 30 June 2017 and 30 June 2016 with the maximum unforeseen liability for the municipality:

M Boma// Makana (Disciplinary Action) , Employee Dismissed , Recover monies owed by him to Makana Municipality Matter set down for 17th May 2016 for pretrail conference for proceedings to recover monies owed by Mr Boma to Makana.

Qezu//Makana, Matter set down May 2016 for Arbitration.Witnesses to be subpoenaed. Amount claimed is R100,000.

Mkhuzo//Makana, Matter is set down at SALGBC 6th of June 2016 for further evidence on arbitration.Criminal matter finalised ,Ms Mkhuzo found not guilty. Amount claimed is R50,000.

Mthombo Resorts//Makana, Breach of lease agreement, non payment of rent, contract will expire in 2019. Amount claimed is R 9,300,000.

Ndonyeli//Makana, Egazini eviction, applicant appealed, set down matter. The amount claimed is R3 9196.

SAMWU/Makana, MOU strike, interdict, attempting to negotiate out of court settlement, set down for 16 March 2015. The amount claimed is R80,000.

WK Construction//Makana, Tender dispute. The amount claimed is R27,000.

Brinkman Ndayi McAll// Makana, Provision of professional services, summons, Settlement negotiations entered into, applicant wont take further action on the matter as we sort to make suitable instalments/payments. The amount claimed is R662,169.38

Matthew Theijssen//Makana, civil action, unlawful arrest by traffic officer Mr. Bafo, vicarious liability claim. The amount claimed is R200,000.

Thembakazi Mpofo//Makana, Municipal truck collided with her house, More investigation to be conducted as claim is overstated. The amount claimed is R15,000.

Bonisile Jamela//Makana, municipal workers damaged wall of applicant, default judgement, settle this matter, and DC to be taken against employe. The amount claimed is R3,471.51.

Aurecon// Makana, Amount claimed for services rendered, New payment plan has been submitted by Aurecon AttorneysSAMWU/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).

Aurecon// Makana, Amount claimend for services rendered, New payment plan has been submitted by Aurecon Attorneys. The amount claimed is R1,011,171.19

Masuku Dube Tiffiin//Makana, Non-payment of services, Roads and Stormwater Project Alicedale, summons issued defended, raised exceptions but open to settlement negotiations. The amount claimed is R382,155.22.

SALA//Makana, penalty in late payment of employee contributions, referred to finance for our instructions. The amount claimed is R3,960.

Makana Unity League ,Compliance order in respect to Landfill site. The amount claimed is R120,000.

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
Review and set aside. The amount claimed is R160,000.		
Riley vs Makana Municipality and Nazo.Motor vehicle damages claim. The amount claimed is R92,780.39		
Aquaculture innovation CC//Makana ,law suit in respect to dead fih due to power failure. The amount claimed is R309,000.		
Notyawa vs Makana and 2 others. The amount claimed is R1,450 000.		
Ginami Trading vs Makana services rendered. The amount claimed is R532,000.		
Oatslands Prep school vs Makana. The amount claimed is R309.		
DWIS vs Makana,claim for water services. The amount claimed is R19,000,000.		
MAKANA VS ILLEGAL OCCUPIERS. The amount claimed is R50,000.		
MEGAN SWART//MAKANA. The amount claimed is R8,833.23.		
SEBATA MUNICIPAL SOLUTION VS MAKANA. The amount claimed is R6,974,692.43		
LEONIE HATTINGH. The amount claimed is R6715.18.		
ROYAL HASKONING DHV PTY LTD VS MAKANA. The amount claimed is R290,344.43		

45. RELATED PARTIES

Relationships

Accounting officer

Refer to accounting officer's report

Members of key management

Acting Municipal Manager - D Mlenzane

Chief Financial Officer - NF Siwahla

Director Community & Social Services - Mandisi Planga

Director Local Economic Development - Riana

Meiring

Director Technical Services - Daluxolo Mlenzana

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2017	2016
R	R

46. COMPARATIVE FIGURES

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

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
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47. PRIOR PERIOD ERRORS

