

**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021



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EC104 - Makana Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2021

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### General Information

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<b>Country of incorporation and domicile</b>	South Africa
<b>Legal form of entity</b>	The Municipality 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 other various acts and regulations.
<b>Nature of business and principal activities</b>	Rendering of basic services to the community of Makana such as Water, Sanitation, Refuse collection, Electricity, Infrastructure, Local Economic Development and Community Services as set out in Constitution of South Africa
<b>Members of the Council</b>	
Executive Mayor	Cllr M Mpahtwa
Speaker	Cllr Y Vara
MPAC Chairperson	Cllr T Seyisi
MMC: LED & Planning	Cllr M Matyumza
MMC: Public Safety & Community Services	Cllr P Matyumza
MMC: Corporate Services	Cllr N Masoma
MMC: Finance	Cllr L Nase
MMC: Engineering & infrastructure	Cllr RM Xonxa
	Cllr TF Bruinjies
	Cllr C Clark
	Cllr S Dyantjie
	Cllr M Fatyi (deceased April 2021)
	Cllr B Fargher
	Cllr T Gaushe
	Cllr M Gojela
	Cllr M Khubalo
	Cllr B Jackson
	Cllr XG Madyo
	Cllr AJ Meyer
	Cllr M Moya
	Cllr M Nkwetsha
	Cllr NM Pieters
	Cllr L Sakata
	Cllr S Bashe
	Cllr LR Sizani
	Cllr S Sodladla
<b>Grading of local authority</b>	Category B
<b>Accounting Officer</b>	Mr MA Mene
<b>Chief Financial Officer (CFO)</b>	Mr GJ Goliath
<b>Registered office</b>	City Hall No 86 High Street Grahamstown 6139
<b>Business address</b>	City Hall No 86 High Street Grahamstown

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**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021

**General Information**

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	6139
<b>Bankers</b>	First National Bank
<b>Auditor</b>	Auditor-General South Africa
<b>Attorneys</b>	Smith Tabata Chris Baker
<b>Preparer</b>	The annual financial statements were internally compiled by: Zenzo Trading and Projects (Pty) Ltd with supervision of Ayanda Ndabeni (Manager: Budget and Treasury)

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Annual Financial Statements for the year ended 30 June 2021

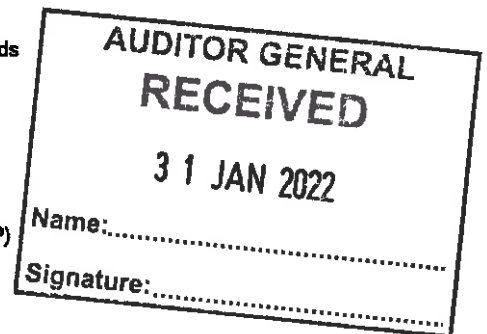
### Index

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

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INEP	Integrated National Electrification Grant Programme
WSIG	Water Service Infrastructure Grant
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
RDP	Rural Development Programme
PBO	Public Benefit Organisation
IAS	International Accounting Standards
MDRG	Municipal Disaster Relief Grant
IPSAS	International Public Sector Accounting Standards
AFS	Annual Financial Statements
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
PAYE	Pay As You Earn
VAT	Value Added Tax
PSI	Public Service Infrastructure



**EC104 - Makana Local Municipality**  
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**Accounting Officer's Responsibilities and Approval**

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

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

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

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

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

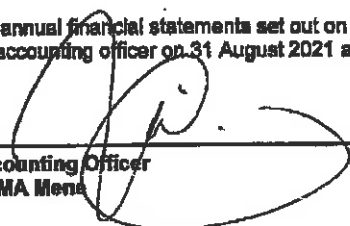
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The external auditor is responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

  
Accounting Officer  
Mr. MA Mena

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**EC104 - Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

**Statement of Financial Position as at 30 June 2021**

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	6 110 623	5 136 836
Receivables from exchange transactions	9	71 030 118	49 300 011
Receivables from non-exchange transactions	10	24 401 256	13 130 668
Cash and cash equivalents	11	18 927 992	35 039 065
		<b>120 469 989</b>	<b>103 605 980</b>
<b>Non-Current Assets</b>			
Investment property	3	172 415 187	173 018 338
Property, plant and equipment	4	905 672 315	886 085 389
Intangible assets	5	73 276	209 689
Heritage assets	6	24 852 619	24 852 619
		<b>1 103 013 397</b>	<b>1 084 166 035</b>
<b>Total Assets</b>		<b>1 223 483 386</b>	<b>1 187 772 015</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	13	1 660 200	1 483 323
Payables from exchange transactions	16	199 124 730	189 616 150
VAT payable	17	51 130 194	37 798 757
Employee benefit obligation	7	3 202 986	4 086 574
Unspent conditional grants and receipts	12	17 146 544	21 359 022
Provisions	14	27 319 243	19 825 029
Consumer deposits	15	1 666 473	2 211 067
		<b>301 250 370</b>	<b>276 379 922</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	13	49 213 632	50 737 999
Employee benefit obligation	7	75 270 423	64 492 837
Provisions	14	39 167 208	22 979 071
		<b>163 651 263</b>	<b>138 209 907</b>
<b>Total Liabilities</b>		<b>464 901 633</b>	<b>414 589 829</b>
<b>Net Assets</b>		<b>758 581 753</b>	<b>773 182 186</b>
Accumulated surplus		758 581 753	773 182 186
<b>Total Net Assets</b>		<b>758 581 753</b>	<b>773 182 186</b>

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**EC104 - Makana Local Municipality**  
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**Statement of Financial Performance**

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	266 548 872	237 802 754
Rendering of services		1 445 198	1 789 086
Rental of facilities and equipment	20	230 167	389 407
Agency services	22	2 708 899	2 239 339
Other income	24	1 351 749	2 270 717
Interest received - investment	25	29 728 278	35 313 149
<b>Total revenue from exchange transactions</b>		<b>302 013 163</b>	<b>279 804 452</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	100 706 680	93 722 073
Licences and Permits (Non-exchange)		1 978	-
<b>Transfer revenue</b>			
Government grants & subsidies	28	180 259 808	175 240 334
Fines, Penalties and Forfeits	21	135 715	415 866
<b>Total revenue from non-exchange transactions</b>		<b>281 104 181</b>	<b>269 378 273</b>
<b>Total revenue</b>	18	<b>583 117 344</b>	<b>549 182 725</b>
<b>Expenditure</b>			
Employee related costs	29	(208 026 293)	(188 638 794)
Remuneration of councillors	30	(11 398 481)	(11 410 126)
Depreciation and amortisation	31	(35 227 325)	(33 587 888)
Impairments	32	(1 404 389)	-
Finance costs	33	(20 226 802)	(18 798 734)
Lease rentals on operating lease	23	(2 634 328)	(2 466 515)
Debt Impairment	34	(123 788 382)	(105 791 730)
Bulk purchases	35	(115 171 162)	(108 059 800)
Contracted services	36	(33 988 946)	(29 043 683)
Transfers and Subsidies	27	(990 060)	(900 060)
Sale of goods/inventory	8	(7 977 800)	(9 084 666)
General Expenses	37	(27 691 133)	(24 181 906)
<b>Total expenditure</b>		<b>(588 505 099)</b>	<b>(531 963 902)</b>
<b>(Deficit) surplus for the year from continuing operations</b>		<b>(5 387 755)</b>	<b>17 218 823</b>
<b>Gains and Losses</b>		<b>(9 459 790)</b>	<b>21 408 792</b>
<b>(Deficit) surplus for the year</b>		<b>(14 847 545)</b>	<b>38 627 615</b>

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**Statement of Changes in Net Assets**

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	721 318 430	721 318 430
Adjustments		
Correction of errors	13 236 141	13 236 141
<b>Balance at 01 July 2019 as restated*</b>	<b>734 554 571</b>	<b>734 554 571</b>
Changes in net assets		
Surplus for the year	38 627 615	38 627 615
<b>Total changes</b>	<b>38 627 615</b>	<b>38 627 615</b>
<b>Restated* Balance at 01 July 2020</b>	<b>773 429 298</b>	<b>773 429 298</b>
Changes in net assets		
Surplus for the year	(14 847 545)	(14 847 545)
<b>Total changes</b>	<b>(14 847 545)</b>	<b>(14 847 545)</b>
<b>Balance at 30 June 2021</b>	<b>758 581 753</b>	<b>758 581 753</b>

Note(s)

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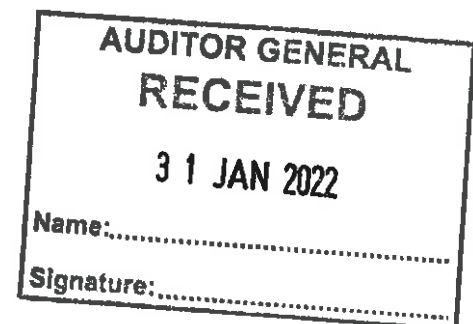


**EC104 - Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

**Cash Flow Statement**

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		290 958 696	260 402 523
Grants		169 829 705	149 250 221
Interest Income		29 728 278	35 313 149
		490 514 679	444 965 893
<b>Payments</b>			
Employee costs		(219 424 774)	(204 936 049)
Suppliers		(181 710 733)	(182 395 479)
Finance costs		(20 228 802)	(17 486 789)
		(421 362 309)	(414 818 317)
<b>Net cash flows from operating activities</b>	40	<b>69 152 370</b>	<b>30 147 576</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(93 491 939)	(60 446 072)
Proceeds from sale of property, plant and equipment	4	9 688 080	-
Proceeds from sale of investment property	3	462 500	-
<b>Net cash flows from investing activities</b>		<b>(83 371 359)</b>	<b>(60 446 072)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(1 347 490)	(1 321 280)
Movement in consumer deposits		(544 594)	(1 103 692)
<b>Net cash flows from financing activities</b>		<b>(1 892 084)</b>	<b>(2 424 972)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(16 111 073)</b>	<b>(32 723 468)</b>
Cash and cash equivalents at the beginning of the year		35 039 065	67 762 533
<b>Cash and cash equivalents at the end of the year</b>	11	<b>18 927 992</b>	<b>35 039 065</b>



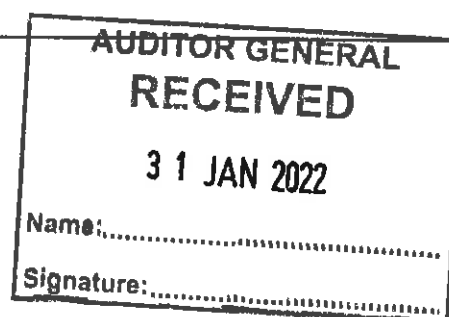
## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	298 819 000	500 000	299 319 000	268 548 872	(32 770 128)	58(1)
Rendering of services	10 000 000	-	10 000 000	1 445 198	(8 554 802)	58(1)
Rental of facilities and equipment	553 000	(200 000)	353 000	230 167	(122 833)	
Agency services	2 000 000	-	2 000 000	2 708 899	708 899	
Other income - (rollup)	-	-	-	1 351 749	1 351 749	
Interest received - investment	38 500 000	(3 000 000)	35 500 000	29 728 278	(5 771 722)	58 (2)
Gains on disposal of assets	200 000	-	200 000	(9 459 790)	(9 659 790)	
<b>Total revenue from exchange transactions</b>	<b>350 072 000</b>	<b>(2 700 000)</b>	<b>347 372 000</b>	<b>292 553 373</b>	<b>(54 818 627)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	98 587 000	4 000 000	102 587 000	100 706 680	(1 880 320)	
Licences and Permits (Non-exchange)	5 700 000	-	5 700 000	1 978	(5 698 022)	
<b>Transfer revenue</b>						
Government grants & subsidies	114 068 000	15 012 000	129 080 000	126 482 008	(2 597 992)	
Fines, Penalties and Forfeits	727 000	(300 000)	427 000	135 715	(291 285)	
<b>Total revenue from non-exchange transactions</b>	<b>219 082 000</b>	<b>18 712 000</b>	<b>237 794 000</b>	<b>227 326 381</b>	<b>(10 467 619)</b>	
<b>Total revenue</b>	<b>569 154 000</b>	<b>16 012 000</b>	<b>585 166 000</b>	<b>519 879 754</b>	<b>(65 286 246)</b>	
<b>Expenditure</b>						
Personnel	(198 818 000)	333 000	(198 485 000)	(208 026 293)	(9 541 293)	58(3)
Remuneration of councillors	(12 700 000)	-	(12 700 000)	(11 398 481)	1 301 519	
Depreciation and amortisation	(33 500 000)	-	(33 500 000)	(35 227 325)	(1 727 325)	58(4)
Impairment loss/ Reversal of impairments	-	-	-	(1 404 389)	(1 404 389)	
Finance costs	(10 000 000)	-	(10 000 000)	(20 226 802)	(10 226 802)	
Lease rentals on operating lease	-	-	-	(2 634 328)	(2 634 328)	
Debt impairment	(43 000 000)	-	(43 000 000)	(123 768 382)	(80 768 382)	58(5)
Bulk purchases	(124 500 000)	1 300 000	(123 200 000)	(115 171 162)	8 028 838	58(6)
Contracted Services	(35 629 000)	(3 700 000)	(39 329 000)	(33 988 946)	5 340 054	
Transfers and Subsidies	(100 000)	(845 000)	(945 000)	(990 060)	(45 060)	
Sale of goods/inventory	(17 962 000)	(1 264 000)	(19 226 000)	(7 977 800)	11 248 200	58 (7)
General Expenses	(25 188 000)	176 000	(25 012 000)	(27 691 133)	(2 679 133)	58(8)
<b>Total expenditure</b>	<b>(501 397 000)</b>	<b>(4 000 000)</b>	<b>(505 397 000)</b>	<b>(588 505 099)</b>	<b>(83 108 099)</b>	
<b>Deficit before taxation</b>	<b>67 757 000</b>	<b>12 012 000</b>	<b>79 769 000</b>	<b>(68 625 345)</b>	<b>(148 394 345)</b>	
<b>Deficit for the year from continuing operations</b>	<b>67 757 000</b>	<b>12 012 000</b>	<b>79 769 000</b>	<b>(68 625 345)</b>	<b>(148 394 345)</b>	
Transfers & subsidies	43 047 000	24 812 000	67 859 000	53 777 800	(14 081 200)	



