

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022



**MAKANA**  
MUNICIPALITY | EASTERN CAPE  
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EC104 - Makana Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2022

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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### Legal form of entity

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 various other acts and regulations.

### Nature of business and principal activities

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

### Members of the Council

Due to Municipal elections on November 2021, the full council dissolved and a new council was appointed

#### Current (2022)

Executive Mayor	Cllr YP Vara
Speaker	Cllr M Matyumza
MPAC Chairperson (interim)	Cllr VN Jezi
MMC: LED & Planning	Cllr M Nkwentsha
MMC: Public Safety & Community Services	Cllr T Vayo
MMC: Corporate Services	Cllr MR Xonxa
MMC: Finance	Cllr ZA Hoyi
MMC: Engineering & infrastructure	Cllr G Mene

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## General Information

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Cllr AA Bentele  
Cllr M Booyesen  
Cllr C Clark  
Cllr Z Cetu  
Cllr A Deke  
Cllr G Embling  
Cllr MD Geelbooi  
Cllr BPN Jackson  
Cllr XG Madyo  
Cllr Z Mantla  
Cllr L Masinda  
Cllr T Matebese  
Cllr WE Matina  
Cllr V Nesi  
Cllr P Peter  
Cllr WL Sixaba  
Cllr LR Sizani  
Cllr TS Yaka  
Cllr S Zono

### Previous (2021)

Executive Mayor  
Speaker  
MPAC Chairperson  
MMC: LED & Planning  
MMC: Public Safety & Community Services  
MMC: Corporate Services  
MMC: Finance  
MMC: Engineering & infrastructure

Cllr M Mpahlwa  
Cllr Y Vara  
Cllr T Seyisi  
Cllr M Matyumza  
Cllr P Matyumza  
Cllr N Masoma  
Cllr L Nase  
Cllr RM Xonxa  
Cllr TF Bruintjies  
Cllr C Clark  
Cllr S Dyantjie  
Cllr M Fatyi  
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

**Grading of local authority**

Category B

**Accounting Officer**

Mr MA Mene

**Chief Financial Officer (1/7/2021 - 31/12/2022)**

Mr G Goliath

**Acting Chief Financial Officer (1/1/2022 - 30/6/2022)**

Ms CL Mani

**Registered office**

City Hall  
No 86 High Street  
Grahamstown  
6139

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## General Information

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**Business address**

City Hall  
No 86 High Street  
Grahamstown  
6139

**Bankers**

First National Bank

**Auditors**

Auditor-General South Africa  
Registered Auditors

**Preparer**

The annual financial statements were internally compiled.

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## Index

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

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

## **EC104 - Makana Local Municipality**

Annual Financial Statements for the year ended 30 June 2022

### **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 are 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, he sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the 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 2023 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 its operational existence for the foreseeable future.

The municipality is wholly dependent on the municipal operations for continued funding. 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 is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

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

The annual financial statements set out on pages 7 to 79 which have been prepared on the going concern basis, were approved by the Accounting officer on 31 August 2022 and were signed on its behalf by:

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**Accounting Officer**  
**Mr. MA Mene**

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	10	7 180 194	6 581 874
Receivables from exchange transactions	11	27 750 236	71 083 387
Receivables from non-exchange transactions	12	21 819 264	24 401 256
Cash and cash equivalents	13	34 480 307	18 927 998
		<b>91 230 001</b>	<b>120 994 515</b>
<b>Non-Current Assets</b>			
Investment property	4	187 355 041	187 505 692
Property, plant and equipment	5	935 919 276	893 406 948
Heritage assets	7	32 788 263	32 788 263
Intangible assets	6	98 098	114 649
		<b>1 156 160 678</b>	<b>1 113 815 552</b>
<b>Total Assets</b>		<b>1 247 390 679</b>	<b>1 234 810 067</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Employee benefit obligation	9	2 324 050	2 454 765
Unspent conditional grants and receipts	14	34 480 302	17 146 544
Other financial liabilities	15	1 827 874	1 524 367
Provisions	16	20 859 266	19 134 601
Payables from exchange transactions	17	248 601 757	201 097 023
VAT payable	18	32 920 418	50 694 968
Consumer deposits	19	2 692 244	2 813 677
		<b>343 705 911</b>	<b>294 865 945</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	9	69 690 355	71 694 110
Other financial liabilities	15	47 263 856	49 213 632
Provisions	16	45 862 639	39 971 301
		<b>162 816 850</b>	<b>160 879 043</b>
<b>Total Liabilities</b>		<b>506 522 761</b>	<b>455 744 988</b>
<b>Net Assets</b>		<b>740 867 918</b>	<b>779 065 079</b>
Accumulated surplus		740 867 914	779 065 083
<b>Total Net Assets</b>		<b>740 867 914</b>	<b>779 065 083</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	285 584 677	266 547 099
Rendering of services		2 321 434	1 445 197
Rental of facilities and equipment	22	321 168	230 167
Interest received (trading)		10 131 487	23 742 936
Agency services	24	3 079 642	2 708 899
Other income	29	4 898 332	1 991 115
Interest received	30	676 986	829 410
Gain on disposal of assets and liabilities		1 759 274	5 337 548
Actuarial gains		10 613 330	-
<b>Total revenue from exchange transactions</b>		<b>319 386 330</b>	<b>302 832 371</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	32	98 976 050	100 706 680
Licences and Permits (Non-exchange)		12 199	1 978
Interest - property rates	27	4 952 096	5 155 932
<b>Transfer revenue</b>			
Government grants & subsidies	34	192 829 843	180 067 980
Fines, Penalties and Forfeits	23	122 266	126 417
<b>Total revenue from non-exchange transactions</b>		<b>296 892 454</b>	<b>286 058 987</b>
<b>Total revenue</b>	20	<b>616 278 784</b>	<b>588 891 358</b>
<b>Expenditure</b>			
Employee related costs	35	(214 975 574)	(217 141 964)
Remuneration of councillors		(11 204 692)	(11 398 481)
Depreciation and amortisation	37	(35 337 328)	(63 939 428)
Impairments	38	(3 493 778)	-
Finance costs	39	(10 023 478)	(10 740 804)
Lease rentals on operating lease	25	(1 529 047)	(1 707 772)
Debt Impairment	40	(148 274 744)	(123 768 382)
Bulk purchases	41	(136 420 304)	(108 985 955)
Contracted services	42	(50 455 724)	(33 991 066)
Transfers and Subsidies	33	(462 745)	(990 060)
General Expenses	43	(43 999 163)	(43 809 751)
<b>Total expenditure</b>		<b>(656 176 577)</b>	<b>(616 473 663)</b>
<b>Deficit for the year</b>		<b>(39 897 793)</b>	<b>(27 582 305)</b>



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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2020</b>	<b>806 647 388</b>	<b>806 647 388</b>
Changes in net assets		
Surplus for the year	(27 582 305)	(27 582 305)
Total changes	(27 582 305)	(27 582 305)
<b>Restated* Balance at 01 July 2021</b>	<b>780 765 707</b>	<b>780 765 707</b>
Changes in net assets		
Surplus for the year	(39 897 793)	(39 897 793)
Total changes	(39 897 793)	(39 897 793)
<b>Balance at 30 June 2022</b>	<b>740 867 914</b>	<b>740 867 914</b>
Note(s)		

# EC104 - Makana Local Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		106 644 603	81 589 751
Sale of goods and services		349 669 891	101 813 644
Grants		210 163 601	197 214 524
Interest income		676 986	829 410
		<u>667 155 081</u>	<u>381 447 329</u>
<b>Payments</b>			
Employee costs		(228 184 021)	(156 846 335)
Suppliers		(107 345 812)	(117 645 092)
Finance costs		(10 023 478)	(10 740 804)
		<u>(345 553 311)</u>	<u>(285 232 231)</u>
<b>Net cash flows from operating activities</b>	46	<b><u>321 601 770</u></b>	<b><u>96 215 098</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(78 136 157)	(3 496 812)
Proceeds from sale of property, plant and equipment	5	1 662 260	5 337 548
Purchase of other intangible assets	6	(27 136)	-
		<u>(76 501 033)</u>	<u>1 840 736</u>
<b>Net cash flows from investing activities</b>		<b><u>(76 501 033)</u></b>	<b><u>1 840 736</u></b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(1 646 269)	(1 483 323)
		<u>(1 646 269)</u>	<u>(1 483 323)</u>
<b>Net cash flows from financing activities</b>		<b><u>(1 646 269)</u></b>	<b><u>(1 483 323)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>243 454 468</b>	<b>96 572 511</b>
Cash and cash equivalents at the beginning of the year		18 927 998	35 039 065
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>262 382 466</u></b>	<b><u>131 611 576</u></b>