Statement of Financial Position 2016

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Assets					
Current Assets					
Inventory General		8,588,929	(690,155)	-	7,898,774
Cash and cash equivalents		5,179,154	84,516	-	5,263,670
VAT receivable		101,377	(101,377)	-	-
Non-Current Assets					
Property, plant and equipment		889,749,926	(27,015,910)	-	862,734,016
Intangible assets		652,536	(222,500)	-	430,036
Investment property		184,350,014	7,658,620	-	192,008,634
		<u>1,074,752,476</u>	<u>(19,579,790)</u>	<u>-</u>	<u>1,055,172,686</u>
Total Assets		<u>1,088,621,936</u>	<u>(20,286,806)</u>	<u>-</u>	<u>1,068,335,130</u>
Liabilities					
Current Liabilities					
Payables from exchange transactions		131,136,539	31,088,640	-	162,225,179
Payables from non-exchange transactions		30,561,505	(11,315,131)	-	19,246,374
VAT suspense		5,136,033	4,200,155	-	9,336,188
VAT payable		-	2,047,492	-	2,047,492
		<u>166,834,077</u>	<u>26,021,156</u>	<u>-</u>	<u>192,855,233</u>
Non-Current Liabilities					
Provisions		28,881,524	(25,788,092)	-	3,093,432
Total Liabilities		<u>195,715,601</u>	<u>233,064</u>	<u>-</u>	<u>195,948,665</u>
Net Assets		<u>892,906,335</u>	<u>(20,519,870)</u>	<u>-</u>	<u>872,386,465</u>
Net Assets					
Accumulated surplus		<u>833,591,709</u>	<u>(9,103,162)</u>	<u>-</u>	<u>838,137,536</u>

Inventory

Inventory has been restated due to the correction of land inventory deemed cost and unrecorded creditor's invoices relating to inventory.

Cash and cash equivalents

Cash and cash equivalents have been restated due to short term investments held in bank being omitted from the prior year Annual Financial Statements..

Inventory

Inventory has been restated due to the correction of land inventory deemed cost and unrecorded creditor's invoices relating to inventory.

VAT Payable

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2017	2016
R	R

Vat has been restated due to an assessment on VAT and interest and penalties raised by SARS subsequent to a VAT audit finalization.

Property Plant and Equipment

Property, Plant and Equipment has been restated due to the correction of land and buildings deemed costs and the correction of landfill site.

Accumulated Surplus

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

Investment Properties

Investment properties have been restated due to the correction of land deemed costs.

Intangible Assets

Intangible assets have been restated due to the correction of work in progress assets that were prematurely recognized.

Payables from exchange transactions

Payables from exchange transactions were restated due to unrecorded invoices identified during the audit.

VAT Suspense

The VAT suspense account was restated due to unrecorded invoices identified during the audit.

Payables from non-exchange

Payables from exchange transactions were restated due to unrecorded invoices identified during the audit.

Provisions

The provision has been restated due to the correction of the provision for rehabilitation - landfill site.

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

		2017 R		2016 R
Statement of Financial Performance				
Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Revenue				
Revenue from exchange transactions				
Other income	5,587,945	372,240	-	5,960,185
Expenditure				
Depreciation and amortisation	(21,753,047)	4,761	-	(21,748,286)
Finance costs	(19,000,269)	1,063,344	-	(17,936,925)
Lease rentals on operating lease	(7,397,332)	(7,551)	-	(7,404,883)
Repairs and maintenance	(30,494,783)	(13,976,556)	-	(44,471,339)
Contracted services	(8,383,361)	(72,746)	-	(8,456,107)
Grants and subsidies paid	(2,370,270)	(596,491)	-	(2,966,761)
General Expenses	(60,624,862)	(2,212,425)	-	(62,837,287)
Total expenditure	(150,023,924)	(15,797,664)	-	(165,821,588)
Operating surplus	(144,435,979)	(15,425,424)	-	240,932,795
Surplus for the year	(144,435,979)	(15,425,424)	-	240,932,795

General Expenses

General expenditure has been restated due to unrecorded invoices.

Depreciation and Impairment

Depreciation has been restated due to correction of property, plant equipment costs.

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

Finance costs

Finance costs has been restated due to unrecorded invoices.

Disclosure - Irregular Expenditure

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

48. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

During 2016/17 and 2015/16 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	2017	2016
Sole Supplier	295,260	59,680
Emergency	1,700,484	3,593,549
Other	1,250,121	211,655
Total	3,245,865	3,864,884

Makana Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

	2017	2016	
	R	R	
<hr/>			
49. BULK ELECTRICITY WATER LOSS			
Water Losses	Lost units	Cost per KL	Value
Unaccounted water losses	<u>497,369</u>	<u>1.18</u>	<u>585,547</u>

Water losses occur due to inter alia. leakages, the tempering 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.

50. EVENTS AFTER THE REPORTING DATE

There were no events identified after the reporting date.