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**Statement of Comparison of Budget and Actual Amounts**

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	110 804 000	36 824 000	147 628 000	(14 847 545)	(162 475 545)	

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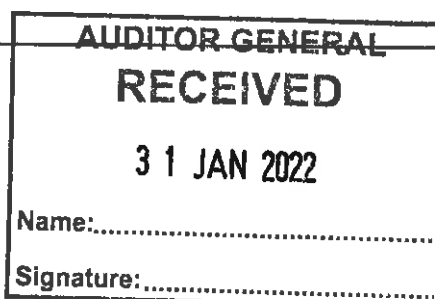
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Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	5 901 751	-	5 901 751	6 110 623	208 872	
Receivables from exchange transactions	27 400 000	11 897 000	39 297 000	71 030 118	31 733 118	58 (10)
Receivables from non-exchange transactions	25 093 000	(120 000)	24 973 000	24 401 256	(571 744)	58 (10)
Cash and cash equivalents	131 885 000	68 346 000	200 231 000	18 927 992	(181 303 008)	58 (11)
	<b>190 279 751</b>	<b>80 123 000</b>	<b>270 402 751</b>	<b>120 469 989</b>	<b>(149 932 762)</b>	
<b>Non-Current Assets</b>						
Investment property	186 294 589	-	186 294 589	172 415 187	(13 879 402)	58
Property, plant and equipment	915 525 000	25 425 000	940 950 000	905 672 315	(35 277 685)	58
Intangible assets	260 715	-	260 715	73 276	(187 439)	
Heritage assets	34 608 200	-	34 608 200	24 852 619	(9 755 581)	58
	<b>1 136 688 504</b>	<b>25 425 000</b>	<b>1 162 113 504</b>	<b>1 103 013 397</b>	<b>(59 100 107)</b>	
<b>Total Assets</b>	<b>1 326 968 255</b>	<b>105 648 000</b>	<b>1 432 516 255</b>	<b>1 223 483 386</b>	<b>(209 032 869)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	1 321 281	-	1 321 281	1 860 200	338 919	
Payables from exchange transactions	72 766 656	68 724 451	141 491 107	199 124 730	57 633 623	58
VAT payable	-	-	-	51 130 194	51 130 194	58(16)
Employee benefit obligation	-	-	-	3 202 986	3 202 986	
Unspent conditional grants and receipts	-	-	-	17 146 544	17 146 544	58(13)
Provisions	19 502 000	-	19 502 000	27 319 243	7 817 243	
Consumer deposits	2 587 503	-	2 587 503	1 666 473	(921 030)	
	<b>96 177 440</b>	<b>68 724 451</b>	<b>164 901 891</b>	<b>301 250 370</b>	<b>136 348 479</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	51 541 321	-	51 541 321	49 213 632	(2 327 689)	59
Employee benefit obligation	-	-	-	75 270 423	75 270 423	59
Provisions	104 199 000	-	104 199 000	39 167 208	(65 031 792)	59
	<b>155 740 321</b>	<b>-</b>	<b>155 740 321</b>	<b>163 651 263</b>	<b>7 910 942</b>	
<b>Total Liabilities</b>	<b>251 917 761</b>	<b>68 724 451</b>	<b>320 642 212</b>	<b>464 901 633</b>	<b>144 259 421</b>	
<b>Net Assets</b>	<b>1 075 050 494</b>	<b>36 823 549</b>	<b>1 111 874 043</b>	<b>758 581 753</b>	<b>(353 292 290)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1 075 050 494	36 823 549	1 111 874 043	758 581 753	(353 292 290)	



**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021

**Statement of Comparison of Budget and Actual Amounts**

**Budget on Cash Basis**

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	375 947 313	23 722 984	399 670 297	290 956 696	(108 713 601)	
Grants	157 014 608	39 924 292	196 938 900	169 829 705	(27 109 195)	
Interest income	-	500 000	500 000	29 728 278	29 228 278	
	<b>532 961 921</b>	<b>64 147 276</b>	<b>597 109 197</b>	<b>490 514 679</b>	<b>(106 594 518)</b>	
<b>Payments</b>						
Employee costs and suppliers	(392 387 000)	34 302 476	(358 084 524)	(407 127 586)	(48 043 042)	
Finance costs	-	-	-	(20 226 802)	(20 226 802)	
	<b>(392 387 000)</b>	<b>34 302 476</b>	<b>(358 084 524)</b>	<b>(427 354 368)</b>	<b>(69 269 844)</b>	
<b>Net cash flows from operating activities</b>	<b>140 574 921</b>	<b>98 448 752</b>	<b>239 024 673</b>	<b>63 160 311</b>	<b>(175 864 362)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(41 261 000)	(21 512 901)	(62 773 901)	(93 481 939)	(30 718 038)	
Proceeds from sale of property, plant and equipment	200 000	-	200 000	16 112 639	15 912 639	
<b>Net cash flows from investing activities</b>	<b>(41 061 000)</b>	<b>(21 512 901)</b>	<b>(62 573 901)</b>	<b>(77 379 300)</b>	<b>(14 805 399)</b>	
<b>Cash flows from financing activities</b>						
Repayment of other financial liabilities	-	-	-	(1 347 490)	(1 347 490)	
Movement in consumer deposits	(845 000)	845 000	-	(544 594)	(544 594)	
<b>Net cash flows from financing activities</b>	<b>(845 000)</b>	<b>845 000</b>	<b>-</b>	<b>(1 892 084)</b>	<b>(1 892 084)</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>98 668 921</b>	<b>77 781 851</b>	<b>176 450 772</b>	<b>(16 111 073)</b>	<b>(192 561 845)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>98 668 921</b>	<b>77 781 851</b>	<b>176 450 772</b>	<b>(16 111 073)</b>	<b>(192 561 845)</b>	

The accounting policies on pages 14 to 36 and the notes on pages 37 to 77 form an integral part of the annual financial statements.

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

Figures in Rand	Note(s)	2021	2020
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### 1. Presentation of Annual Financial Statements

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

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

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

#### Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

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

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

#### 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 14 - Provisions.

#### Effective interest rate

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

#### Allowance for doubtful debts

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

### 1.4 Investment property

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

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

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

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

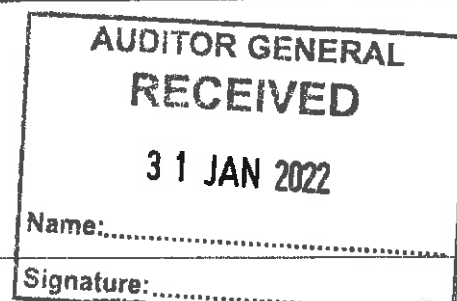
Item	Useful life
Property - buildings	60 years

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

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

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

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



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Accounting Policies

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#### 1.4 Investment property (continued)

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.

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

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties. Land held for a currently undetermined future use.
- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held
- A building owned (or held by under a finance lease) and leased out under one or more operating leases
- Property that is being constructed or developed for future use as investment property a building owned (or held by under a finance lease) and leased out under one or more operating leases

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note ).

#### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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.

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Not depreciated

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

Buildings	Straight-line	10-200
Infrastructure	Straight-line	5-120
Community	Straight-line	5-100
Other property, plant and equipment	Straight-line	2-100

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note ).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

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## **Accounting Policies**

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### **1.6 Site restoration and dismantling cost (continued)**

If the related asset is measured using the revaluation model:

- (a) changes in the liability after the revaluation surplus or deficit previously recognised on that asset, so that
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### **1.7 Intangible assets**

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

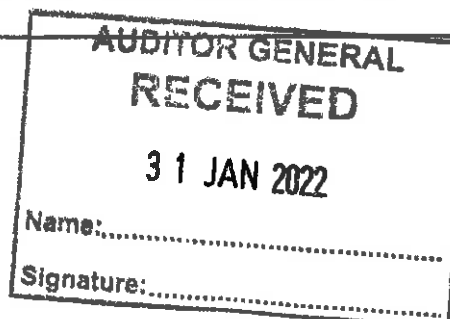
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical,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

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

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.



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Accounting Policies

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#### 1.7 Intangible assets (continued)

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	Depreciation method	Average useful life
Computer software, other	Straight-line	5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

Intangible assets are derecognised:

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

#### 1.8 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Heritage assets (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

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

### 1.9 Financial instruments

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

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

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

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

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

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

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

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## Accounting Policies

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### 1.9 Financial instruments (continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

- equity instruments or similar forms of unfixed capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

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**Accounting Policies**

**1.9 Financial instruments (continued)**

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

**Classification**

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from Non-exchange transaction	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at fair value

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

Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Vat payable	Financial liability measured at fair value
Consumer deposits	Financial liability measured at fair value
Unspent conditional grant	Financial liability measured at fair value

**1.10 Inventories**

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

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

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

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

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

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## EC104 - Makana Local Municipality

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#### 1.10 Inventories (continued)

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

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

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

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

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

#### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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 used 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:

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

#### Identification

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

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

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

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## **Accounting Policies**

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### **1.11 Tax (continued)**

#### **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.

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

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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.

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:

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

#### **Identification**

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

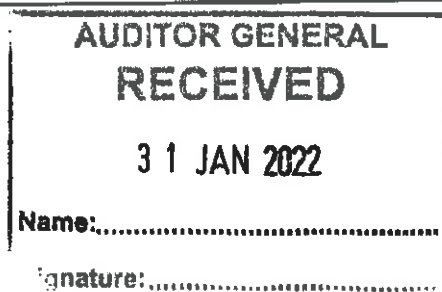
The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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

#### **Value in use**

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

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



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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits

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

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

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

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

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

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

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

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

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

### Short-term employee benefits

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

Short-term employee benefits include items such as:

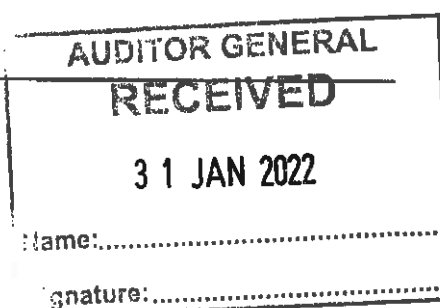
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee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

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

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

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

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



**Accounting Policies**

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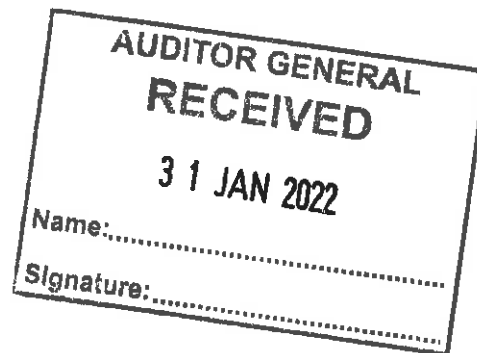
**1.13 Employee benefits (continued)**

**Post-employment benefits**

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

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

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



## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

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

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

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

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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

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

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

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

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

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

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## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

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

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

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

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

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

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

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

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

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

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

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

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**Accounting Policies**

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**1.13 Employee benefits (continued)**

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

**1.14 Provisions and contingencies**

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

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### 1.14 Impairment of non-cash-generating assets (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

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## **Accounting Policies**

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### **1.15 Commitments (continued)**

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### **1.16 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

#### **Measurement**

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

#### **Sale of goods**

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

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

#### **Rendering of services**

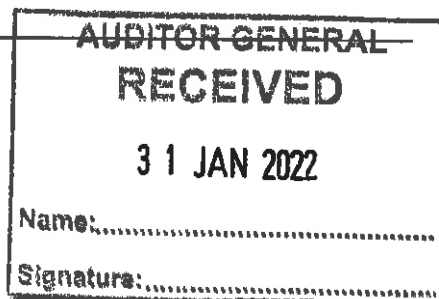
When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the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





# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

### 1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

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

#### Recognition

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

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

#### Measurement

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

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

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

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

#### Rates, Collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### Transfers

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

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

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

#### Fines

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

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

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

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

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

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## **Accounting Policies**

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### **1.18 Investment income**

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

### **1.19 Borrowing costs**

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

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

### **1.20 Comparative figures**

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

### **1.21 Unauthorised expenditure**

Unauthorised expenditure means:

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

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

### **1.22 Fruitless and wasteful expenditure**

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

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

### **1.23 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

### **1.24 Segment information**

A segment is an activity of an entity:

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

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

### **1.25 Budget information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

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**Accounting Policies**

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**1.25 Budget information (continued)**

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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

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

**1.26 Related parties**

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

**1.27 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.

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## EC104 - Makana Local Municipality

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### Notes to the Annual Financial Statements

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2021

2020

#### 2. New standards and interpretations

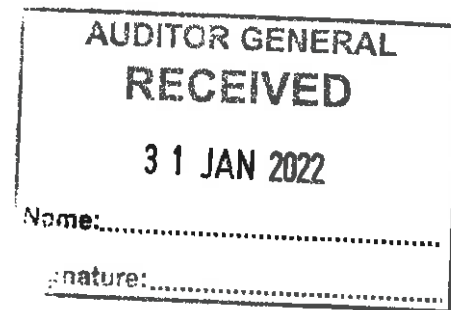
##### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 April 2020 or later periods:

##### Standards

##### GRAP 104 - Financial Instruments (Not yet effective)

All the above standards, where applicable, will be complied with in the financial statements once the standards take effect. Preliminary investigations indicate that other than additional disclosure, the impact of the standards on the financial statements will be minimal.