# EC104 - Makana Local Municipality

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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
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	325 676 000	-	<b>325 676 000</b>	319 569 000	<b>(6 107 000)</b>	63(1)
Rental of facilities and equipment	500 000	-	<b>500 000</b>	321 000	<b>(179 000)</b>	
Interest received - outstanding debtors	37 800 000	-	<b>37 800 000</b>	10 131 487	<b>(27 668 513)</b>	63(3)
Agency services	2 000 000	-	<b>2 000 000</b>	3 080 000	<b>1 080 000</b>	
Licences and permits	5 000 000	-	<b>5 000 000</b>	(1 354 000)	<b>(6 354 000)</b>	
Other income	10 000 000	-	<b>10 000 000</b>	2 960 000	<b>(7 040 000)</b>	
Interest received - investment	750 000	-	<b>750 000</b>	107 000	<b>(643 000)</b>	63 (2)
Gains on disposal of assets	500 000	-	<b>500 000</b>	1 856 000	<b>1 356 000</b>	
<b>Total revenue from exchange transactions</b>	<b>382 226 000</b>	-	<b>382 226 000</b>	<b>336 670 487</b>	<b>(45 555 513)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	110 794 000	-	<b>110 794 000</b>	98 976 050	<b>(11 817 950)</b>	
Licences and Permits (Non-exchange)	5 700 000	-	<b>5 700 000</b>	12 199	<b>(5 687 801)</b>	
Interest, Dividends and Rent on Land	-	-	-	4 952 096	<b>4 952 096</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	113 500 000	(100 000)	<b>113 400 000</b>	114 031 000	<b>631 000</b>	63 (2)
Fines, Penalties and Forfeits	461 000	-	<b>461 000</b>	27 000	<b>(434 000)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>230 455 000</b>	<b>(100 000)</b>	<b>230 355 000</b>	<b>217 998 345</b>	<b>(12 356 655)</b>	
<b>Total revenue</b>	<b>612 681 000</b>	<b>(100 000)</b>	<b>612 581 000</b>	<b>554 668 832</b>	<b>(57 912 168)</b>	
<b>Expenditure</b>						
Personnel	(212 379 000)	(50 000)	<b>(212 429 000)</b>	(214 975 574)	<b>(2 546 574)</b>	63 (8)
Remuneration of councillors	(13 335 000)	-	<b>(13 335 000)</b>	(11 204 692)	<b>2 130 308</b>	
Depreciation and amortisation	-	-	-	(35 337 328)	<b>(35 337 328)</b>	63(5)
Impairment loss/ Reversal of impairments	(33 500 000)	(5 000 000)	<b>(38 500 000)</b>	(27 600)	<b>38 472 400</b>	
Finance costs	(9 000 000)	-	<b>(9 000 000)</b>	(7 697 400)	<b>1 302 600</b>	
Lease rentals on operating lease	-	-	-	(2 743 067)	<b>(2 743 067)</b>	
Debt Impairment	-	-	-	(140 037 774)	<b>(140 037 774)</b>	63(4)
Bad debts written off	(43 000 000)	(2 000 000)	<b>(45 000 000)</b>	-	<b>45 000 000</b>	
Bulk purchases	(126 500 000)	500 000	<b>(126 000 000)</b>	(131 093 811)	<b>(5 093 811)</b>	
Contracted Services	(39 329 000)	1 038 000	<b>(38 291 000)</b>	(40 590 367)	<b>(2 299 367)</b>	
Transfers and Subsidies	-	-	-	(462 745)	<b>(462 745)</b>	
Sale of goods/Inventory	(25 226 000)	(2 000)	<b>(25 228 000)</b>	(12 522 558)	<b>12 705 442</b>	
General Expenses	(26 012 000)	(670 000)	<b>(26 682 000)</b>	(34 022 000)	<b>(7 340 000)</b>	63(6)
<b>Total expenditure</b>	<b>(528 281 000)</b>	<b>(6 184 000)</b>	<b>(534 465 000)</b>	<b>(630 714 916)</b>	<b>(96 249 916)</b>	
<b>Operating deficit</b>	<b>84 400 000</b>	<b>(6 284 000)</b>	<b>78 116 000</b>	<b>(76 046 084)</b>	<b>(154 162 084)</b>	

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### 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						
Actuarial gains/losses	-	-	-	10 613 330	<b>10 613 330</b>	
<b>Deficit before taxation</b>	<b>84 400 000</b>	<b>(6 284 000)</b>	<b>78 116 000</b>	<b>(65 432 754)</b>	<b>(143 548 754)</b>	
<b>Deficit for the year from continuing operations</b>	<b>84 400 000</b>	<b>(6 284 000)</b>	<b>78 116 000</b>	<b>(65 432 754)</b>	<b>(143 548 754)</b>	
Transfers & subsidies	-	-	-	1 855 650	<b>1 855 650</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>84 400 000</b>	<b>(6 284 000)</b>	<b>78 116 000</b>	<b>(63 577 104)</b>	<b>(141 693 104)</b>	

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	5 902 000	(2 000)	<b>5 900 000</b>	7 180 194	<b>1 280 194</b>	59(12)
Other financial assets	-	-	-	23 655 821	<b>23 655 821</b>	
Receivables from exchange transactions	40 855 000	(2 000 000)	<b>38 855 000</b>	107 889 000	<b>69 034 000</b>	59(10)
Receivables from non-exchange transactions	61 812 000	-	<b>61 812 000</b>	165 767 000	<b>103 955 000</b>	59(11)
VAT receivable	-	-	-	(54 920 930)	<b>(54 920 930)</b>	
Cash and cash equivalents	280 817 000	-	<b>280 817 000</b>	34 480 307	<b>(246 336 693)</b>	59(9)
	<b>389 386 000</b>	<b>(2 002 000)</b>	<b>387 384 000</b>	<b>284 051 392</b>	<b>(103 332 608)</b>	
<b>Non-Current Assets</b>						
Investment property	184 595 000	-	<b>184 595 000</b>	172 415 000	<b>(12 180 000)</b>	58
Property, plant and equipment	958 377 000	12 920 000	<b>971 297 000</b>	935 919 276	<b>(35 377 724)</b>	58
Intangible assets	261 000	-	<b>261 000</b>	98 098	<b>(162 902)</b>	
Heritage assets	34 608 000	-	<b>34 608 000</b>	32 788 263	<b>(1 819 737)</b>	58
	<b>1 177 841 000</b>	<b>12 920 000</b>	<b>1 190 761 000</b>	<b>1 141 220 637</b>	<b>(49 540 363)</b>	
<b>Total Assets</b>	<b>1 567 227 000</b>	<b>10 918 000</b>	<b>1 578 145 000</b>	<b>1 425 272 029</b>	<b>(152 872 971)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	1 321 000	-	<b>1 321 000</b>	1 827 874	<b>506 874</b>	
Payables from exchange transactions	142 491 000	7 202 000	<b>149 693 000</b>	481 854 000	<b>332 161 000</b>	58
VAT payable	-	-	-	(24 194)	<b>(24 194)</b>	58(16)
Employee benefit obligation	19 502 000	-	<b>19 502 000</b>	30 872 000	<b>11 370 000</b>	
Unspent conditional grants and receipts	-	-	-	34 480 302	<b>34 480 302</b>	58(13)
Provisions	-	-	-	20 859 266	<b>20 859 266</b>	
Consumer deposits	2 588 000	(2 588 000)	-	993 000	<b>993 000</b>	
Other liability 2	-	-	-	1 096 916	<b>1 096 916</b>	
Other liability 3	-	-	-	(19 363 545)	<b>(19 363 545)</b>	
	<b>165 902 000</b>	<b>4 614 000</b>	<b>170 516 000</b>	<b>552 595 619</b>	<b>382 079 619</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	51 541 000	-	<b>51 541 000</b>	47 263 856	<b>(4 277 144)</b>	59
Employee benefit obligation	-	-	-	69 690 355	<b>69 690 355</b>	59
Provisions	-	-	-	45 862 639	<b>45 862 639</b>	59
	<b>51 541 000</b>	-	<b>51 541 000</b>	<b>162 816 850</b>	<b>111 275 850</b>	
<b>Total Liabilities</b>	<b>217 443 000</b>	<b>4 614 000</b>	<b>222 057 000</b>	<b>715 412 469</b>	<b>493 355 469</b>	
<b>Net Assets</b>	<b>1 349 784 000</b>	<b>6 304 000</b>	<b>1 356 088 000</b>	<b>709 859 560</b>	<b>(646 228 440)</b>	

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	-	-	-	740 867 910	<b>740 867 910</b>	

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### 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>Cash Flow Statement</b>						
Net increase/(decrease) in cash and cash equivalents	240 288 921	97 949 752	<b>338 238 673</b>	53 658 835	<b>(284 579 838)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>240 288 921</b>	<b>97 949 752</b>	<b>338 238 673</b>	<b>53 658 835</b>	<b>(284 579 838)59(13)</b>	