**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021

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**3. Investment property**

	2021		2020			
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value
Investment property	174 223 000	(1 807 813)	172 415 187	174 676 500	(1 657 162)	173 018 338

**Reconciliation of Investment property - 2021**

Investment property	Opening balance	Disposals	Depreciation	Total
	173 018 338	(452 500)	(150 651)	172 415 187

**Reconciliation of Investment property - 2020**

Investment property	Opening balance	Transfers	Depreciation	Total
	183 993 989	(10 825 000)	(150 651)	173 018 338

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

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**4. Property, plant and equipment**

	2021			2020		
	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	75 902 282	-	75 902 282	75 922 851	-	75 922 851
Buildings	91 275 831	(19 372 217)	71 903 614	100 702 357	(19 746 464)	80 955 893
Infrastructure	828 476 343	(256 083 785)	572 392 558	796 277 564	(231 042 844)	565 234 720
Community	110 622 471	(40 197 021)	70 425 450	110 841 998	(35 907 958)	74 934 038
Other property, plant and equipment	44 000 668	(28 957 893)	14 042 775	42 943 365	(27 667 099)	15 276 268
Work in Progress	101 005 826	-	101 006 826	73 961 621	-	73 961 621
<b>Total</b>	<b>1 251 283 231</b>	<b>(345 610 916)</b>	<b>905 672 315</b>	<b>1 200 449 754</b>	<b>(314 364 365)</b>	<b>886 085 389</b>

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**4. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2021**

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	75 922 851	-	(14 000)	(6 559)	-	-	75 902 292
Buildings	80 955 893	-	(7 395 525)	-	(1 656 754)	-	71 903 614
Infrastructure	586 234 720	36 285 913	(2 157 570)	-	(26 970 505)	-	572 392 558
Community	74 734 038	-	(10 319)	-	(2 894 180)	(1 404 388)	70 425 150
Other property, plant and equipment	15 276 266	1 323 340	(90 666)	-	(2 486 185)	-	14 042 775
Work In Progress	73 961 621	55 882 686	-	(28 838 381)	-	-	101 005 926
	<b>886 085 389</b>	<b>93 491 939</b>	<b>(9 668 060)</b>	<b>(28 844 940)</b>	<b>(33 957 604)</b>	<b>(1 404 388)</b>	<b>905 672 315</b>

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**4. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2020**

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Land	71 092 930	-	(10 892 778)	15 722 889	-	-	75 922 861
Buildings	82 612 847	-	-	-	-	(1 856 754)	80 756 093
Infrastructure	623 291 172	45 523 019	(72)	22 786 590	-	(26 365 989)	665 234 720
Community	74 716 008	-	-	3 016 363	-	(2 997 331)	74 734 038
Other property, plant and equipment	15 678 093	382 199	(24 868)	1 688 755	-	(2 447 913)	15 276 266
Work In Progress	59 767 117	60 825 457	-	-	(46 630 953)	-	73 961 621
	<b>827 157 965</b>	<b>106 730 675</b>	<b>(10 917 718)</b>	<b>43 213 407</b>	<b>(46 630 953)</b>	<b>(33 467 987)</b>	<b>886 085 389</b>

**Depreciation rates**

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight-line	Land is not depreciated
Buildings	Straight-line	10-100
Community	Straight-line	5-100
Other property, plant and equipment	Straight-line	2-100
Infrastructure Assets	Straight-line	10-120

Reconciliation of Work-in-Progress 2021	Included within	Total
Opening balance	Infrastructure	73 961 610
Additional/capital expenditure		24 892 387
Transferred to completed items	(28 838 381)	(28 838 381)
	<b>70 015 616</b>	<b>70 015 616</b>

**Reconciliation of Work-in-Progress 2020**

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

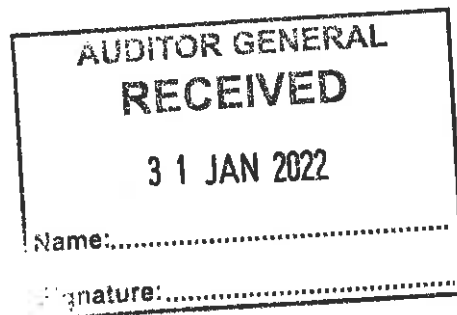
Figures in Rand	2021	2020
<b>4. Property, plant and equipment (continued)</b>		
	Included within Infrastructure	Total
Opening balance	59 767 117	59 767 117
Additions/capital expenditure	60 825 457	60 825 457
Transferred to completed items	(46 630 964)	(46 630 964)
	<b>73 961 610</b>	<b>73 961 610</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted services	8 718 085	9 785 942
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



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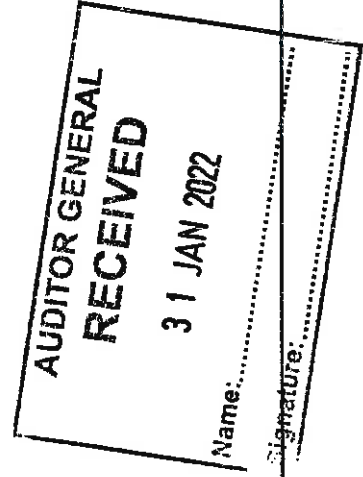
5. Intangible assets	2021		2020			
	Cost/ Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 460 114	(1 386 898)	73 276	1 460 114	(1 250 425)	209 689

**Reconciliation of intangible assets - 2021**

Computer software, other	Opening balance	Amortisation	Total
	209 689	(136 415)	73 276

**Reconciliation of intangible assets - 2020**

Computer software, other	Opening balance	Disposals	Transfers	Amortisation	Total
	166 586	(13 375)	199 579	(143 101)	209 689



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**6. Heritage assets**

	2021		2020	
	Cost/ Valuation	Accumulated Impairment losses	Carrying value	Cost/ Valuation
Historical buildings	34 608 200	(9 755 581)	24 852 619	34 608 200
				Accumulated Impairment losses
				(9 755 581)
				24 852 619

**Reconciliation of heritage assets 2021**

Historical buildings	Opening balance	24 852 619	Total
			24 852 619

**Reconciliation of heritage assets 2020**

Historical buildings	Opening balance	33 364 868	Impairment losses recognised	(8 512 249)	Total
					24 852 619

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.

There are no restrictions on the title and nor the disposal of the heritage assets.

There are no heritage assets pledged as securities for liabilities.

Repairs and maintenance to heritage assets was Rnil (2020: Rnil)

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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<b>7. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
Carrying value		
Post retirement Benefits: Medical Aid	(74 148 875)	(61 155 644)
Long service awards	(4 324 534)	(7 423 767)
	<b>(78 473 409)</b>	<b>(68 579 411)</b>
Non-current liabilities	(75 270 423)	(64 492 837)
Current liabilities	(3 202 986)	(4 086 574)
	<b>(78 473 409)</b>	<b>(68 579 411)</b>

### Net expense recognised in the statement of financial performance

Current service cost	3 257 107	3 545 365
Interest cost	7 930 565	6 705 167
Actuarial (gains)/losses	4 410 197	(11 424 539)
Curtailment	(2 604 638)	(2 212 347)
	<b>12 993 231</b>	<b>(3 386 354)</b>

### 7.1 Long service awards

Opening balance	7 423 767	6 882 570
Service cost	854 191	846 091
Interest cost	535 980	519 633
Expected benefit payments	(1 481 936)	(441 224)
Actuarial (gain)/loss	(3 007 448)	(383 303)
	<b>4 324 534</b>	<b>7 423 767</b>

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable every 5 years of continuous service to 45 years, to employees. The provision is an estimate of the long service based on historical staff turnover.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021 by ONE PANGEA, a fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 575 (2020: 601) employees were eligible for Long-service Awards.

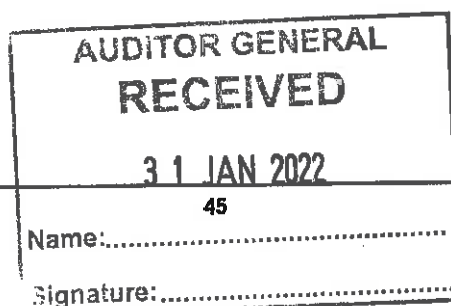
The Current service cost for the year ending 30 June 2021 is estimated to be R854 191 (2020: R846 091), whereas the cost for the ensuing year is estimated to be R431 549.

### Key assumptions used

Assumptions used at the reporting date:

Discount rate	7,08 %	8,02 %
Consumer price inflation	3,96 %	3,01 %
Salary increase rate	4,96 %	4,01 %
Net discount rate	2,02 %	3,86 %

### Sensitivity analysis



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

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#### 7. Employee benefit obligations (continued)

The effect of a 1% movement in the key assumptions is detailed below:

	1% decrease	Impact	1% increase	Impact
Accrued liability	4 124 019	4,64 %	4 540 453	4,99 %

A 1% increase in the salary increase rate results in an 4.99% increase in the accrued liability whilst a 1% decrease in the salary increase rate will result in a 4.64% increase in the accrued liability.

#### 7.2 Post-retirement medical benefits: Medical Aid

Opening balance	61 155 644	64 541 998
Service cost	3 257 107	3 545 365
Interest cost	7 930 565	6 705 167
Medical contributions subsidies for continuation pensioners	(2 604 638)	(2 212 347)
Actuarial (gain)/loss	4 410 197	(11 424 539)
	<b>74 148 875</b>	<b>61 155 644</b>

The Municipality 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 most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by ONE PANGEA, a fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

- (i) Bonitas
- (ii) KeyHealth
- (iii) LA Health
- (iv) Samwumed
- (v) Hosmed

The Current service cost for the year ending 30 June 2021 is estimated to be R3 257 107 (2020: R3 545 365), whereas the cost for the ensuing year is estimated to be R2 627 867.

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11,39 %	13,25 %
Consumer price inflation	6,38 %	7,47 %
Health care inflation	7,85 %	8,97 %
Expected increase in salaries	6,00 %	6,00 %
Expected pension increases	6,00 %	6,00 %
Net discount rate	3,25 %	3,93 %

Normal retirement Age of employee is at 65 years.

#### Sensitivity analysis

The effect of a 1% movement in the key assumptions is detailed below:

	1% decrease	Impact	1% increase	Impact
Accrued liability	64 544 089	12,95 %	85 902 475	15,85 %

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<b>7. Employee benefit obligations (continued)</b>		
A 1% increase in the medical inflation rate results in a 15.85% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in a 12.95% decrease in the accrued liability.		
<b>8. Inventories</b>		
Maintenance materials	1 359 892	1 053 518
Water for distribution	94 243	132 289
Unsold Properties Held for Resale	4 175 500	4 175 500
Consumables stores	480 988	775 549
	<b>6 110 623</b>	<b>6 136 836</b>
Inventories recognised as an expense during the year	7 977 800	9 084 666
<b>9. Receivables from exchange transactions</b>		
Consumer debtors - Electricity	23 688 120	16 622 848
Consumer debtors - Water	31 065 754	23 605 090
Consumer debtors - Waste water	11 110 133	9 601 066
Consumer debtors - Refuse	4 055 518	2 144 158
Consumer debtors - Other	1 100 593	(2 673 149)
	<b>71 030 118</b>	<b>49 308 011</b>
Statutory receivables included in receivables from exchange transactions above are as follows:		
Statutory receivable [Water Services]	31 065 754	23 605 090
Financial asset receivables included in receivables from exchange transactions above	39 964 364	25 694 921
	<b>71 030 118</b>	<b>49 300 011</b>
<b>Gross balances</b>		
<b>Electricity</b>		
Current (0 - 30 days)	10 086 885	-
Past Due (31 - 60 days)	3 541 430	7 002 874
Past Due (61 - 90 days)	2 594 349	3 853 894
Past Due (90 - 120 days)	1 987 145	2 714 590
Past Due (121 - 365 days)	10 761 888	13 252 183
> 365 days	31 728 056	26 156 077
	<b>60 680 553</b>	<b>52 979 598</b>
<b>Water</b>		
Current (0 - 30 days)	10 898 974	-
Past Due (31 - 60 days)	9 308 904	9 945 129
Past Due (61 - 90 days)	9 058 168	8 513 211
Past Due (90 - 120 days)	8 864 813	8 372 419
Past Due (121 - 365 days)	71 180 609	64 732 189
> 365 days	309 696 039	235 064 227
	<b>418 989 507</b>	<b>326 627 175</b>
<b>Waste Water</b>		
Current (0 - 30 days)	2 306 918	1 904
Past Due (31 - 60 days)	1 776 315	2 214 173
Past Due (61 - 90 days)	1 639 815	1 628 934
Past Due (90 - 120 days)	1 584 070	1 529 512
Past Due (121 - 365 days)	15 248 281	11 195 240

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>9. Receivables from exchange transactions (continued)</b>		
> 365 days	84 812 579	74 494 068
	<b>107 367 958</b>	<b>91 063 851</b>
<b>Refuse</b>		
Current (0 - 30 days)	1 591 199	-
Past Due (31 - 60 days)	1 279 500	1 302 443
Past Due (61 - 90 days)	1 206 935	1 113 028
Past Due (90 - 120 days)	1 173 785	1 069 461
Past Due (121 - 365 days)	8 746 119	7 995 315
> 365 days	52 989 498	43 834 629
	<b>66 987 036</b>	<b>55 314 876</b>
<b>Other</b>		
Current (0 - 30 days)	86 518	-
Past Due (31 - 60 days)	92 882	140 078
Past Due (61 - 90 days)	80 303	146 782
Past Due (90 - 120 days)	78 957	145 030
Past Due (121 - 365 days)	633 989	1 194 387
> 366 days	13 864 822	12 626 379
	<b>14 837 471</b>	<b>14 252 656</b>

No Trade and other receivables pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

#### Trade and other receivables impaired

As of 30 June 2021, trade and other receivables of R115 759 166 (2020: R 89 362 060) were impaired and provided for.

The amount of the provision was R 597 832 409 as of 30 June 2021 (2020: R 482 073 243).

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	(482 073 243)	(392 711 183)
Provision for impairment	(115 759 166)	(89 362 060)
	<b>(597 832 409)</b>	<b>(482 073 243)</b>

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The calculation for provision for impairment for trade receivables was calculated based on the approved policy. In terms of the policy, debtors are classified into key categories based on their respective payment history and other relevant trait as management may defined

#### 10. Receivables from non-exchange transactions

Sundry Debtors	3 350 006	3 350 006
Consumer debtors - Rates	21 051 250	9 780 062
	<b>24 401 256</b>	<b>13 130 068</b>

Gross balance		
Rates		
Current (0 - 30 days)	6 113 899	758 897
Past Due (31 - 60 days)	2 709 449	5 080 606

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>10. Receivables from non-exchange transactions (continued)</b>		
Past Due (61 - 90 days)	2 237 297	2 530 675
Past Due (90 - 120 days)	2 100 313	2 195 290
Past Due (121 - 365 days)	20 201 085	14 604 311
> 365 days	66 088 219	56 045 614
	<b>99 448 272</b>	<b>81 215 392</b>

#### Receivables from non-exchange transactions Impaired

As of 30 June 2021, other receivables from non-exchange transactions of R 13 015 616 (2020: R 16 429 670) were impaired and provided for.

The amount of the provision was R 75 047 016 as of 30 June 2021 (2020: R 62 031 400).

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

Opening balance	(62 031 400)	(45 601 730)
Provision for impairment	(13 015 616)	(16 429 670)
	<b>(75 047 016)</b>	<b>(62 031 400)</b>

#### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	16 891 201	11 952 832
Short-term deposits	2 036 791	23 086 233
	<b>18 927 992</b>	<b>35 039 065</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
First National Bank - Call Account - 626 4608 8139	1 181 970	2 130 078	2 029 123	1 181 970	2 130 078	2 029 123
First National Bank - 12 Months Deposit - 715 3881 1574	418 000	418 000	418 000	418 000	418 000	418 000
First National Bank - Call Account - 747 9001 7815	44 615	20 078 542	56 033 208	44 615	20 078 542	56 033 208
Standard Bank - 12 Months Deposit - 088807857-008	425	426	426	425	425	425
Standard Bank - 12 Months Deposit - 088812685-007	1 507	1 507	1 508	1 507	1 507	1 508
Standard Bank - Call Account 088822370-002	54 331	52 828	50 072	54 331	52 828	50 072
ABSA - Call Account - 909 560 9301	158 533	155 154	149 564	158 533	155 154	149 564
ABSA - 12 Months Deposit - 204 758 4346	-	57 893	53 904	-	57 893	53 904
ABSA - 12 Months Deposit - 204 947 8169	-	13 519	12 501	-	13 519	12 501
Nedbank - Call Account 0377881065141/000001	108 614	105 603	100 047	108 614	105 603	100 047
Standard Bank - 12 Months Deposit - 088805662-002	163	163	163	163	163	163
Standard Bank - 12 Months Deposit - 088812723-001	415	415	415	415	415	415
First National Bank - Current Account - 626 3312 9631	48 983	529 984	204 866	48 983	529 984	204 866

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021		2020			
<b>11. Cash and cash equivalents (continued)</b>						
First National Bank - Call Account - Account - 622 3341 1884	2 490	7 935	6 201 429	2 490	7 935	6 201 429
First National Bank - Main Account - 620 3123 2531	16 843 029	11 423 650	2 507 063	16 843 029	11 423 650	2 507 063
Netbank Call Account	65 727	64 171	-	65 727	64 171	-
GBS Mutual Account	4 500	-	-	4 500	-	-
<b>Total</b>	<b>18 933 302</b>	<b>35 039 867</b>	<b>67 762 288</b>	<b>18 933 302</b>	<b>35 039 867</b>	<b>67 762 288</b>

#### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Water Services Infrastructure Grant (WSIG)	12 522 326	11 390 745
Municipal Infrastructure Grant (MIG)	4 624 218	7 653 442
Integrated National Electrification Programme Grant (INEP)	-	809 553
Municipal Disaster Relief Grant (MDRG)	-	1 505 282
	<b>17 146 544</b>	<b>21 359 022</b>

#### Movement during the year

Balance at the beginning of the year	21 359 022	47 349 135
Additions during the year	49 565 322	44 399 000
Income recognition during the year	(53 777 800)	(70 389 113)
	<b>17 146 544</b>	<b>21 359 022</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

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

#### 13. Other financial liabilities

<b>At amortised cost</b>		
Development Bank of South Africa (DBSA)	50 873 832	52 221 322
Makana Local Municipality has restructured its loan with DBSA effectively on 30th of September 2015. The borrowed amount amounts to R56 358 399 with interest rate of 10.5% p.a for a period of 20 years with the first installment which started on 31 January 2017		

<b>Non-current liabilities</b>		
At amortised cost	49 213 632	50 737 999

<b>Current liabilities</b>		
At amortised cost	1 660 200	1 483 323

#### 14. Provisions

Reconciliation of provisions - 2021

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**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021

**Notes to the Annual Financial Statements**

Figures in Rand	2021	2020	
<b>14. Provisions (continued)</b>			
	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	22 979 071	16 188 137	39 167 208
Leave provision	4 210 023	5 064 116	9 274 139
Bonus provision	15 615 006	2 430 096	18 045 104
	<b>42 804 100</b>	<b>23 682 351</b>	<b>66 486 451</b>

**Reconciliation of provisions - 2020**

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	34 168 479	(11 189 408)	22 979 071
Leave Provision	4 521 848	(311 825)	4 210 023
Bonus Provision	12 326 902	3 288 104	15 615 006
	<b>51 017 229</b>	<b>(8 213 129)</b>	<b>42 804 100</b>
Non-current liabilities		39 167 208	22 979 071
Current liabilities		27 319 243	19 826 029
		<b>66 486 451</b>	<b>42 804 100</b>

**Environmental rehabilitation provision**

Makana Local Municipality has an obligation to restore three Landfill Sites situated in Grahamstown , Riebeck East, Alicedal. The Landfill Sites are currently licensed and are used for general waste disposal (non-hazardous) purpose. The valuation for Landfill site were done by One Pangea Expertise and Solutions with their team of Engineers and Environmental specialists.

**Leave Provision**

Makana Municipality is using 48 days as the maximum bracket for the leave provision calculation , the municipality is required by the GRAP standards to do a disclosure and calculate the provision as at the end of the financial year.

Leave days are only paid to employees subject to termination of employment, the leave days are added on a monthly basis to a maximum of 24 days in a financial period. Leave days available is decreased due to number of leave days taken by the employee.

**Bonus Provision**

Makana Local Municipality is paying a 13th cheque bonus to the employees on a prorate basis and this is equal to monthly basic salary.

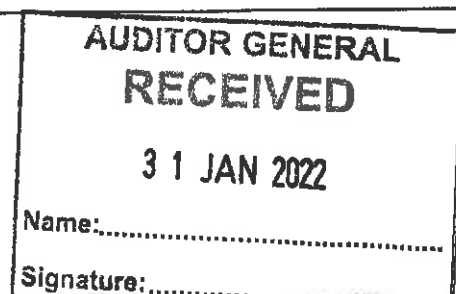
Majority of employees get this bonus in November on their month of birth , the municipality is therefore required in terms of GRAP standards to do disclosure and calculation of Bonus provision as at the end of the financial year.

Staff bonuses accrues 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.

**15. Consumer deposits**

Electricity	35 699	(10 221)
Water	3 037 681	2 956 701
Regional services levied	523 464	371 250
Housing rental	(1 930 371)	(1 106 663)
	<b>1 666 473</b>	<b>2 211 067</b>

Consumer deposits are paid by the consumers on application for new water and electricity connections as well as for new building and deposits for rental of municipal properties



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand 2021 2020

#### 15. Consumer deposits (continued)

The deposits are repaid when the water and electricity connections are terminated and deposit for rental of properties are refunded on termination of contract provided no damages were identified on the property, the deposit for building is refunded upon completion of the house and once the municipal building section has confirmed.

In cases where a consumers defaults on the account, the municipality can utilise the deposit as a payment for the outstanding account for water and electricity. No interest is paid on consumers deposit held

#### 16. Payables from exchange transactions

Trade payables	134 951 930	124 988 162
Payments received in advanced - contract in process	13 002 451	9 681 729
Trade payables-Accruals	24 624 625	37 235 171
Retentions	5 671 722	6 156 847
Unallocated deposits	11 571 542	3 015 637
Salary Deductions (PAYE)	9 302 460	8 538 804
	<b>199 124 730</b>	<b>189 616 150</b>

#### 17. VAT payable

Tax payable	51 130 194	37 798 757
-------------	------------	------------

#### 18. Revenue

Rendering of services	1 445 198	1 789 086
Service charges	268 548 872	237 802 754
Rental of facilities and equipment	230 167	389 407
Agency services	2 708 899	2 239 339
Other income - (rollup)	1 351 749	2 270 717
Interest received - investment	29 728 278	35 313 149
Property rates	100 706 680	93 722 073
Government grants & subsidies	180 259 808	175 240 334
Fines, Penalties and Forfeits	135 715	415 866
	<b>583 115 366</b>	<b>549 182 725</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	268 548 872	237 802 754
Rendering of services	1 445 198	1 789 086
Rental of facilities and equipment	230 167	389 407
Agency services	2 708 899	2 239 339
Other income - (rollup)	1 351 749	2 270 717
Interest received - investment	29 728 278	35 313 149
	<b>302 013 163</b>	<b>279 804 452</b>

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	100 706 680	93 722 073
Licences or permits	1 978	
Transfer revenue		
Government grants & subsidies	180 259 808	175 240 334
Fines, Penalties and Forfeits	135 715	415 866
	<b>281 104 181</b>	<b>269 378 273</b>

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>19. Service charges</b>		
Sale of electricity	124 570 792	132 421 097
Sale of water	98 513 404	66 415 542
Solid waste	14 164 638	11 934 035
Sewerage and sanitation charges	29 300 038	27 032 080
	<b>266 548 872</b>	<b>237 802 754</b>
<b>20. Rental of facilities and equipment</b>		
Facilities and equipment		
Rental of facilities	230 167	389 407
The rental of facilities include Halls ,Chairs and tables and Sport fields		
<b>21. Fines, Penalties and Forfeits</b>		
Illegal Connections Fines	39 013	31 478
Law Enforcement Fines	87 405	329 338
Deposits Forfeits	9 297	55 050
	<b>135 715</b>	<b>415 866</b>
<b>22. Agency services</b>		
Driver's Licenses	2 708 899	2 239 339
The amount of agency fees is an amount as stipulated in contract between Municipality and department of Roads and Transport for licensing of vehicles as well as license and learners license.		
<b>23. Lease rentals on operating lease</b>		
Equipment		
Office equipment rental	2 634 326	2 466 515
<b>24. Other income</b>		
Administration handling fees	957 575	1 830 480
Cash surpluses	1 011	311
Weighbridge inspection	96 965	124 703
Building plans (sale of property)	296 198	315 223
	<b>1 351 749</b>	<b>2 270 717</b>
<b>25. Investment revenue</b>		
Interest revenue		
Bank	829 410	4 329 574
Interest charged on trade and other receivables	26 898 868	30 963 575
	<b>29 728 278</b>	<b>35 313 149</b>

The amount included in Investment revenue arising from exchange transactions amounted to R 281 145.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 548 265.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R28 898 868 (PY: R30 963 575).