The accounting policies on pages 18 to 37 and the notes on pages 38 to 79 form an integral part of the annual financial statements.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2022</b>											
<b>Financial Performance</b>											
Property rates	110 794 000	-	110 794 000	-	-	110 794 000	98 976 050	-	(11 817 950)	89 %	89 %
Service charges	325 676 000	-	325 676 000	-	-	325 676 000	285 584 677	-	(40 091 323)	88 %	88 %
Investment revenue	38 550 000	-	38 550 000	-	-	38 550 000	676 986	-	(37 873 014)	2 %	2 %
Transfers recognised - operational	113 500 000	(100 000)	113 400 000	-	-	113 400 000	115 419 812	-	2 019 812	102 %	102 %
Other own revenue	19 161 000	(100 000)	19 061 000	-	-	19 061 000	38 308 242	-	19 247 242	201 %	200 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>607 681 000</b>	<b>(200 000)</b>	<b>607 481 000</b>	<b>-</b>	<b>-</b>	<b>607 481 000</b>	<b>538 965 767</b>	<b>-</b>	<b>(68 515 233)</b>	<b>89 %</b>	<b>89 %</b>
Employee costs	(212 379 000)	(50 000)	(212 429 000)	-	-	(212 429 000)	(214 975 574)	-	(2 546 574)	101 %	101 %
Remuneration of councillors	(13 335 000)	-	(13 335 000)	-	-	(13 335 000)	(11 204 692)	-	2 130 308	84 %	84 %
Debt impairment	(43 000 000)	(2 000 000)	(45 000 000)	-	-	(45 000 000)	(148 274 744)	-	(103 274 744)	329 %	345 %
Depreciation and asset impairment	(33 500 000)	5 000 000	(28 500 000)	-	-	(28 500 000)	(38 831 106)	-	(10 331 106)	136 %	116 %
Finance charges	(9 000 000)	-	(9 000 000)	-	-	(9 000 000)	(10 023 478)	-	(1 023 478)	111 %	111 %
Materials and bulk purchases	(126 500 000)	500 000	(126 000 000)	-	-	(126 000 000)	(136 420 304)	-	(10 420 304)	108 %	108 %
Transfers and grants	(1 000 000)	700 000	(300 000)	-	-	(300 000)	(462 745)	-	(162 745)	154 %	46 %
Other expenditure	(89 568 000)	(333 000)	(89 901 000)	-	-	(89 901 000)	(96 080 948)	-	(6 179 948)	107 %	107 %
<b>Total expenditure</b>	<b>(528 282 000)</b>	<b>3 817 000</b>	<b>(524 465 000)</b>	<b>-</b>	<b>-</b>	<b>(524 465 000)</b>	<b>(656 273 591)</b>	<b>-</b>	<b>(131 808 591)</b>	<b>125 %</b>	<b>124 %</b>
<b>Surplus/(Deficit)</b>	<b>79 399 000</b>	<b>3 617 000</b>	<b>83 016 000</b>	<b>-</b>	<b>-</b>	<b>83 016 000</b>	<b>(117 307 824)</b>	<b>-</b>	<b>(200 323 824)</b>	<b>(141)%</b>	<b>(148)%</b>



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	54 311 000	-	54 311 000	-		54 311 000	77 410 031		23 099 031	143 %	143 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>133 710 000</b>	<b>3 617 000</b>	<b>137 327 000</b>	-		<b>137 327 000</b>	<b>(39 897 793)</b>		<b>(177 224 793)</b>	<b>(29)%</b>	<b>(30)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>133 710 000</b>	<b>3 617 000</b>	<b>137 327 000</b>	-		<b>137 327 000</b>	<b>(39 897 793)</b>		<b>(177 224 793)</b>	<b>(29)%</b>	<b>(30)%</b>

#### Capital expenditure and funds sources

Total capital expenditure	49 227 000	7 919 000	57 146 000	-		57 146 000	77 119 105		19 973 105	135 %	157 %
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The accounting policies on pages 18 to 37 and the notes on pages 38 to 79 form an integral part of the annual financial statements.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

Figures in Rand	Note(s)	2022	2021
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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.

#### 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

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.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 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 16 - Provisions.

#### Effective interest rate

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

### 1.4 Investment property

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

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

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

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.

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.

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.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.4 Investment property (continued)

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 building owned (or held by under a finance lease) and leased out under one or more operating leases

### 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.

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

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

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

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

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

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Item	Depreciation method	Average useful life
Land	Straight-line	Not depreciated
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 42).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

### 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.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter 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.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.7 Intangible assets (continued)

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.

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

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

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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.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.8 Heritage assets (continued)

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.

#### 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.

#### 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.

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.

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

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.



# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.9 Financial instruments (continued)

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.

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.

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

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.

#### Classification

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

#### Class

Receivables from exchange transactions  
Receivables from non-exchange transactions  
Cash and cash equivalents

#### Category

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

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

#### Class

Payables from exchange transactions  
Consumer deposits  
Other financial liabilities

#### Category

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

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.10 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.

### 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.

### 1.11 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).

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

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:

### 1.12 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.

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### 1.12 Employee benefits (continued)

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.

#### 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.

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### 1.12 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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### 1.12 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 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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### 1.12 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.

### 1.13 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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### 1.13 Provisions and contingencies (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 49.

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.

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.

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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



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### 1.14 Commitments (continued)

- 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.

### 1.15 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 .

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### 1.15 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

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

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

#### 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.

### 1.17 Turnover

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

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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 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 Fruitless and wasteful expenditure

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

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

### 1.24 Irregular expenditure

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

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

### 1.25 Segment information

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.

### 1.26 Budget information

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

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.26 Budget information (continued)

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.

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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.

### 1.27 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.

### 1.28 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.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

### 3. New standards and interpretations

#### 3.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards</li></ul>	01 April 2021	Unlikely there will be a material impact

#### 3.2 Standards and Interpretations early adopted

The municipality has chosen not to early adopt any standards and interpretations.

#### 3.3 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 1 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 25 (as revised): Employee benefits</li></ul>	Not yet effective	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction</li></ul>	Not yet effective	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>Guideline: Guideline on the application of materiality to financial statements</li></ul>	Not yet effective	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>GRAP 104 (as revised): Financial instruments</li></ul>	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>iGRAP 21: The effect on past decisions on materiality</li></ul>	Not yet effective	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>iGRAP 2020: Improvements to the standards of GRAP 2020</li></ul>	Not yet effective	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>GRAP 1 (amended): Presentation of Financial statements</li></ul>	01 April 2025	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>Other 8</li></ul>	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>Guideline: Guideline on Accounting for Landfill Sites</li></ul>	Not yet effective	Unlikely there will be a material impact

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 4. Investment property

	2022			2021		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	189 095 156	(1 740 115)	187 355 041	189 095 156	(1 589 464)	187 505 692

#### Reconciliation of investment property - 2022

	Opening balance	Depreciation	Total
Investment property	187 505 692	(150 651)	187 355 041

#### Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Investment property	187 656 342	(150 650)	187 505 692

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.

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 5. Property, plant and equipment

	2022			2021		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	60 206 671	-	60 206 671	60 206 671	-	60 206 671
Buildings	94 954 897	-	94 954 897	94 954 897	-	94 954 897
Plant and machinery	-	-	-	23 348	-	23 348
Furniture and fixtures	82 525	-	82 525	-	-	-
Infrastructure	646 535 838	(48 516 018)	598 019 820	633 746 678	(64 633 973)	569 112 705
Community	110 641 996	(45 685 478)	64 956 518	110 641 996	(41 706 861)	68 935 135
Other property, plant and equipment	65 339 482	(24 300 481)	41 039 001	48 480 775	(26 809 879)	21 670 896
Investment property	810 530	-	810 530	4 541 685	-	4 541 685
Work In Progress	75 849 314	-	75 849 314	73 961 611	-	73 961 611
<b>Total</b>	<b>1 054 421 253</b>	<b>(118 501 977)</b>	<b>935 919 276</b>	<b>1 026 557 661</b>	<b>(133 150 713)</b>	<b>893 406 948</b>



## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 5. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Additions of work in progress	Disposals	Transfers received from Work in progress	Work in progress transfers	Depreciation	Impairment loss	Total
Land	71 086 371	-	-	-	-	-	-	-	71 086 371
Buildings	90 413 497	-	-	-	-	-	(2 095 363)	-	88 318 134
Infrastructure	546 125 497	-	-	(97 014)	41 071 077	-	(22 795 029)	(2 332 294)	561 972 237
Community	71 932 467	-	-	-	-	-	(2 885 471)	(1 093 145)	67 953 851
Other property, plant and equipment	17 004 542	-	-	-	4 143 525	-	(2 032 315)	-	19 115 752
Investment property	187 505 691	-	-	-	-	-	(150 651)	-	187 355 040
Work In Progress	78 717 608	78 136 157	-	-	(45 214 603)	-	-	-	111 639 162
	<b>1 062 785 673</b>	<b>78 136 157</b>	-	<b>(97 014)</b>	-	-	<b>(29 958 829)</b>	<b>(3 425 439)</b>	<b>1 107 440 547</b>

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 5. Property, plant and equipment (continued)

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

	Opening balance	Additions	Additions of work in progress	Transfers received from Work in progress	Other changes, movements	Depreciation	Total
Land	71 086 371	-	-	-	-	-	71 086 371
Buildings	92 513 175	-	-	-	-	(2 099 678)	90 413 497
Infrastructure	534 452 468	-	34 275 236	-	-	(22 602 209)	546 125 495
Community	74 831 904	-	-	-	-	(2 899 436)	71 932 468
Other property, plant and equipment	15 263 918	3 496 812	-	-	-	(1 756 188)	17 004 542
Work In Progress	73 961 611	-	-	-	-	-	73 961 611
	<b>862 109 447</b>	<b>3 496 812</b>	<b>34 275 236</b>	-	-	<b>(29 357 511)</b>	<b>870 523 984</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 2022

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	-	-	1	1
Additions/capital expenditure	-	-	1	1
Other movements [specify]	-	-	1	1
Transferred to completed items	-	-	1	1
	<b>-</b>	<b>-</b>	<b>4</b>	<b>4</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand 2022 2021

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### 5. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	73 961 610	-	-	73 961 610
Additions/capital expenditure	24 892 387	-	-	24 892 387
Transferred to completed items	(28 838 381)	-	-	(28 838 381)
	<b>70 015 616</b>	<b>-</b>	<b>-</b>	<b>70 015 616</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	-	<u>8 718 085</u>
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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.

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 6. Intangible assets

	2022			2021		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 608 276	(1 510 178)	98 098	1 581 140	(1 466 491)	114 649

#### Reconciliation of intangible assets - 2022

	Opening balance	Additions	Amortisation	Total
Computer software	114 649	27 136	(43 687)	98 098

#### Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software, other	199 758	(85 109)	114 649

## EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 7. Heritage assets

	2022			2021		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical buildings	41 919 244	(9 130 981)	32 788 263	41 919 244	(9 130 981)	32 788 263

#### Reconciliation of heritage assets 2022

Historical buildings	Opening balance	Total
	32 788 263	32 788 263

#### Reconciliation of heritage assets 2021

Historical buildings	Opening balance	Other changes, movements	Total
	33 364 868	(576 605)	32 788 263

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 (2021: Rnil)

#### 8. Deferred tax

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>9. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(74 148 875)	(61 155 644)
Current service cost	(2 627 867)	(3 257 107)
Current interest cost	(8 305 758)	(7 930 565)
Medical contributions subsidies for continuation pensioners	2 454 765	2 604 638
Actuarial gain / (loss)	10 613 330	(4 410 197)
	<b>(72 014 405)</b>	<b>(74 148 875)</b>
Non current liabilities	(69 690 355)	(71 694 110)
Current liabilities	(2 324 050)	(2 454 765)
	<b>(72 014 405)</b>	<b>(74 148 875)</b>

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

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

Current service cost	2 627 867	3 257 107
Interest cost	8 305 758	7 930 565
Actuarial (gains) losses	(10 613 330)	4 410 197
	<b>320 295</b>	<b>15 597 869</b>

### 9.1 Long service awards

Opening balance	4 324 534	7 423 767
Service cost	431 549	854 191
Interest cost	279 690	535 960
Expected benefit payments	(748 221)	(1 481 936)
Actuarial (gain)/loss	95 460	(3 007 448)
	<b>4 383 012</b>	<b>4 324 534</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.

At year end, 540 (2021: 575) employees were eligible for Long-service Awards.

The Current service cost for the year ending 30 June 2022 is estimated to be R431 549 (2021: R854 191).

Key assumptions used

Assumptions used at the reporting date:

Actuarial (gains) losses – Plan assets	9.44 %	7.08 %
Consumer price inflation	6.30 %	3.96 %
Salary increase rate	7.30 %	4.96 %
Net discount rate	1.99 %	2.02 %

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 9. Employee benefit obligations (continued)

#### Sensitivity analysis

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

	1% decrease	Impact	1% increase	Impact
Accrued liability	4 601 459	4.98 %	4 124 019	5.91 %
Current cost	450 592	-	408 798	-
Interest cost	399 171	-	263 600	-
	<b>5 451 222</b>	<b>-</b>	<b>4 796 417</b>	<b>-</b>

A 1% increase in the salary increase rate results in an 5.91% increase in the accrued liability whilst a 1% decrease in the salary increase rate will result in a 4.68% increase in the accrued liability.

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

Opening balance	74 148 875	61 155 644
Expected return	2 627 867	3 257 107
Interest cost	8 305 758	7 930 565
Actuarial (gain) / loss	(10 613 330)	4 410 197
Contributions by plan participants	(2 454 765)	(2 604 638)
	<b>72 014 405</b>	<b>74 148 875</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 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 2022 is estimated to be R2 627 867 (2021: R3 257 107), 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	12.80 %	11.39 %
Expected rate of return on assets	7.81 %	6.38 %
Expected rate of return on reimbursement rights	9.31 %	7.88 %
Expected increase in healthcare costs	3.19 %	3.25 %

Normal retirement Age of employee is at 65 years.

#### Sensitivity analysis

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

<b>Medical inflation rate</b>	1% increase	Impact	1% decrease	Impact
Accrued liability	83 163 546	15.48 %	62 862 245	12.71 %
Current cost	4 724 700	-	3 268 188	-

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021		
<b>9. Employee benefit obligations (continued)</b>				
Interest cost	10 495 518	-		
	7 898 313	-		
	<b>98 383 764</b>	<b>15 74 028 746</b>		
		<b>13</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>Discount rate</b>	1% increase	Impact	1% decrease	Impact
Accrued liability	63 302 380	12.10 %	82 754 197	14.91 %
Current cost	3 321 132	-	4 661 262	-
Interest cost	8 575 372	-	962 879	-
<b>10. Inventories</b>				
Maintenance materials			1 359 892	1 359 892
Water for distribution			568 397	20 984
Unsold Properties Held for Resale			4 004 500	4 004 500
Consumables stores			1 247 405	1 196 498
			<b>7 180 194</b>	<b>6 581 874</b>
Inventories recognised as an expense during the year			7 968 542	7 977 800
<b>11. Receivables from exchange transactions</b>				
<b>Gross balances</b>				
Electricity			46 958 780	42 716 931
Refuse			284 957 692	41 241 566
Waste water			62 464 898	67 290 443
Water			43 884 853	287 068 651
Other			244 779 280	240 814 886
			<b>683 045 503</b>	<b>679 132 477</b>
<b>Allowance for impairment</b>				
Electricity			(31 881 458)	(27 491 698)
Refuse			(272 899 049)	(41 209 099)
Waste water			(61 162 539)	(63 531 208)
Water			(43 709 099)	(278 950 559)
Other			(242 725 480)	(235 769 851)
			<b>(652 377 625)</b>	<b>(646 952 415)</b>
<b>Net balance</b>				
Electricity			15 077 322	15 225 233
Refuse			12 058 643	32 467
Waste water			1 302 359	3 759 235
Water			175 754	8 118 092
Other			2 053 800	5 045 035
			<b>30 667 878</b>	<b>32 180 062</b>
<b>Electricity</b>				
0 -30 days			8 192 935	8 198 641
31 - 60 days			3 309 301	2 914 815
61 - 90 days			2 037 182	2 089 102
91 - 120 days			1 637 812	732 681
121 - 365 days			8 344 518	7 142 569



# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>11. Receivables from exchange transactions (continued)</b>		
> 365 days	23 437 029	21 639 123
	<b>46 958 777</b>	<b>42 716 931</b>
<b>Refuse</b>		
0 -30 days	1 245 963	1 177 938
31 - 60 days	1 016 376	911 544
61 - 90 days	860 881	849 835
91 - 120 days	927 477	824 385
121 - 365 days	6 695 723	4 729 263
> 365 days	33 138 432	32 728 601
	<b>43 884 852</b>	<b>41 221 566</b>
<b>Waste Water</b>		
0 -30 days	(4 764)	1 623 905
31 - 60 days	1 475 990	1 247 989
61 - 90 days	1 612 652	1 132 359
91 - 120 days	1 333 115	1 085 302
121 - 365 days	9 507 863	10 935 302
> 365 days	48 540 041	51 265 652
	<b>62 464 897</b>	<b>67 290 509</b>
<b>Water</b>		
0 -30 days	9 179 251	8 210 054
31 - 60 days	11 744 753	6 772 413
61 - 90 days	7 414 521	6 443 063
91 - 120 days	7 360 251	6 549 605
121 - 365 days	56 648 204	51 592 156
> 365 days	192 610 707	207 501 360
	<b>284 957 687</b>	<b>287 068 651</b>
<b>Other</b>		
0 -30 days	3 757 296	4 537 532
31 - 60 days	4 228 302	3 925 285
61 - 90 days	3 710 882	3 839 310
91 - 120 days	4 419 224	3 561 285
121 - 365 days	32 239 143	28 091 915
> 365 days	196 424 432	196 859 559
	<b>244 779 279</b>	<b>240 814 886</b>
<b>Government</b>		
0 -30 days	3 603 587	1 740 105
31 -60 days	(455 946)	1 303 606
61 -90 days	1 072 020	1 038 960
91 -120 days	834 985	(129 310)
121 -365 days	4 738 651	6 131 924
> 365 days	4 432 306	4 776 796
	<b>14 225 603</b>	<b>14 862 081</b>
<b>Business and industrial</b>		
0 -30 days	1 001 790	6 968 404
31 -60 days	6 738 049	2 006 428

The Allowance for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months. Based on these payment trends, management is satisfied that no further credit provision is required in excess of the current allowance. The risk of non-payment is further mitigated due to the large customer base over which the outstanding receivable balance is spread.