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>26. Property rates</b>		
<b>Rates received</b>		
Residential	33 199 857	31 064 769
Commercial	15 704 374	15 022 781
State	30 597 471	28 104 756
Small holdings and farms	3 466 150	3 159 220
Industrial	2 805 214	2 583 686
Public Benefit Organisations	694 189	635 350
Public Service Infrastructure	31 118	28 547
Other	14 208 507	13 122 964
	<b>100 706 680</b>	<b>93 722 073</b>

### Valuations

Residential	6 009 837 600	6 046 921 800
Commercial	867 172 900	882 316 300
State	1 164 168 300	1 164 168 300
Municipal	673 466 500	674 414 500
Bed and breakfast	77 113 600	82 034 400
Other	731 297 300	725 248 800
Agricultural	2 219 950 000	2 215 029 000
Industrial	305 270 000	303 980 800
Educational	1 576 272 900	1 581 353 600
	<b>13 624 549 100</b>	<b>13 675 467 300</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis.

The new general valuation will be implemented on 01 July 2024.

In terms of the Local Government Municipality Property Rates Act (Act No. 6 of 2004) the under-mentioned cents in rands will be levied for the financial year 2020/2021 (i.e 1 July 2020 to 30 June 2021) on the categories of rateable properties in the Makana Municipality area of jurisdiction as follows:

Tariffs		
Businesses	0,018540	0,017006
State	0,023832	0,021864
Schools (Private & Public)	0,006242	0,005727
Residential Properties	0,006242	0,005727
Domestic Farmers	0,001562	0,001433
Public Service Infrastructure (PSI)	0,001562	0,001433
Industrial Properties	0,009268	0,008503
Monument	0,009268	0,008503
Tourism/Game	0,001562	0,001433
RDP House	0,001562	0,001433
Sectional Titles	0,006242	0,005727
B&B Properties	0,006242	0,006247
Museum Properties	Exempt	Exempt
Sporting Bodies	Exempt	Exempt
Places of Worship	Exempt	Exempt
Public Benefit Organisations (P.B.O.)(including Private Schools)	0,001562	0,001433
Tertiary Institutions (e.g University)	0,012296	0,011280

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## EC104 - Makana Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand 2021 2020

#### 26. Property rates (continued)

The municipality does not levy property rates on places of worship (churches) as in line with the Property Rates Act and the Council's Property Rates Policy. The rebates as per Council Resolution, as well as rebates as per the Municipal Property Rates Act No. 6 of 2004 for all the qualifying rateable properties are available on application, which must be completed on or before 30 September each year.

No interest is charged on outstanding amounts and the rate used and the rebates granted.

#### 27. Grants and subsidies paid

Other subsidies		
Makana Tourism	990 060	900 060

Makana Local Municipality is making contributions to Makana Tourism for funding related functions.

#### 28. Government grants and subsidies

##### Operating grants

Equitable share	114 844 005	93 644 448
LG Seta	181 828	148 729
Municipal Infrastructure Grant (MIG)	1 198 100	1 219 950
Department of Sport, Recreation, Arts & Culture	4 000 000	4 000 000
Expanded Public Works Programme (EPWP)	1 004 000	1 131 000
Finance Management Grant (FMG)	3 000 000	2 680 000
Municipal Disaster relief Grant (MDRG)	1 505 282	133 718
Public Health Subsidy	738 793	1 608 044
	<b>126 482 008</b>	<b>104 585 889</b>

##### Capital grants

Municipal Infrastructure Grant (MIG)	25 783 124	27 454 916
Water Service Infrastructure Grant (WSIG)	23 486 674	38 385 860
Integrated National Electrification Grant Programme (INEP)	-	4 833 689
CoGTA	4 498 002	-
	<b>53 777 800</b>	<b>70 674 445</b>
	<b>180 259 808</b>	<b>175 240 334</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	55 175 010	74 856 842
Unconditional grants received	125 084 798	100 383 492
	<b>180 259 808</b>	<b>175 240 334</b>

#### Equitable Share

An Amount of R2.2 million rand was deducted from the December 2020 Equitable Share tranche for the repayment of rollover application not approved. The funds were then transferred from unspent grants to equitable share. A further R4.4 million of Equitable Share was not received in the December Tranche as the amount was not applied for rollover of unspent grants. The amount in question was the retention portion that was only corrected in the final AFS and the municipality has lodged an appeal to have the funds returned.

#### WSIG

Balance unspent at beginning of year	11 390 745	29 776 605
Current-year receipts	26 000 000	20 000 000

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## EC104 - Makana Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>28. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(24 868 419)	(38 385 860)
	<b>12 522 326</b>	<b>11 390 745</b>

Conditions still to be met - remain liabilities (see note 12).

The Grant was transferred to the Municipality for the sewerage and water schemes for refurbishment and maintenance of infrastructure.

An Amount of R1,381,745 was not approved by National Treasury to be rolled over to 2020/21 due it being the portion of expenditure below the 50% target of 2019/20.

#### MIG

Balance unspent at beginning of year	7 653 442	11 929 308
Current-year receipts	23 962 000	24 399 000
Conditions met - transferred to revenue	(26 991 224)	(28 674 866)
	<b>4 624 218</b>	<b>7 653 442</b>

Conditions still to be met - remain liabilities (see note 12).

An Amount of R4 624 218 remain unspent at as 30 June 2021.

#### INEP

Balance unspent at beginning of year	809 553	1 646 222
Conditions met - transferred to revenue	-	(836 669)
Rollover not approved and deducted from Equitable Share	(809 553)	-
	-	<b>809 553</b>

An Amount of R751,073 was not approved by National Treasury to be rolled over to 2020/21 due it being unspent rollover funds of 2018/19. There is no rollover of a rollover.

#### MDRG

Balance unspent at beginning of year	1 505 282	1 639 000
Conditions met - transferred to revenue	(1 505 282)	(133 718)
	-	<b>1 505 282</b>

#### Finance Management Grant (FMG)

Current-year receipts	3 000 000	2 680 000
Conditions met - transferred to revenue	(3 000 000)	(2 680 000)
	-	-

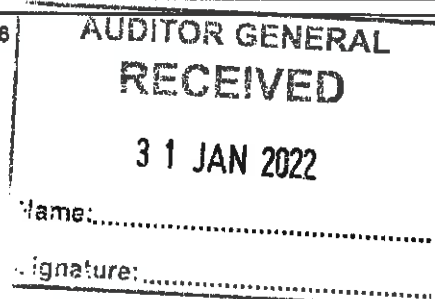
#### Expended Public Works Programme (EPWP)

Current-year receipts	1 004 000	1 131 000
Transferred to revenue	(1 004 000)	(1 131 000)
	-	-

#### LG SETA

Current-year receipts	-	148 729
Transferred to revenue	-	(148 729)
	-	-

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**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021

**Notes to the Annual Financial Statements**

Figures in Rand	2021	2020
<b>28. Government grants and subsidies (continued)</b>		
<b>Department of Sports, Recreation, Arts &amp; Culture</b>		
Current-year receipts	4 000 000	4 000 000
Transferred to revenue	(4 000 000)	(4 000 000)
	-	-
<b>Public Health Subsidy</b>		
Current-year receipts	1 345 412	1 608 044
Transferred to revenue	(1 345 412)	(1 608 044)
	-	-
<b>CoGTA</b>		
Current-year receipts	4 498 002	-
Transferred to revenue	(4 498 002)	-
	-	-
Conditions still to be met - remain liabilities (see note 12).		
Provide explanations of conditions still to be met and other relevant information.		
<b>29. Employee related costs</b>		
Basic	141 566 878	129 029 599
Bonus	700 072	104 989
Medical aid - company contributions	14 787 858	14 636 743
UIF	1 039 732	1 048 285
Leave pay provision charge	7 039 189	(2 146 980)
Bargaining Council	70 113	88 484
Travel, motor car, accommodation, subsistence and other allowances	14 570 223	17 316 900
Pension	21 688 455	21 038 276
Group Life Insurance	906 484	967 196
	<b>202 368 002</b>	<b>182 061 492</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	1 328 771	1 070 885
Car Allowance	227 828	458 951
	<b>1 556 599</b>	<b>1 529 836</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	1 064 178	949 349
Car Allowance	189 571	195 032
Cellphone allowance	10 482	8 350
	<b>1 264 231</b>	<b>1 152 731</b>
<b>Remuneration of Director Corporate &amp; Shared Services</b>		
Annual Remuneration	339 774	984 924
Car Allowance	163 521	277 680
Cellphone allowance	5 164	20 503

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

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#### 29. Employee related costs (continued)

508 449

1 283 107

Mrs NC Mazwayl resigned on the 8th of October 2020 and the new Director Mr Kalashe was appointed on the 1st May 2021

#### Remuneration of Director Community Services

Annual Remuneration	951 873	1 019 533
Car Allowance	134 292	99 233
Cellphone Allowance	9 582	3 600
	<b>1 095 747</b>	<b>1 122 366</b>

#### Remuneration of Director Technical and Infrastructure

Annual Remuneration	320 115	371 589
Car Allowance	72 248	
Other	4 419	
	<b>396 782</b>	<b>371 589</b>

Ms Asanda Gidana was appointed on 01 March 2021. Mr Maduna Gubevu has been acting Director for 2019\_20 after a secondment of Mr Lihando Mazwi from the Local government.

#### Remuneration of Director Local Economic Development

Annual Remuneration	709 173	917 882
Car Allowance	118 049	81 085
Cellphone allowance	9 261	118 706
	<b>836 483</b>	<b>1 117 673</b>

Ms MJ Meiring contract expired on 31 July 2020, and was reappointed on 01 January 2021

#### 30. Remuneration of councillors

Executive Mayor	829 048	828 934
Chief Whip	628 209	672 608
Mayoral Committee Members	1 830 012	1 723 114
Speaker	710 284	785 445
Councillors	5 120 409	5 203 320
Councillor cellphone allowance	905 109	908 483
Councillor travelling allowance	1 375 410	1 308 222
	<b>11 398 481</b>	<b>11 410 126</b>

#### 31. Depreciation and amortisation

Property, plant and equipment	33 987 604	33 467 987
Investment property	1 239 721	119 901
	<b>35 227 325</b>	<b>33 587 888</b>

#### 32. Impairment of assets

##### Impairments

Property, plant and equipment

1 404 388

The service potential of a Mickey Yill Stadium was compromised due to vandalism.. The flood lights at the stadium are no longer functional and while the fence has been vandalised. The building is in a state of disrepair and is currently not in use.

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<b>33. Finance costs</b>		
Non-current borrowings	5 415 255	5 577 297
Provisions	1 008 618	1 103 692
Employee benefits	8 468 525	7 224 800
Trade and other payables	6 338 404	4 892 945
	<b>20 226 802</b>	<b>18 798 734</b>

The finance cost include interest incurred on loan from DBSA, time value of money in respect of provision for rehabilitation of landfill sites, employee benefits obligations and other various interest paid for late payments to trade creditors.

### 34. Debt impairment

Debt impairment	123 788 382	105 791 730
-----------------	-------------	-------------

The impairment is made out of impairment of receivables and bad debts written off during the year.

The impairment is calculated in terms of the policy where debtors are classified into key risk categories based on their respective payment history and any other relevant trait as management may define.