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>11. Receivables from exchange transactions (continued)</b>		
61 -90 days	701 973	1 369 207
91 -120 days	1 307 886	1 076 194
121 -365 days	8 622 766	6 641 914
> 365 days	41 727 050	36 968 544
	<b>60 099 514</b>	<b>55 030 691</b>
<b>Municipal</b>		
0 -30 days	143 163	181 738
31 -60 days	132 927	106 567
61 -90 days	137 936	104 228
91 -120 days	153 941	102 090
121 -365 days	1 327 116	998 263
> 365 days	5 797 832	2 587 275
	<b>7 692 915</b>	<b>4 080 161</b>
<b>Residential and other</b>		
0 -30 days	16 976 703	14 825 782
31 -60 days	15 910 854	12 312 771
61 -90 days	13 692 710	11 794 571
91 -120 days	13 334 473	11 656 524
121 -365 days	98 447 591	88 385 576
> 365 days	439 293 557	460 893 189
	<b>597 655 888</b>	<b>599 868 413</b>
<b>Agricultural</b>		
0 -30 days	49 478	32 039
31 -60 days	44 796	42 672
61 -90 days	31 483	46 700
91 -120 days	46 593	47 757
121 -365 days	299 327	353 460
> 365 days	2 899 894	2 768 489
	<b>3 371 571</b>	<b>3 291 117</b>
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	646 952 414	522 508 648
Provision for impairment	5 425 213	124 443 766
	<b>652 377 627</b>	<b>646 952 414</b>
<p>The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 40). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.</p>		
<p>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</p>		
<b>12. Receivables from non-exchange transactions</b>		
Consumer debtors - Property rates	6 972 885	12 313 407
Other receivables from non-exchange revenue : Fines	11 496 373	8 737 843
Other receivables from non-exchange revenue : Sundry debtors	3 350 006	3 350 006
	<b>21 819 264</b>	<b>24 401 256</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>12. Receivables from non-exchange transactions (continued)</b>		
<b>Gross balance</b>		
Consumer debtors - Property rates	76 721 695	75 050 752
Consumer debtors - Accrued income	3 350 006	3 350 006
	<b>80 071 701</b>	<b>78 400 758</b>
<b>Allowance for impairment</b>		
Consumer debtors - Property rates	(62 538 267)	(59 726 510)
<b>Net balance</b>		
	Column heading	Column heading
Consumer debtors - Property rates	14 167 551	15 081 312
Consumer debtors - Accrued income	3 350 006	3 350 006
	<b>17 517 557</b>	<b>18 431 318</b>
<p>The carrying value of receivables are in line with their fair value. A credit period of 30 days is granted on initial recognition of the receivable, which is considered to be in line with industry norms. Interest at prime rate + 1% is charged on overdue accounts.</p>		
<b>Ageing of impaired receivables from Non-Exchange transactions</b>		
	<b>2022</b>	<b>2021</b>
<b>Rates</b>		
0 -30 days	2 498 052	2 308 225
31 -60 days	5 084 114	4 938 780
61 -90 days	1 783 635	1 832 945
91 -120 days	1 920 382	1 694 639
121 -365 days	10 013 375	9 706 129
> 365 days	55 406 260	54 326 764
	<b>76 705 818</b>	<b>74 807 482</b>
<b>Agricultural</b>		
0 -30 days	142 381	125 388
31 -60 days	266 877	206 072
61 -90 days	121 692	115 263
91 -120 days	128 733	109 842
121 -365 days	739 290	691 617
> 365 days	12 312 667	13 725 336
	<b>13 711 640</b>	<b>14 973 518</b>
<b>Government</b>		
0 -30 days	36 576	58 540
31 -60 days	723 165	1 299 671
61 -90 days	34 625	56 062
91 -120 days	33 006	56 061
121 -365 days	183 140	287 832
> 365 days	4 957 832	4 758 166
	<b>5 968 344</b>	<b>6 516 332</b>
<b>Business and industrial</b>		
0 -30 days	662 384	646 471
31 -60 days	1 315 863	1 017 235
61 -90 days	480 634	473 753
91 -120 days	452 780	445 582
121 -365 days	2 584 543	2 539 588
> 365 days	9 282 856	7 621 762

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>12. Receivables from non-exchange transactions (continued)</b>	<b>14 779 060</b>	<b>12 744 391</b>
<b>Municipal</b>		
0 -30 days	8	36
31 -60 days	107	128
61 -90 days	8	36
91 -120 days	8	36
121 -365 days	55	251
> 365 days	25 411	26 364
	<b>25 597</b>	<b>26 851</b>
<b>Residential and other</b>		
0 -30 days	1 656 703	1 477 791
31 -60 days	2 778 102	2 415 674
61 -90 days	1 146 677	1 187 831
91 -120 days	1 305 856	1 083 455
121 -365 days	6 506 270	6 186 841
> 365 days	28 827 494	28 195 136
	<b>42 221 102</b>	<b>40 546 728</b>
<b>Gross balance</b>		
Consumer debtors - Property rates	76 721 695	75 050 752
<b>Ageing of impaired receivables from Non-Exchange transactions</b>	<b>2022</b>	<b>2021</b>
<b>Rates</b>		
0 -30 days	5 084 114	5 178 392
31 -60 days	2 498 052	2 309 272
61 -90 days	1 783 635	1 833 353
91 -120 days	1 921 002	1 694 639
121 -365 days	15 437 030	16 256 448
> 365 days	49 997 861	47 778 648
	<b>76 721 694</b>	<b>75 050 752</b>
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Opening balance	59 726 509	47 636 867
Provision for impairment contribution	2 811 757	12 089 642
	<b>62 538 266</b>	<b>59 726 509</b>

The Allowance for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months. Based on these payment trends, management is satisfied that no further credit provision is required in excess of the current allowance. The risk of non-payment is further mitigated due to the large customer base over which the outstanding receivable balance is spread.

### Statutory receivables general information

#### Transaction(s) arising from statute

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 12. Receivables from non-exchange transactions (continued)

Property rates are statutory receivables as defined by GRAP 108. Property rates are guided by requirements of Municipal Property rates Act No. 6 of 2004.

#### Determination of transaction amount

Property rates values are determined by taking approved tariff rates and multiply

Property rates values are determined by taking approved tariff rates and multiply it be the market values of properties within municipal jurisdiction as detailed in the general valuation roll.

#### Interest or other charges levied/charged

Current year interest rate is at 10% which is consistence to prior year interest.

#### Basis used to assess and test whether a statutory receivable is impaired

Statutory debtors are assessed for impairment annually using the collection rate method. The process involves calculating average collection rate by taking collection rate for the comparative years and divide by two. The estimated default rate is determined by subtracting the average collection rate from 100%. The default rate is deemed to be the impairment rate for each customer. The closing balance on the statutory debtors book is already inclusive of interest charges therefore no discounting of debtors balances.

#### Additional factors considered for statutory receivable impairment listed below

- Statutory receivables where a formal arrangement has been made, and no payment has been made in current and comparative year.
- Statutory receivables who fail to comply with the agreed arrangement during current and prior year.
- Statutory receivables accounts handed over to debt collectors and/or power of attorney.
- Statutory receivables accounts which have not been settled in full by end of 30 days which is the credit period given by themunicipality.
- Statutory receivables accounts indicated as in-active accounts on the system.
- Statutory receivables accounts that have been formally presented to the chief financial officer for consideration for write off.
- Indigent debtors where accounts are outstanding for more than 30 days.

The impairment indicators were determined management using professional judgment and experience obtained from the past practice and statistics in relation to municipal debt collection.

#### Discount rate applied to the estimated future cash flows

The municipality applies a rate of 10% to all statutory receivables balances older than 30 days. This rate is deemed to be market value as it takes the effect of inflation rate and other economic factors into account. For impairment calculations, there was no discounting of expected future costs was performed. Receivables balances on the debtors' book have already factored in the time value of money therefore closing balances reflect the present value to be received from each customer.

#### Statutory receivables past due but not impaired

Based on the impairment methodology applied by the ,municipality, there is no statutory receivables balances which have passed due date and not impaired.

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

Opening balance	59 726 509	47 636 867
Provision for impairment contribution	2 811 758	12 089 642
Bad debts written-off : Property rates	-	-
	<b>62 538 267</b>	<b>59 726 509</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 12. Receivables from non-exchange transactions (continued)

None of the statutory debtors were pledged as collateral security in current and prior year.

### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	10 922 322	16 891 207
Short-term deposits	23 557 985	2 036 791
	<b>34 480 307</b>	<b>18 927 998</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
First National Bank - Main Account - 620 3123 2531	24 228 006	16 843 029	24 228 006	16 843 029
First National Bank - Current Account - 626 3312 9631	146 581	48 977	48 972	48 977
First National Bank - Call Account - 622 3341 1884	5 261 434	2 490	5 261 434	2 490
First National Bank - Call Account - 626 4608 8139	1 746 402	1 181 970	1 746 402	1 181 970
First National Bank - 12 Months Deposit - 715 3881 1574	418 000	418 000	418 000	418 000
First National Bank - Call Account - 747 9001 7815	15 731 178	44 615	15 731 178	44 615
Standard Bank - 12 Months Deposit - 088807657-004	425	425	425	425
Standard Bank - 12 Months Deposit - 088812685-001/4/7	1 507	1 507	1 507	1 507
Standard Bank - Call Account - 088822370-002	56 084	54 331	56 084	54 331
ABSA Bank - Call Account - 909 560 9301	162 142	158 533	162 142	158 533
Nedbank - Call Account - 03/7881065141/000001	112 685	108 614	112 685	108 614
Standard Bank - 12 Months Deposit - 088805662-002	163	163	163	163
Standard Bank - 12 Months Deposit - 088812723-001	415	415	415	415
<b>Total</b>	<b>47 865 022</b>	<b>18 863 069</b>	<b>47 767 413</b>	<b>18 863 069</b>

### 14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Water Services Infrastructure Grant (WSIG)	12 549 088	12 522 326
Expanded Public works Grant	21 589 011	4 624 218
Integrated National Electrification Programme Grant (INEP)	342 203	-
	<b>34 480 302</b>	<b>17 146 544</b>

### Movement during the year

Balance at the beginning of the year	17 146 544	(2 707 196)
Additions during the year	(1 800 530)	(1 505 282)
Income recognition during the year	19 134 288	21 359 022
	<b>34 480 302</b>	<b>17 146 544</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.

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

### 15. Other financial liabilities

#### At amortised cost

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>15. Other financial liabilities (continued)</b>		
Development Bank of South Africa (DBSA)	49 091 730	50 737 999
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	47 263 856	49 213 632
<b>Current liabilities</b>		
At amortised cost	1 827 874	1 524 367

### 16. Provisions

#### Reconciliation of provisions - 2022

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	31 073 683	6 144 547	-	37 218 230
Leave provision	19 134 601	1 724 665	-	20 859 266
Employee benefit cost	4 573 084	-	(311 697)	4 261 387
Long service award provision	4 324 534	58 488	-	4 383 022
	<b>59 105 902</b>	<b>7 927 700</b>	<b>(311 697)</b>	<b>66 721 905</b>

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	15 993 325	15 080 358	-	31 073 683
Leave Provision	15 615 007	3 519 594	-	19 134 601
Bonus provision	4 114 472	-	458 612	4 573 084
Long service award provision	4 324 534	-	-	4 324 534
	<b>40 047 338</b>	<b>18 599 952</b>	<b>458 612</b>	<b>59 105 902</b>

#### Environmental rehabilitation provision

Makana Local Municipality has an obligation to restore three Landfill Sites situated in Grahamstown, Riebeck East, Alicedale. The Landfill Sites are currently licensed and are used for general waste disposal (non-hazardous) purpose. The valuation for Landfill site were done by Zutari 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 thirteenth cheque, calculated as a one month salary, payable in the month following the employee's qualifying date. The amount is paid on a pro rata basis from date of employment up to where the period under consideration is less than 12 months.

### 17. Payables from exchange transactions

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>17. Payables from exchange transactions (continued)</b>		
Trade payables	148 778 092	134 601 895
Payments received in advanced - contract in process	21 907 197	12 112 339
Trade payables-Accruals	56 840 128	26 655 496
Retentions	8 147 715	6 853 291
Unallocated deposits	11 905 413	11 571 542
Salary Deductions	1 023 212	9 302 460
	<b>248 601 757</b>	<b>201 097 023</b>
<b>18. VAT payable</b>		
Tax payable	32 920 418	50 694 968
<b>Heading</b>	<b>2022</b>	<b>2021</b>
Opening balance	(50 694 963)	(37 798 756)
Output VAT charged	(23 187 189)	(34 829 285)
Input VAT claimed	40 978 839	21 497 849
	<b>(32 903 313)</b>	<b>(51 130 192)</b>
<b>19. Consumer deposits</b>		
Regional services levied	453 253	311 305
Electricity	193 980	51 573
Housing rental	(1 379 234)	(838 320)
Water	3 424 245	3 289 119
	<b>2 692 244</b>	<b>2 813 677</b>
<p>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.</p> <p>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.</p> <p>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.</p>		
<b>20. Revenue</b>		
Agency services	3 079 642	2 708 899
Fines, Penalties and Forfeits	122 266	126 417
Government grants & subsidies	192 829 843	180 067 980
Interest received - Receivables from exchange transactions	10 131 487	23 742 936
Interest received - investment	676 986	829 410
Interest, Dividends and Rent on Land	4 952 096	5 155 932
Other income	4 898 332	1 991 115
Property rates	98 976 050	100 706 680
Rendering of services	2 321 434	1 445 197
Rental of facilities and equipment	321 168	230 167
Service charges	285 584 677	266 547 099
Licences and Permits (Non-exchange)	12 199	1 978
	<b>603 906 180</b>	<b>583 553 810</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Agency services	3 079 642	2 708 899
Interest received - Receivables from exchange transactions	10 131 487	23 742 936



# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>20. Revenue (continued)</b>		
Interest received - investment	676 986	829 410
Other income	4 898 332	1 991 115
Rendering of services	2 321 434	1 445 197
Rental of facilities and equipment	321 168	230 167
Service charges	285 584 677	266 547 099
	<b>307 013 726</b>	<b>297 494 823</b>

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

### Taxation revenue

Licences or permits	12 199	1 978
Property rates	98 976 050	100 706 680
Interest, Dividends and Rent on Land	4 952 096	5 155 932

### Transfer revenue

Fines, Penalties and Forfeits	122 266	126 417
Government grants & subsidies	192 829 843	180 067 980
	<b>296 892 454</b>	<b>286 058 987</b>

## 21. Service charges

Sale of electricity	142 431 023	124 569 019
Sale of water	110 777 718	98 513 404
Solid waste	12 789 355	14 164 638
Sewerage and sanitation charges	19 586 581	29 300 038
	<b>285 584 677</b>	<b>266 547 099</b>

## 22. Rental of facilities and equipment

### Facilities and equipment

Rental of facilities	321 168	230 167
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The rental of facilities include Halls ,Chairs and tables and Sport fields

## 23. Fines, Penalties and Forfeits

Illegal Connections Fines	31 506	39 013
Law Enforcement Fines	91 100	87 405
Pound Fees Fines	(340)	-
	<b>122 266</b>	<b>126 417</b>

## 24. Agency services

Registration and Licencing of Motor	3 079 642	2 708 899
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The amount of agency fees is an amount as stipulated in contract between Municipality and department of Roads and Transport for licencing of vehicles as well as license and learners license.

The municipality is the agent in this binding agreement and uses its own resources in performing the service delivery and capturing the information on the ENATIS (Electronic National Administration Traffic Information System). The Agent obligation in terms of the applicable national and provincial legislation and the binding agreement will be responsible for motor vehicle registration and lincencing function.

## 25. Lease rentals on operating lease

### Equipment

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>25. Lease rentals on operating lease (continued)</b>		
Office equipment rental	(27 010)	-
<b>Plant and equipment</b>		
Contractual amounts	1 556 057	1 707 772
	<b>1 529 047</b>	<b>1 707 772</b>
<b>26. Interest taxation revenue</b>		
<b>27. Interest, dividends and Rent on Land</b>		
Interest - Receivables	4 952 096	5 155 932
<b>28. Interest from non-exchange receivables</b>		
<b>29. Other income</b>		
Administration handling fees	4 559 127	1 596 941
Building plans (sale of property)	205 740	296 198
Cash surpluses	11 513	1 011
Weighbridge inspection	121 952	96 965
	<b>4 898 332</b>	<b>1 991 115</b>
<b>30. Interest received</b>		
<b>Interest revenue</b>		
Bank	238 386	281 145
Interest source	438 600	548 265
	<b>676 986</b>	<b>829 410</b>
Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R5 458 268 (2021: R5 985 342).		
<b>31. Interest received from Exchange revenue</b>		
Receivables from exchange transaction	10 131 487	23 742 936
<b>32. Property rates</b>		
<b>Rates received</b>		
Residential	49 854 018	48 904 031
State	45 939 965	48 966 317
Municipal	33 347	31 118
Small holdings and farms	3 148 720	2 805 214
	<b>98 976 050</b>	<b>100 706 680</b>
<b>Valuations</b>		
Agricultural	2 290 651 200	2 219 950 000
Bed and breakfast	75 699 200	77 113 600
Commercial	857 798 800	867 172 900
Educational	1 579 558 614	1 576 272 900
Industrial	373 843 920	305 270 000
Municipal	648 891 400	673 466 500
Other	749 216 186	731 297 300
Residential	6 001 094 700	6 009 837 600

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>32. Property rates (continued)</b>		
State	1 128 181 400	1 164 168 300
	<b>3 704 935 420</b>	<b>3 624 549 100</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

B&B properties	0.006742	0.006242
Businesses	0.020019	0.018540
Domestic Farmers	0.001687	0.001562
Government properties	0.025739	0.023832
Industrial Properties	0.010010	0.009268
Monument	0.010010	0.009268
Museum properties	Exempt	Exempt
Places of worship	Exempt	Exempt
Public Service Infrastructure (PSI)	0.001687	0.001562
Public benefit organisations (PBO)(Including Private schools)	0.001687	0.001562
RDP House	0.001687	0.001562
Residential properties	0.006742	0.006242
Schools (Private and Public)	0.006742	0.006242
Sectional titles	0.006742	0.006242
Sporting bodies	Exempt	Exempt
Tertiary institutions (eg University)	0.013279	0.012296
Tourism / Game	0.001687	0.001562

### 33. Grants and subsidies paid

#### Other subsidies

Social Assistance:Grant In Aid	462 745	990 060
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Makana Local Municipality is making contributions to Makana Tourism for funding related functions.

### 34. Government grants and subsidies

#### Operating grants

Department of Sport, Recreation, Arts and Culture	4 000 000	4 000 000
Equitable share	103 061 185	114 844 005
Expanded Public Works Programme (EPWP)	759 530	1 004 000
Finance Management Grant (FMG)	3 000 000	3 000 000
Municipal Disaster Relief Grant (MDRG)	2 200 000	1 505 282
Municipal Infrastructure Grant (MIG)	1 230 289	1 198 100
Public Health Subsidy	1 168 808	738 793
	<b>115 419 812</b>	<b>126 290 180</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>34. Government grants and subsidies (continued)</b>		
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	39 340 000	25 788 395
Water Service Infrastructure Grant (WSIG)	35 000 000	23 486 674
integrated National Electrification Grant Programme (INEP)	3 400 000	-
	<b>77 740 000</b>	<b>49 275 069</b>
	<b>193 159 812</b>	<b>175 565 249</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	87 149 000	55 175 010
Unconditional grants received	106 010 812	125 084 798
	<b>193 159 812</b>	<b>180 259 808</b>

### Water and Sanitation Infrastructure grant

Balance unspent at beginning of year	12 522 326	11 381 745
Current-year receipts	35 000 000	26 000 000
Conditions met - transferred to revenue	(34 973 237)	(23 486 644)
Rollover not approved and deducted from equitable share	-	(1 381 745)
	<b>12 549 089</b>	<b>12 513 356</b>

Conditions still to be met - remain liabilities (see note 14).

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

An Amount of R12 549 089 remain unspent at 30 June due to additional allocation of R10 000 000 and suspension of the Procurement regulation 2017.

National treasury also approved the appeal of rollover of R6 000 000 which also affected the expenditure delay.

### Municipal Infrastructure grant

Balance unspent at beginning of year	4 628 948	7 653 442
Current-year receipts	40 590 000	23 962 000
Conditions met - transferred to revenue (operating grant)	(1 230 288)	(1 198 100)
Conditions met - transferred to revenue (capital grant)	(22 377 412)	(25 788 394)
	<b>21 611 248</b>	<b>4 628 948</b>

Conditions still to be met - remain liabilities (see note 14).