### 35. Bulk purchases

Electricity-Eskom	108 985 955	102 376 823
Water	6 185 207	5 683 977
	<b>115 171 162</b>	<b>108 059 800</b>

### 36. Contracted Services

<b>Outsourced services</b>		
Allen vegetation control	312 600	-
Business and advisory	13 123 336	4 739 845
Catering services	-	34 370
Internal Auditors	268 851	164 053
Personnel and Labour	1 371 740	796 204
Security services	6 877 867	4 810 093
Water tankers	572 842	-
<b>Consultants and Professional services</b>		
Business and Advisory	238 520	6 571 205
Legal costs	2 482 733	2 141 971
<b>Contractors</b>		
Events Promoters	20 000	-
Catering services	2 372	-
Maintenance of Buildings and Facilities	5 252 353	4 744 504
Maintenance of Equipment	1 651 587	1 632 501
Maintenance of Unspecified Assets	1 814 145	3 408 937
	<b>33 888 946</b>	<b>29 043 683</b>

### 37. General expenses

Advertising	645 636	484 281
Auditors remuneration	5 188 033	5 359 207
Bank charges	191 881	212 963
Fines and penalties	-	50 813
Hire	1 380 000	1 230 000
Insurance	1 429 431	1 076 067
IT expenses	401 695	523 860
Levies	1 623 239	1 476 342

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## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>37. General expenses (continued)</b>		
Postage and courier	1 122 100	975 504
Protective clothing	179 645	409 272
Subscriptions and membership fees	2 200 918	2 061 117
Telephone and fax	1 791 206	1 998 820
Travel - local	148 679	444 393
Utilities - Other	6 947 346	7 106 724
Other expenses	4 441 324	772 543
	<b>27 691 133</b>	<b>24 181 906</b>

### 38. Gains and losses

During the financial year, the Municipality realised the following gains and losses

Gains/(loss) on disposal of Property, Plant and Equipment	(8 057 041)	9 600 950
Actuarial gains/(losses)	(1 402 749)	11 807 842
	<b>(9 459 790)</b>	<b>21 408 792</b>

### 39. Auditor's remuneration

Fees	5 188 033	5 359 207
------	-----------	-----------

### 40. Cash generated from operations

(Deficit) surplus	(14 847 545)	38 627 615
<b>Adjustments for:</b>		
Depreciation and amortisation	35 227 325	33 587 888
Finance costs - Finance leases	-	1 103 692
Impairment deficit	1 404 389	-
Debt impairment	123 768 382	105 791 730
Movements in retirement benefit assets and liabilities	9 893 098	(2 846 157)
Movements in provisions	23 682 351	(8 213 129)
Gains and Losses	9 459 790	(21 408 792)
Movement in Debt impairment	23 682 351	24 761 010
Other non-cash items	(5 002 746)	13 375
<b>Changes in working capital:</b>		
Inventories	26 213	218 118
Receivables from exchange transactions	(21 730 107)	(27 595 213)
Consumer debtors	(123 768 382)	(105 791 730)
Other receivables from non-exchange transactions	(11 271 188)	8 167 501
Payables from exchange transactions	9 508 580	(4 048 232)
VAT	13 331 437	13 769 013
Unspent conditional grants and receipts	(4 212 478)	(25 990 113)
	<b>69 152 370</b>	<b>30 147 576</b>

### 41. Financial instruments disclosure

#### Categories of financial instruments

2021

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	57 194 640	57 194 640
Other receivables from non-exchange transactions	-	27 768 718	27 768 718
Cash and cash equivalents	18 827 992	-	18 827 992

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**EC104 - Makana Local Municipality**  
Annual Financial Statements for the year ended 30 June 2021

**Notes to the Annual Financial Statements**

Figures in Rand	2021	2020
<b>41. Financial instruments disclosure (continued)</b>	<b>18 927 992</b>	<b>84 963 358</b>
		<b>103 891 350</b>

**Financial liabilities**

	At amortised cost	Total
Other financial liabilities	50 873 832	50 873 832
Trade and other payables from exchange transactions	202 199 319	202 199 319
Taxes and transfers payable (non-exchange)	17 146 544	17 146 544
	<b>270 219 695</b>	<b>270 219 695</b>

**2020**

**Financial assets**

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	44 843 280	44 843 280
Other receivables from non-exchange transactions	-	22 121 536	22 121 536
Cash and cash equivalents	35 039 065	-	35 039 065
	<b>35 039 065</b>	<b>66 964 816</b>	<b>102 003 881</b>

**Financial liabilities**

	At amortised cost	Total
Other financial liabilities	52 221 322	52 221 322
Trade and other payables from exchange transactions	192 616 150	192 616 150
Taxes and transfers payable (non-exchange)	21 359 022	21 359 022
	<b>265 196 494</b>	<b>265 196 494</b>

**42. Commitments**

**Authorised capital expenditure**

Already contracted for but not provided for		
• Property, plant and equipment	52 371 265	29 909 301

<b>Total capital commitments</b>		
Already contracted for but not provided for	52 371 265	29 909 301

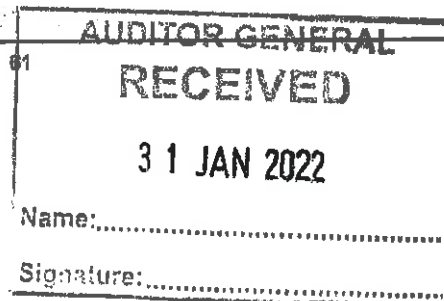
**Total commitments**

<b>Total commitments</b>		
Authorised capital expenditure	52 371 265	29 909 301

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources and grants from different funders.

**43. Contingencies**

The known contingent liabilities and assets as at 30 June 2021 are estimated at R38 661 497 (2020: R44 437 982) for liabilities and R254 107 (2020: 674 419) for assets.



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>43. Contingencies (continued)</b>		
<b>Contingent liabilities</b>		
DWIS VS Makana municipality, lawsuit due to unpaid water invoice.	22 415 051	22 415 050
Notyawa vs Makana Municipality, rescission application	-	240 000
Sebata municipal solutions vs Amatola Water and Makana Municipality. Lawsuit based on breach of a contract	-	6 974 692
L Boucher ET AL vs Makana municipality et al. Lawsuit for damages and death.	1 920 000	-
Brinkman Mndayi vs Makana municipality et al. Lawsuit relating to service rendered.	902 104	-
Mathew Tjensen vs Makana municipality. civil action based on unlawful arrest.	-	200 000
Fundiswa Matyolo vs Makana municipality, damages	46 730	-
Mthombo Resorts vs Makana municipality, breach of contract and lease .	9 300 000	9 300 000
Katazile Kolosa vs Makana Local Municipality-Damages lawsuit	900 000	-
Bongiwe Radu vs Makana Local Municipality-Damages lawsuit	23 765	-
Mthuthuzeli Beja vs Makana Local Municipality-Damages lawsuit	25 391	-
Olwathle Onosi vs Makana Local Municipality-Damages lawsuit	3 128 456	3 128 456
Ginam! Trading vs Makana municipality-Claim for water account	-	532 000
Electric and power manufacturing Pty Ltd vs Makana Local Municipality-.Service Rendered	-	294 821
Minister of police vs Makana municipality-Damages to motor vehicle	-	6 804
Williams tribe vs Makana Municipality, for damages	-	217 978
Hugh ben davis vs Makana Municipality, for damages to motor vehicle	-	21 746
Unemployed peoples movement vs Makana municipality, application for s139(c) of the Constitution.	-	500 000
Makana Unity league vs Makana municipality, contempt of court	-	400 000
Mayfield vs Makana municipality, eviction application	-	45 080
Tsinama civils vs Makana municipality	-	113 055
Mthombeni ET AL vs Makana municipality	-	48 300
	<b>38 681 497</b>	<b>44 437 982</b>

#### Contingent assets

<b>Contingent assets</b>		
Makana Municipality vs Nalduo	-	674 419
Makana Municipality vs S.C & J.A Bryan	254 107	-
	<b>254 107</b>	<b>674 419</b>

#### 44. Related parties

##### Relationships

Accounting Officer

Members of Key Management

Members of key management

Refer to accounting officer's report note

Refer to Remuneration of Councillors note

Municipal Manager - Mr MA Mene

Chief Financial Officer - Mr GJ Goliath

Director Community & Social Services - Mr K

Mokgoka

Director Local Economic Development - Ms MJ Riana

Meiring

Acting Director Local Economic Development - Ms S

Jonas

Acting Director Technical Services - Mr G Maduna

Director Corporate and Shared Services Mrs NC

Mazwayi

Acting Director Corporate and Shared Services Mrs

Qezu

Acting Director Corporate and Shared Services Mr

Kalasha ( Acting period)

Close family members of persons in the service of the

state Makana Development Trust

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Annual Financial Statements for the year ended 30 June 2021

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**44. Related parties (continued)**

During the financial year 2021, Makana Local Municipality purchased herbicides, fencing, tree mowing, tree felling and other auxiliary services from Makana Development Trust amounting R594 900

**45. Prior period errors**

1. The adjustment was made to the cost and accumulated depreciation as a result of verification results. The PPE Land and Investment Property that the Municipality lost control and those that the Municipality did not have title deeds were adjusted for. The Municipality also identified the buildings that were acquired in previous years and have not been depreciated.

2. Review of the Intangible asset register resulted in expired and non-use softwares being removed from the register

3. Impairment was reconsidered for Heritage assets that were in bad state.

4. The revision of the inventory value due Annual Financial Statements not agreeing to the inventory records.

5. The Receivables balances were revised against the Age and impairment recalculated

6. The recalculation of leave and bonus provision due to incomplete reports and incorrect rates applied in prior year.

7. Some unrecorded expenditure items were identified and corrected.

The correction of the error(s) results in adjustments as follows:

<b>Statement of financial position</b>		
Property, plant and equipment (1)	-	22 221 388
Investment Property (1)	-	(10 855 750)
Intangible Assets (2)	-	43 103
Heritage Assets (3)	-	(8 512 249)
Inventory (4)	-	205 210
Receivables from Exchange transactions (5)	-	(20 700 641)
Receivables from Non-exchange transactions (5)	-	(7 707 761)
Payables from Exchange transactions	-	(28 399 593)
VAT Payable	-	153 105
Provision (6)	-	2 148 504
 <b>Statement of financial performance</b>		
Employee related costs (6)	-	(2 041 971)
Finance costs (7)	-	208 253
Inventory consumed (4)	-	1 704 104
Contracted services (7)	-	18 406
Gains and losses	-	2 711 827

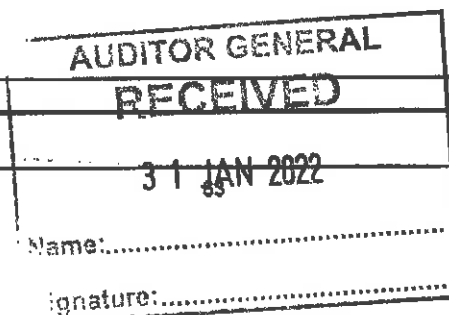
**Unauthorised expenditure**

Opening balance	577 473 245	-
Adjustments made	5 057	-
<b>Restated opening balance</b>	<b>577 478 302</b>	<b>-</b>

Adjustment made to opening balance of fruitless and wasteful expenditure is due to omitted amount in respect of interest on overdue accounts.

**Irregular expenditure**

Opening balance	339 803 979	285 346 769
Adjustments made	4 603 637	13 893 632
<b>Restated opening balance</b>	<b>344 407 616</b>	<b>299 240 401</b>



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand 2021 2020

#### 45. Prior period errors (continued)

Adjustment made to opening balance of irregular expenditure is due to an omission of irregular expenditure R 4 603 637(2020: (R13 893 632) made to various suppliers.