An Amount of R21 611 248 remain unspent as at 30 June 2022 due to additional R15 000 000 that was availed in March 2022 and the suspension of Preferential Procurement regulation 2017 which delayed the procurement process

### Integrated National Electrification Grant Programme

Balance unspent at beginning of year	-	751 073
Current-year receipts	3 400 000	-
Conditions met - transferred to revenue	(3 057 797)	-
Rollover not approved and deducted from equitable share	-	(751 073)
	<b>342 203</b>	<b>-</b>

### Municipal Disaster Relief Grant

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>34. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	-	1 505 282
Current-year receipts	2 200 000	-
Conditions met - transferred to revenue	(2 200 000)	(1 505 282)
	-	-
<b>Finance Management Grant</b>		
Current-year receipts	3 000 000	3 000 000
Conditions met - transferred to revenue	(3 000 000)	(3 000 000)
	-	-
<b>Expended Public Works Programme</b>		
Current-year receipts	1 159 000	1 004 000
Conditions met - transferred to revenue	(1 249 500)	(1 004 000)
Overspent	90 500	-
	-	-
<b>Department of Sports, Recreation, Arts &amp; Culture</b>		
Current-year receipts	4 000 000	4 000 000
Conditions met - transferred to revenue	(4 000 000)	(4 000 000)
	-	-
<b>Public Health Subsidy</b>		
Current-year receipts	1 018 056	1 345 412
Conditions met - transferred to revenue	(1 018 056)	(1 345 412)
	-	-
<b>CoGTA</b>		
Current-year receipts	-	4 498 002
Conditions met - transferred to revenue	-	(4 498 002)
	-	-
<b>35. Employee related costs</b>		
Acting allowances	1 856 091	2 068 861
Bargaining Council	70 117	70 519
Basic	127 282 776	125 940 647
Bonus	10 473 684	10 379 258
Cellular and telephone	412 094	343 955
Danger allowance	-	961 272
Group life	828 152	903 700
Housing benefits and allowances	486 337	501 914
Leave pay provision charge	1 457 137	856 250
Long-service awards	777 299	1 038 878
Medical aid - company contributions	11 818 493	11 230 478
Medical allowance	153 324	87 735
Night allowance	532 470	432 201
Non pensionable pension	2 078 950	358 000
Overtime payments	12 570 540	11 368 452
Pension	22 218 030	21 993 986
Pension contribution managers	632 556	432 556

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>35. Employee related costs (continued)</b>		
Scarce skills	840 350	778 847
Shift allowance	860 287	813 869
Standby allowance	2 148 895	1 899 032
Travel, motor car, accommodation, subsistence and other allowances	3 328 996	3 367 102
UIF	1 164 030	1 049 547
	<b>201 990 608</b>	<b>196 877 059</b>
<b>Remuneration of municipal manager: MA Mene</b>		
Annual Remuneration	1 234 907	1 234 907
Car Allowance	195 324	195 324
Telephone	29 928	29 928
Contributions to UIF, Medical and Pension Funds	2 069	1 784
Bonus	82 240	81 240
	<b>1 544 468</b>	<b>1 543 183</b>
<b>Remuneration of Chief Financial Officer: GJ Goliath</b>		
Annual Remuneration	538 950	1 064 178
Car Allowance	90 000	181 253
Contributions to UIF, Medical and Pension Funds	1 183	1 784
Cellphone allowance	3 300	6 600
	<b>633 433</b>	<b>1 253 815</b>
Mr GJ Goliath resigned on 31 December 2021 after which Ms CL Mani was appointed as acting Chief Financial Officer until 30 June 2022.		
<b>Remuneration of Chief Finance Officer (Acting): CL Mani</b>		
Acting allowance	178 477	-
<b>Remuneration of Director Corporate &amp; Shared Services: XP Kalashe</b>		
Annual Remuneration	740 647	123 441
Car Allowance	216 000	36 000
Telephone	82 000	13 666
Contributions to UIF, Medical and Pension Funds	2 068	297
	<b>1 040 715</b>	<b>173 404</b>
<b>Remuneration of Director Technical and Infrastructure: SA Gidana</b>		
Annual Remuneration	1 043 494	392 363
Car Allowance	150 000	-
Telephone	21 000	-
Contributions to UIF, Medical and Pension Funds	2 069	595
	<b>1 216 563</b>	<b>392 958</b>
<b>Remuneration of Director Local Economic Development: MJ Meiring</b>		
Annual Remuneration	664 605	75 164
Car Allowance	105 630	15 090
Telephone	12 670	1 559
Contributions to UIF, Medical and Pension Funds	1 360	1 189
	<b>784 265</b>	<b>93 002</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>35. Employee related costs (continued)</b>		
<b>Remuneration of Director Local Economic Development (Acting): V Douse and S Jonas</b>		
Acting allowance	105 703	-
<b>Remuneration of Director Public safety and Community Services: K Mokgoka</b>		
Annual Remuneration	985 053	985 054
Car Allowance	97 512	97 512
Telephone	3 600	3 600
Contributions to UIF, Medical and Pension Funds	2 155	-
Bonus	23 765	1 784
	<b>1 112 085</b>	<b>1 087 950</b>
<b>36. Remuneration of councillors</b>		
Executive mayor	925 259	829 048
Chief Whip	404 592	628 209
Mayoral committee members	3 450 230	1 830 012
Speaker	733 088	710 284
Councillors	3 882 128	5 120 409
Councillor cellphone allowance	1 294 045	905 109
Councillor travelling allowance	843 600	1 375 410
	<b>11 532 942</b>	<b>11 398 481</b>
<b>37. Depreciation and amortisation</b>		
Property, plant and equipment	34 558 374	63 699 626
Investment property	778 954	239 802
	<b>35 337 328</b>	<b>63 939 428</b>
<b>38. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	3 493 778	1 404 389
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.		
<b>39. Finance costs</b>		
Non-current borrowings	7 568 578	4 409 248
Employee benefits	2 454 900	6 331 556
	<b>10 023 478</b>	<b>10 740 804</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.		
<b>40. Debt impairment</b>		
Bad debts written off	148 274 744	123 768 382

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

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>40. Debt impairment (continued)</b>		
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.		
<b>41. Bulk purchases</b>		
Electricity - Eskom	136 420 304	108 985 955
<b>42. Contracted services</b>		
<b>Outsourced Services</b>		
Audit committee	318 846	268 851
Alien Vegetation Control	-	312 600
Business and Advisory	26 115 404	13 123 336
Personnel and Labour	1 965 040	1 371 740
Security Services	9 568 961	6 877 867
Water Takers	-	572 842
<b>Consultants and Professional Services</b>		
Business and Advisory	577 079	238 520
Legal Cost	2 490 840	2 482 733
<b>Contractors</b>		
Catering Services	-	2 372
Event Promoters	-	20 000
Maintenance of Buildings and Facilities	6 518 938	5 252 353
Maintenance of Equipment	1 405 056	1 651 586
Maintenance of Unspecified Assets	1 495 560	1 816 266
	<b>50 455 724</b>	<b>33 991 066</b>
<b>43. General expenses</b>		
Advertising	551 280	645 635
Auditors remuneration	5 797 696	5 188 033
Bank charges	216 696	191 881
Commission paid	1 464	-
Consumables	17 927 838	13 189 020
Hire	1 028 409	2 306 553
Insurance	1 618 245	1 429 431
IT expenses	325 883	401 695
Levies	1 757 428	1 623 238
Postage and courier	(8 099 538)	1 122 100
Protective clothing	809 439	179 645
Subscriptions and membership fees	4 323 113	2 200 918
Telephone and fax	1 364 892	1 791 206
Travel - local	571 570	148 680
Utilities - Other	7 913 097	6 947 346
Expense 8	2 155 744	2 003 046
Other expenses	5 735 907	4 441 324
	<b>43 999 163</b>	<b>43 809 751</b>
<b>44. Gains and losses</b>		
During the financial year, the Municipality realised the following gains and losses		
Actuarial gains/(losses)	(1 855 649)	(1 402 749)



# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 45. Auditors' remuneration

Fees	5 797 696	5 188 033
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### 46. Cash generated from operations

Deficit	(39 897 793)	(27 582 305)
<b>Adjustments for:</b>		
Depreciation and amortisation	35 337 328	35 227 325
Loss on sale of assets and liabilities	(1 759 274)	(5 337 548)
Impairment deficit	3 493 778	1 404 389
Debt impairment	148 274 744	123 768 382
Movements in retirement benefit assets and liabilities	(2 134 470)	9 893 998
Movements in provisions	7 616 003	23 682 351
Other non-cash items	-	9 459 790
Other non-cash items	-	23 682 351
Other non-cash items	-	(5 002 746)
<b>Changes in working capital:</b>		
Inventories	(598 320)	26 213
Receivables from exchange transactions	43 333 151	(21 730 107)
Consumer debtors	(148 274 744)	(123 768 382)
Other receivables from non-exchange transactions	2 581 992	(11 271 188)
Payables from exchange transactions	47 504 734	9 508 580
VAT	(17 774 550)	13 331 437
Unspent conditional grants and receipts	17 333 758	(4 212 478)
Consumer deposits	141 948	(59 945)
	<b>95 178 285</b>	<b>51 020 117</b>

### 47. Financial instruments disclosure

#### Categories of financial instruments

#### 2022

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	83 901 762	83 901 762
Other receivables from non-exchange transactions	-	27 326 672	27 326 672
Cash and cash equivalents	48 971 295	-	48 971 295
	<b>48 971 295</b>	<b>111 228 434</b>	<b>160 199 729</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	246 442 024	246 442 024
Taxes and transfers payable (non-exchange)	18 177 356	18 177 356
Consumer deposits	1 096 914	1 096 914
Other financial liabilities	49 091 173	49 091 173
	<b>314 807 467</b>	<b>314 807 467</b>

#### 2021

#### Financial assets

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 47. Financial instruments disclosure (continued)

	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	18 927 992	-	18 927 992
	<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	199 124 731	199 124 731
Taxes and transfers payable (non-exchange)	17 146 544	17 146 544
Consumer deposits	1 666 472	1 666 472
	<b>268 811 579</b>	<b>268 811 579</b>

### 48. Commitments

#### Authorised capital expenditure

#### Already contracted for but not provided for

• Property, plant and equipment	11 544 683	52 371 265
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#### Total capital commitments

Already contracted for but not provided for	11 544 683	52 371 265
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#### Total commitments

#### Total commitments

Authorised capital expenditure	11 544 683	52 371 265
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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.