#### 46. Prior-year adjustments

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

##### Statement of financial position

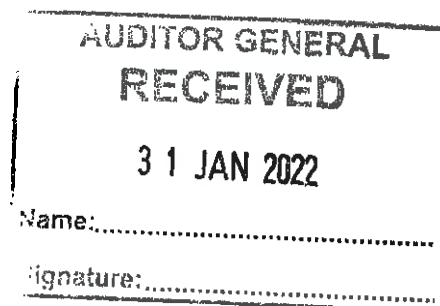
2020

	Note	As previously reported	Correction of error	Restated
Inventories	8	5 930 995	205 210	6 136 205
Receivables from Exchange	9	70 000 652	(20 700 641)	49 300 011
Receivables from Non-Exchange	10	20 837 829	(7 707 761)	13 130 068
Cash and cash equivalent	11	34 974 894	64 171	35 039 065
Investment Property	3	183 874 088	(10 855 750)	173 018 338
Property, Plant and Equipment	4	863 864 001	22 221 388	886 085 389
Intangible Assets	5	166 586	43 103	209 689
Heritage Assets	6	33 364 868	(6 512 249)	24 852 619
Payables from Exchange transactions	16	(161 216 557)	(28 399 593)	(189 616 150)
VAT Payable	17	(37 951 861)	153 105	(37 798 756)
Provision	14	(44 952 604)	2 148 504	(42 804 100)
Accumulated Surplus		(775 194 479)	1 765 181	(773 429 298)
		<b>193 698 412</b>	<b>(48 575 332)</b>	<b>144 123 080</b>

##### Statement of financial performance

2020

	Note	As previously reported	Correction of error	Restated
Employee related costs	29	190 680 765	(2 041 971)	188 638 794
Finance costs	33	18 590 481	208 253	18 798 734
Inventory consumed	8	7 092 489	1 704 104	8 796 593
Contracted services	37	29 025 278	18 406	29 043 684
Gains and losses		(24 120 819)	2 711 827	(21 408 992)
Depreciation and amortisation	31	27 918 633	5 669 255	33 587 888
Debt impairment	34	64 486 272	41 305 458	105 791 730
Surplus for the year		<b>313 673 299</b>	<b>49 575 332</b>	<b>363 248 631</b>





# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 47. Risk management

#### Financial risk management

Due to the nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by many entities. The municipality's Finance department monitors and manages the financial risks relating to the operations of the municipality. These risks include market risk (including, fair value and interest rate risk), credit risk and liquidity risk. The municipality does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

#### 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.

The Municipality's future cash flow commitments are as follows:

2021	Less than 30 days	1 month to 3 months	3 months to 1 year	Greater than 1 year	Total
Borrowings	-	-	1 660 200	49 213 632	50 873 832
Payables from exchange transactions	199 124 730	-	-	-	199 124 730
Consumer deposits	1 666 473	-	-	-	1 666 473
	<b>200 791 203</b>	<b>-</b>	<b>1 660 200</b>	<b>49 213 632</b>	<b>251 665 035</b>

2020	Less than 30 days	1 month to 3 months	3 months to 1 year	Greater than 1 year	Total
Borrowings	-	-	1 483 323	50 737 999	52 221 322
Payables from exchange transactions	189 616 150	-	-	-	189 616 150
Consumer deposits	2 211 067	-	-	-	2 211 067
	<b>191 827 217</b>	<b>-</b>	<b>1 483 323</b>	<b>50 737 999</b>	<b>244 048 539</b>

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

Financial instrument		
Short-term deposits		2 036 791
Bank balances		23 086 233
Receivables from exchange transactions		16 891 201
Receivables from non-exchange transactions		71 030 118
		49 300 011
		24 401 256
		13 130 068
		<b>114 359 366</b>
		<b>97 469 144</b>

#### Market risk

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. At year end, the financial instruments exposed to interest rate risk were as follows:

Short-term deposits	2 036 791	23 086 233
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Annual Financial Statements for the year ended 30 June 2021

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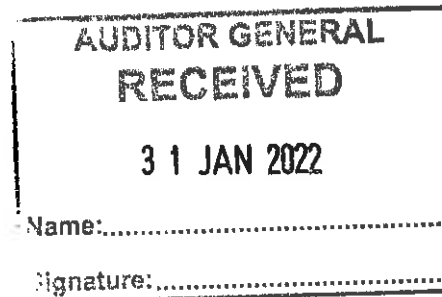
### 47. Risk management (continued)

Receivables are charged interest at fixed rates determined by the municipality. Therefore these financial instruments do not attract exposure to interest rate risk. Interest rate risk is linked to the Repo rate as determined by the Reserve Bank. The Reserve Bank ordinarily only changes the Repo Rate by an increase or decrease of 0,25%. A 0,25 % increase or decrease would not have a material effect on the municipalities interest bearing assets and its surplus/deficit.

### 48. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 758 581 753 and that the municipality's total assets exceed its liabilities by R 758 581 753.

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



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

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#### 48. Going concern (continued)

**Inability to pay liabilities** – The municipality is able to pay its immediate liabilities in the normal course of its operations as the municipality generates continuous cash flow on a daily basis. Total Assets exceeds Total liabilities by R758 581 753. Insofar as the Current Liabilities exceeds the Current Assets, these mainly relate to arrear debt to Eskom; Amatola Water; Department of Water & Sanitation and SALGA where the municipality has payment plans in place with Eskom & Amatola Water; and has approached DWS & SALGA to negotiate an affordable payment plan. The municipality has complied with payment plans. The assumption is further made that the Equitable Shares will be transferred on time and in full to the municipality in order to meet its payment plan obligations.

**Non-compliance with statutory requirements** – The municipality has made strides to improve to comply with all legislations applicable to the Municipality. The National and Provincial Treasury is satisfied with Makana LM's improved compliance, although they have concurred with AGSAs findings on Creditors; Assets and revenue.

**Reliance on short term borrowings** – The municipality does not rely on short term borrowings and does not have an overdraft at 30 June 2021 or any time during the past two financial years. The municipality does have loans from DBSA but is however meeting the payment terms of the loans throughout the financial year. The assumption and estimates made are that we will continue to meet our monthly DBSA loan repayment agreements. The municipality does not foresee the need to apply for an overdraft.

**Revenue collection** – The municipality has enhanced its revenue collection and billing systems with the implementation of a door-to-door services verification project that is underway. Here we are collecting data to improve the accuracy of our billing and to update customer information for credit control purposes. The project is at 40% complete with a completion date of 30 November 2021. Despite decrease in collection rate due to Covid 19, the Municipality revenue collection is still satisfactory as it had a debt incentive (relief) policy in place to attract debtors over 120 days. Credit Control has been re-instated from level 3 and intensified under level 1 lockdown restrictions and thereafter maintained throughout. Plans are in place to appoint another team for disconnections to increase the pace. A Debt Collection tender is being advertised to appoint a service provider to assist the municipality with recovery of debt. The current service provider is on the close-out stage of their contract.

**Withdrawal of financial support** – The municipality has gazetted grant allocations for at least the next three financial years and it is complying with the Grant Conditions on a continuous basis. No letters of intention to withhold allocations have been received in the first quarter and all allocations has been received as per the Payment Schedules to date.

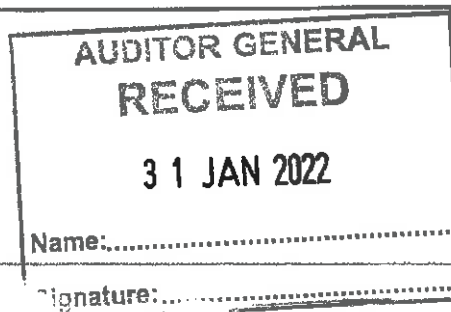
**Stabilisation of the Municipality** – The Municipality has a fulltime appointed Municipal Manager; Chief Financial Officer and Director: Community Services for the past three years. Other Senior Management posts were all filled between January to May 2021. The municipality has key personnel, training and capacitation in various positions to provide sufficient stability and functionality within the municipality. Politically, the Mayor was changed in January 2019 and there has been no instability noted since then.

**Impact of Covid 19** - The municipality is not exempted to the impact of COVID 19. The municipality fully complies with the health and safety regulations as per the National Disaster Management Act. Covid19 safety precautions and other related compliance matters are budgeted for under the municipality's own revenue sources.

**Financial Recovery Plan (FRP):** The municipality was placed under a Mandatory Financial Recovery Plan Process after the Minister of Finance approved the request of The Provincial MEC to intervene. The FRP was developed between February 2021 and June 2021 as is awaiting the Minister of Finance approval. The municipality has commenced with the implementation of the FRP with the first workgroup (Finance Working Stream) already established and discussed its first implementation report. Other work-streams will be established on 06 September 2021. The implementation of the FRP will be a guided and systematic process of ensuring the financial turnaround happens and plays a great role in securing the going concern status of the municipality.

Current Ratio	2020/21	2019/20
<b>Current Ratios</b>		
Current Assets	120 469 989	103 605 980
Current Liabilities	312 027 956	276 379 922
Current Ratios	0.39	0.37

Although the Current Ratio is below the norm, the municipality has plans in place to ensure the daily cash management is effectively managed to meet its short-term obligations. An opportunity exists to increase the debtors collection rate through the various incentive schemes to boost the cash flow of the municipality and these are implemented on an ongoing basis. Current



**EC104 - Makana Local Municipality**  
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**Notes to the Annual Financial Statements**

Figures in Rand	2021	2020
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**48. Going concern (continued)**

Liabilities are also decreasing as we make progress with the Arrear Creditors Payment Plans. The year on year decline is mainly related to the COVID-19 impact where our surplus cash was used in operating activities.

**Additional text**

**Solvency Test:**

The municipality did not use the solvency test as is defined by accounting practices, but instead looked at the trends of reducing deficits year on year for the past 3 years and then the pre-audited deficit generated in 2020/21 of -R14 847 545 and 2019/20 a surplus of R38 627 615 compared to the audited deficit of 2018/19 amounting to -R5 172 314 which is an increase of deficit of R9 675 231 over the 3 year reporting period. The main reason appears to be debt impairment which the municipality is addressing through the appointment of a service provider for debt collection with revised terms and a data cleansing exercise to ensure accurate accounts. An electricity meter audit will also be implemented soon.

**49. Events after the reporting date**

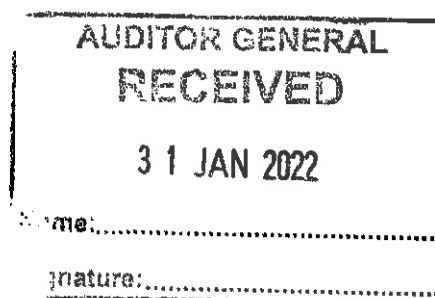
There were no events that were identified by management after the reporting date.

**50. Unauthorised expenditure**

Opening balance as previously reported	577 473 245	556 945 706
Correction of prior period error	6 057	-
<b>Opening balance as restated</b>	<b>577 478 302</b>	<b>556 945 706</b>
Add: Expenditure identified - current	100 121 099	20 527 539
<b>Closing balance</b>	<b>677 599 401</b>	<b>577 473 245</b>

**Unauthorised expenditure: Budget overspending – per municipal department:**

Budget and Treasury	97 928 530	20 532 597
Corporate and Shared services	597 037	-
Municipal Manager	1 595 533	-
	<b>100 121 100</b>	<b>20 532 597</b>



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<b>51. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	28 749 126	26 440 497
Opening balance as restated	28 749 126	26 440 497
Add: Expenditure identified - current	3 902 979	2 308 629
Less: Amount written off - current	(27 142 808)	-
Closing balance	5 509 499	28 749 126

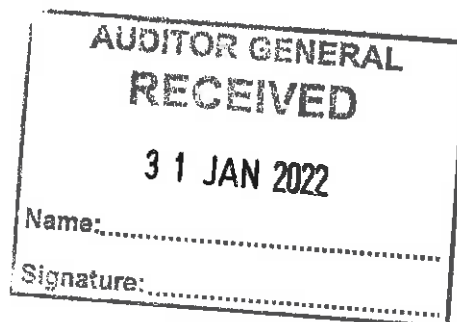
The fruitless and Wasteful Expenditure is due to interest on overdue amounts, wrong billing and others are still being followed up. Fruitless and Wasteful expenditure include a 2018 amount of R270 000 that is still being investigated

#### Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 27 142 808 from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

#### 52. Irregular expenditure

Opening balance as previously reported	339 803 979	285 346 769
Correction of prior period error	4 603 637	13 893 632
Opening balance as restated	344 407 616	299 240 401
Add: Irregular Expenditure - current	20 577 711	40 563 678
Less: Amount written off - current	(41 071 884)	-
Closing balance	323 913 443	339 803 979



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Figures in Rand	2021	2020
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**52. Irregular expenditure (continued)**

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

Disciplinary steps taken/criminal proceedings The investigations are still underway to determine recoverability and any possible disciplinary procedures.	20 577 711	40 563 578
Non compliance with SCM regulations		

**Amounts recoverable**

**Amounts written-off**

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 41 071 884 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

The municipality procurement processes were contravened	25 151 023	-
Municipal policy was different legislation (different from SCM Regulations requiring- 3 Quotes	7 507 447	-
Municipal policy was different legislation (different from SCM Regulations requiring-competitive bidding process)	8 413 414	-
	<b>41 071 884</b>	<b>-</b>

**53. Additional disclosure in terms of Municipal Finance Management Act**

**Contributions to organised local government**

Opening balance	7 491 444	6 859 469
Current year subscription / fee	2 198 230	2 031 975
Amount paid-current year	-	(1 400 000)
	<b>9 689 674</b>	<b>7 491 444</b>

**Audit fees**

Opening balance	23 332	3 543 627
Current year subscription / fee	5 962 970	6 268 384
Amount paid-current year	(5 238 567)	(9 788 679)
	<b>747 735</b>	<b>23 332</b>

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<b>PAYE and UIF</b>		
Opening balance	2 292 935	1 714 774
Current year subscription / fee	28 805 852	24 449 179
Amount paid - current year	(24 106 454)	(23 871 018)
	<b>6 992 333</b>	<b>2 292 935</b>
<b>VAT</b>		
VAT payable	(51 130 194)	(37 798 757)

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

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total
Councillor Fargher B.W	7 073	-	7 073
Councillor Jackson BPM	762	-	762
Councillor Clark FK	268	-	268
Councillor Meyer AJ	2 737	-	2 737
Councillor Masoma NC	227	-	227
Councillor Xonxa R/TV	222	-	222
Councillor G Madyo XG	500	-	500
Councillor Matyumza M	23	-	23
Councillor Nase A	665	-	665
	<b>12 477</b>	<b>-</b>	<b>12 477</b>

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R
Councillor BW Fargher	6 826	-
Councillor BPM Jackson	2 166	-
Councillor AJ Meyer	2 251	-
Councillor NC Masoma	453	-
Councillor R Xonxa	757	-
Councillor XG Madyo	519	-
Councillor A Nase	585	-
	<b>13 557</b>	<b>-</b>

During the year 2021 no Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2021	Highest outstanding amount	Aging (in days)
Councillor Fargher B.W	7 073	60
Councillor Meyer AJ	2 537	30
	<b>9 610</b>	<b>90</b>

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Figures in Rand	2021	2020
<b>30 June 2020</b>	<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Councillor Fargher BW	6 826	90
Councillor Meyer AG	2 251	30
Councillor Jackson BPM	2 166	120
	<b>11 243</b>	<b>240</b>

**54. Actual operating expenditure versus budgeted operating expenditure**

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

**55. Deviation from supply chain management regulations**

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

**56. Bulk Electricity and Water losses**

Electricity	Purchased during the year	Sold during the year	Unaccounted for
Year 2021 (Units/kWh)	101 364 974	(71 672 220)	29 692 754
Year 2020 (Units/kWh)	99 888 361	(81 036 037)	18 852 324
	<b>201 253 335</b>	<b>(152 708 257)</b>	<b>48 545 078</b>

Loss calculated as follows:	Total loss	Own use	Network loss accepted	Total loss after own use
Year 2021 (Units/kWh)	29 692 754	(11 175 778)	(5 270 978)	13 245 997

During the financial year 2021, the Municipality incurred Electricity losses of 28% (2020: 19%) due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, faulty meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

Water	Lost Units	Cost per KL	Value
Unaccounted water losses - 2021	901 399	3,79	3 413 704
Unaccounted water losses - 2020	893 595	5,03	4 493 326
	<b>1 794 994</b>	<b>9</b>	<b>7 907 030</b>

Water Losses occur due to inter alia, leakages, tampering of meters, the incorrect ratios used on bulk meters, faulty meters, faulty meters and illegal; water connections. The problem with tampered meters and illegal connections is an ongoing process with regular action being taken against defaulters. Faulty meters and leakages are replaced/ repaired as soon as they are reported. Water losses have increased for the financial period amounting to 19% (2020: 18%) of water produced due to water treatment plant repairs that were done during the year. The rand value for the water losses however, decreased for the financial period ending 30 June 2021 to R 3 413 704.13 (2020: R4 493 326.64)

**57. Segment information**

**General information**

**Identification of segments**

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**57. Segment information (continued)**

The municipality is organised and reports to council on the basis of core functions: Community and Social services, Engineering and Technical services, Local Economic Development and Planning. The segments were organised around the type of service delivered. Council uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

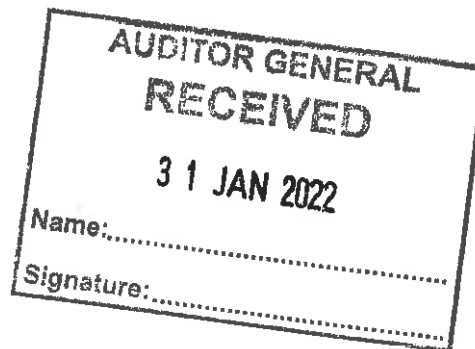
**Aggregated segments**

The municipality operates within Makhanda area formerly known as Grahamstown. Segments were aggregated on the basis of Directorate as management considered that the economic characteristics of the segments throughout Makhanda were sufficiently similar to warrant aggregation.

**Types of goods and/or services by segment**

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

<p><b>Reportable segment</b> Community and Social services</p> <p>Engineering and Technical services</p> <p>Local Economic Development and Planning</p> <p>Unallocated segments</p>	<p><b>Goods and/or services</b> Library Services, Police force, Cemeteries, Enviromental Protection, Recreational facilities, Social Services Provision and maintenance of water, Electricity, Sewer and refuse and infrastructure Economic development of the Municipality Administrative functions</p>
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**57. Segment information (continued)**

**Segment surplus or deficit, assets and liabilities**

2021

	Community and Social Services	Engineering and Technical services	Local Economic Development and Planning	Unallocated segments	Total
<b>Revenue</b>					
Revenue from non-exchange transactions	20 875 061	178 838 230	5 055 150	76 535 750	281 104 181
Revenue from exchange transactions	22 212 895	192 140 506	5 431 160	82 228 602	302 013 183
<b>Total segment revenue</b>	<b>42 887 946</b>	<b>370 978 736</b>	<b>10 486 310</b>	<b>158 764 352</b>	<b>583 117 344</b>
<b>Entity's revenue</b>					<b>583 117 344</b>
<b>Expenditure</b>					
Total expenditure	91 090 898	254 723 170	10 254 985	232 436 045	588 505 098
Loss on disposal	-	-	-	9 459 790	9 459 790
<b>Total segment expenditure</b>	<b>91 090 898</b>	<b>254 723 170</b>	<b>10 254 985</b>	<b>241 895 835</b>	<b>597 964 888</b>
<b>Total segmental surplus/deficit</b>					<b>(14 847 544)</b>
<b>Assets</b>					
Current Assets	8 860 498	76 642 900	2 166 435	32 800 156	120 469 989
Non Current Assets	48 362 312	920 788 631	108 728 415	25 134 040	1 103 013 398
<b>Total segment assets</b>	<b>57 222 810</b>	<b>997 431 531</b>	<b>110 894 850</b>	<b>57 934 196</b>	<b>1 223 483 387</b>
<b>Total assets as per Statement of financial Position</b>					<b>1 223 483 387</b>
<b>Liabilities</b>					
Current liabilities	13 208 511	251 481 910	29 695 446	6 864 503	301 250 370
Non Current liabilities	7 175 392	136 615 043	16 131 755	3 729 073	163 651 263
<b>Total segment liabilities</b>	<b>20 383 903</b>	<b>388 096 953</b>	<b>45 827 201</b>	<b>10 593 576</b>	<b>464 901 633</b>

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	Community and Social Services	Engineering and Technical services	Local Economic Development and Planning	Unallocated segments	Total
<b>57. Segment Information (continued)</b>					
<b>Total liabilities as per Statement of financial Position</b>					<b>464 901 333</b>

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

2020

	Community and Social Services	Engineering and Technical services	Local Economic Development and Planning	Unallocated segments	Total
<b>Revenue</b>					
Revenue from non-exchange transactions	19 812 617	171 378 218	4 844 281	73 343 157	269 378 273
Revenue from exchange transactions	20 579 457	178 011 344	5 031 777	76 181 875	279 804 453
Gain on disposal	-	-	-	21 408 791	21 408 791
<b>Total segment revenue</b>	<b>40 392 074</b>	<b>349 389 562</b>	<b>9 876 058</b>	<b>170 933 823</b>	<b>570 591 517</b>
<b>Entity's revenue</b>					<b>570 591 517</b>

<b>Expenditure</b>					
Total expenditure	82 339 252	230 250 395	9 269 728	210 104 527	531 963 902
<b>Total segmental surplus/(deficit)</b>					<b>38 627 615</b>

<b>Assets</b>					
Current Assets	7 620 160	65 914 032	1 863 166	28 208 622	103 605 980
Non current assets	47 535 937	905 054 972	106 870 555	24 704 571	1 084 166 035
<b>Total segment assets</b>	<b>55 156 097</b>	<b>970 968 004</b>	<b>108 733 721</b>	<b>52 913 193</b>	<b>1 187 772 015</b>
<b>Total assets as per Statement of financial Position</b>					<b>1 187 772 015</b>

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<b>67. Segment information (continued)</b>					
<b>Liabilities</b>					
Current liabilities	12 118 050	230 720 217	27 243 867	6 297 788	278 378 922
Non current liabilities	6 059 900	115 376 759	13 623 900	3 149 348	138 209 907
<b>Total segment liabilities</b>	<b>18 177 950</b>	<b>346 096 976</b>	<b>40 867 767</b>	<b>9 447 136</b>	<b>414 589 829</b>
<b>Total liabilities as per Statement of financial Position</b>					<b>414 589 829</b>

**68. Budget differences**

**Material differences between budget and actual amounts**

Makana Local Municipality considered the variance between final budget and the actual amounts that is above 10% or above the norm/standard to be material variance. Those variances are explained below and the amounts can be linked to Statement of comparison of budget and actual amounts .

- (1). The electricity consumption was far below the projected revenue due to consumers entering into power saving measures. Load-shedding also took place during the year which reduced electricity supply and consumption. The budget was not adjusted as we anticipated the winter consumption to make up for the loss, but loadshedding occurred during that period.
- (2). The interest rates have significantly reduced during financial year as a result of COVID19 and therefore the revenue raised is materially lower. The budget was not adjusted as it was expected the interest would be higher due to increasing debt.
- (3). The municipality slightly oversept on its Employee related cost budget due to overtime overexpenditure and year-end accruals. The municipality put measures in place to decrease overtime, but the budget was still overspent.
- (4). The depreciation contains an error and will be adjusted upwards upon the correction of AFS. Management does however acknowledge that there will be a significant difference as a full review of Assets; condition; useful life and depreciation was performed.
- (5). Management has reviewed its debt book and accordingly impaired more debtors in 2020/21 than in prior year. Similar amounts will be written off in 2021/22 and therefore the provision must be adjusted accordingly. The exercise was done close to year end and therefore the budget could not be adjusted prior the write-off.
- (6). The electricity consumption was far below the projected revenue due to consumers entering into power saving measures. Load-shedding also took place during the year which reduced electricity supply and consumption. The budget was not adjusted as we anticipated the winter consumption to make up for the loss, but loadshedding occurred during that period.

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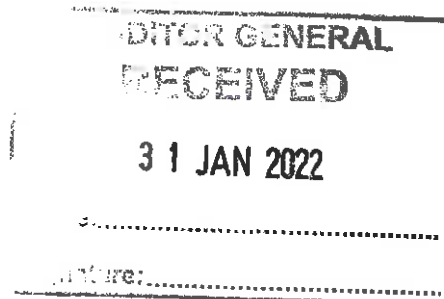
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#### 58. Budget differences (continued)

- (7). Due to COVID19 pandemic, the municipality scaled down on some services and therefore realised savings on the budget.
- (8). The municipality experienced increased costs in some services including license fees that were also in excess of originally budgeted amounts. Smaller votes also had higher balances than previous years and in aggregation resulted on material increase and significant difference.
- (9). The actuarial calculations were based on revised projections based on changes market factors and resulted in a material difference in figures. Also, auction revenue was higher in current year than prior year and budgeted amount. The auction budget was erroneously not increased in the adjustments budget to match the actual income.
- (10). The Debt Book has significantly grown year on year and resulted in an increased collectible debt. The impairment calculation was done but still resulted in more debtors being collectible than the budgeted amount. The budget was not adjusted as we anticipated increased collections and a reduction in amount at year end.
- (11). The reduced collection rate and increase in debtors, resulted in the cash balance decreasing. The municipality also had a lower unspent grant balance than prior year and consequently less cash was held at year end than prior year. The budget was not adjusted downwards as we anticipated increased collections and an increased cash and bank balance.
- (12). Corrections and adjustments were done to correct prior year findings and resulted in a decrease in investment property. The budget was not adjusted as adjustments were only made at year end.
- (13). The Budgeted amount was taking into consideration full approval of rollover for 2019/20 and full expenditure of 2020/21 capital budget. Unfortunately not all rollover was approved and the budget was not fully spent. The budget was not adjusted in error and due to the fact that we were busy with a full asset verification and review to correct the register and the full impact was not known in February.
- (14). Corrections and adjustments were done to correct prior year findings and resulted in a decrease in Heritage Assets. The budget was not adjusted as adjustments were only made at year end.
- (15). There was an increase in unspent amounts at year end due to the municipality experiencing cash flow challenges. The bills were partially settled in July 2021. The budget was not adjusted as the extent was not known or foreseen in February 2021.
- (16). The VAT Payable increase is attributable to the increase in creditors and higher increase in receivables above where the net impact in VAT has a higher liability.
- (17). Unspent Conditional grants are supposed to reduce to zero as grants must be fully spent by year end. Unfortunately due to planning and procurement delays, and also public protests stopping projects, there was an unspent amount of R17m. The municipality tried to accelerate expenditure to fully spend grants and therefore we did not foresee unspent funds in February 2021.



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