### 49. Contingencies

The known contingent liabilities and assets as at 30 June 2022 are estimated at R39 082 518 (2020: R38 661 497) for liabilities and R254 107 (2020: R 254 107) for assets.

#### Contingent liabilities

DWIS VS Makana municipality, lawsuit due to unpaid water invoice.	22 415 051	22 415 051
L Bouwer ET AL vs Makana municipality et al. Lawsuit for damages and death.	1 920 000	1 920 000
Brinkman Mndayi vs Makana municipality et al. Lawsuit relating to service rendered.	902 104	902 104
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	900 000
Bongiwe Radu vs Makana Local Municipality-Damages lawsuit	-	23 765
Mthuthuzeli Beja vs Makana Local Municipality-Damages lawsuit	-	25 391
Olwathile Onosi vs Makana Local Municipality-Damages lawsuit	3 128 456	3 128 456
Melikhaya Pongolo vs Makana Municipality - MV accident	250 000	-
UPM and Ayanda Kota	1 000 000	-
	<b>39 815 611</b>	<b>38 661 497</b>

#### Contingent assets

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Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 49. Contingencies (continued)

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 56, civil proceedings have commenced against the employees concerned to recover an amount of R -(2021: R254 170). According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

#### Contingent assets

Makana Municipality vs S.C & J.A Bryan	-	254 107
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### 50. Related parties

#### Relationships

Accounting Officer

Members of key management

Refer to accounting officer's report note

Municipal Manager - MA Mene

Chief Financial officer - G Goliath (resigned  
31/12/2021)

Acting Chief Financial Officer - CL Mani (1/1/2022 -  
30/6/2022)

Director Community & Social Services - Kelleb  
Mokgoka

Director Local Economic Development - M Meiring

Acting Director Local Economic Development -  
Sinaye Jonas

Acting Director Local Economic Development -  
Vuyokazi Douse

Director Corporate and Shared Services - Xolela  
Kalashe

Director Engineering and Infrastructure - Asanda  
Getana

Close family members of persons in the service of the  
state Makana Development Trust

During the financial year 2022, there were no services procured from Makana development trust. However in prior year figures were restated to be R667 200.

### 51. Prior-year adjustments

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

#### Statement of financial position

##### 2020

	As previously reported	Correction of error	Restated
Bonus accrual	(4 210 023)	95 551	(4 114 472)
Accumulated surplus	(773 182 186)	(95 551)	(773 277 737)
	<b>(777 392 209)</b>	-	<b>(777 392 209)</b>

##### 2021

	As previously reported	Correction of error	Re-classification
Consumer deposit	(1 666 473)	(257 091)	-
Consumer debtors	71 030 118	4 000	-
Payables accruals	(199 124 730)	-	350 035
Provision - current	(27 319 243)	-	(350 035)
Property plant and equipment	905 672 315	5 669 253	-

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>51. Prior-year adjustments (continued)</b>		
Trade payables - bonus	(9 274 139)	739 461
	<b>739 317 848</b>	<b>6 155 623</b>

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 52. Risk management

#### 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:

<b>2022</b>	Less than 30 days	1 month to 3 months	3 months to 1 year	Greater than 1 year	Total
Borrowings	-	-	1 827 874	47 263 856	49 091 730
Payables from exchange transactions	246 442 024	-	-	-	246 442 024
Consumer deposits	2 686 764	-	-	-	2 686 764
	<b>249 128 788</b>	<b>-</b>	<b>1 827 874</b>	<b>47 263 856</b>	<b>298 220 518</b>

  

<b>2021</b>	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	2 554 721	-	-	-	2 554 721
	<b>201 679 451</b>	<b>-</b>	<b>1 660 200</b>	<b>49 213 632</b>	<b>252 553 283</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 Instruments

Short-term deposits	17 460 106	2 036 791
Bank balances	21 110 467	16 891 201
Receivables from exchange transactions	84 346 486	71 030 118
Receivables from non-exchange transactions	26 885 947	24 401 256
	<b>149 803 006</b>	<b>114 359 366</b>

### 53. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of R 786 195 280 and that the municipality's total assets exceed its liabilities by R 786 195 280

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 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 53. 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. Current Liabilities exceeds the Current Assets by R 219 182 060, these mainly relate to arrear debt to Eskom; Department of Water & Sanitation and SALGA where the municipality has payment plans in place with Eskom and Salga; and still in negotiation with DWS for 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 some 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 2022 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 implemented new strategies to enhance revenue collection and improve credibility of billing data with the implementation of a door-to-door services verification project. Purpose of the project is for collecting data to improve the accuracy of billing and to update customer information for credit control purposes. The project implementation is at 50% complete with a revised completion date of 15 December 2022. Despite decrease in collection rate due metering issues and completeness of billing, the Municipality revenue collection is still satisfactory as it had a debt incentive (relief) policy in place to attract debtors over 120 days. Meter audit project has been implemented and plans are in place to appoint another team for disconnections to increase the pace. A Debt collection services are at procurement stage to assist the municipality with recovery of debt.

**Stabilisation of the Municipality** –The Municipality has a fulltime has full time Sec 56 & 57. The municipality has key personnel, training and capacitation in various positions to provide sufficient stability and functionality within the municipality.

**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 and establishment of the of the Governance, Institutional, Finance and Service delivery workstreams which sits on a monthly basis as per the requirements . The implementation of the FRP has been used as 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	2021/22	2020/21
<b>Current Ratios</b>		
Current Assets	162 818 304	120 474 620
Current Liabilities	382 000 364	301 946 514
Current Ratios	0.43	0.40

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. The year under review also showed an increase the the Current ratio.

The municipality has also considered the solvency as defined by accounting practices to assess the current performance in cash, budget, service-level and long term which and allows for predictions of future performance, taking into account risks opportunities to strengthen future financial health. 2020/21 and 22 budget was assessed as funded over the MTREF. The spending on capital expenditure is substantially improving and more allocations has been transferred to the municipality for addressing service delivery issues and the municipality has able to secure funding for development of master plans which assist with infrastructure management,

# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 53. Going concern (continued)

**Solvency Test:** The municipality has also considered the solvency as defined by accounting practices to assess the current performance in cash, budget, service-level and long term which and allows for predictions of future performance, taking into account risks opportunities to strengthen future financial health. 2020/21 and 22 budget was assessed as funded over the MTREF. The spending on capital expenditure is substantially improving and more allocations has been transferred to the municipality for addressing service delivery issues and the municipality has able to secure funding for development of master plans which assist with infrastructure management,

Management has also looked at the trends of reducing deficits year on year for the past 3 years and then the pre-audited surplus generated in 202/22 of R17 442 930 and 2020/21 a deficit of -20 453 599 compared to the audited surplus of 2019/20 amounting to R38 627 615 which is an improvement over the 3-year reporting period. The contributing factor to deficit is impairment expenditure 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.

### 54. Events after the reporting date

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

### 55. Unauthorised expenditure

Opening balance as previously reported	677 599 401	577 473 245
Correction of prior period error	-	5 057
<b>Opening balance as restated</b>	<b>677 599 401</b>	<b>577 478 302</b>
Add: Expenditure	101 669 000	100 121 099
<b>Closing balance</b>	<b>779 268 401</b>	<b>677 599 401</b>

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

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

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# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>56. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	5 509 499	28 749 126
<b>Opening balance as restated</b>	<b>5 509 499</b>	<b>28 749 126</b>
Add: Expenditure identified - current	2 316 269	3 902 979
Less: Amount written off - current	-	(27 142 606)
<b>Closing balance</b>	<b>7 825 768</b>	<b>5 509 499</b>
The fruitless and Wasteful Expenditure is due to interest on overdue amounts, wrong billing and others are still being followed up.		
<b>57. Irregular expenditure</b>		
Opening balance as previously reported	323 913 443	339 803 979
Correction of prior period error	-	4 603 637
<b>Opening balance as restated</b>	<b>323 913 443</b>	<b>344 407 616</b>
Add: Irregular Expenditure - current	46 228 940	20 577 711
Less: Amount written off - current	-	(41 071 884)
<b>Closing balance</b>	<b>370 142 383</b>	<b>323 913 443</b>
<b>58. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government: SALGA</b>		
Opening balance	7 645 184	5 460 204
Contribution to SALGA	2 358 711	2 184 980
Amount paid in the current year	(2 184 980)	-
	<b>7 818 915</b>	<b>7 645 184</b>
<b>Audit fees</b>		
Opening balance	747 735	23 332
Current year subscription / fee	9 582 292	5 962 970
Amount paid-current year	(7 906 575)	(5 238 567)
	<b>2 423 452</b>	<b>747 735</b>
<b>PAYE and UIF</b>		
Opening balance	6 992 333	2 292 935
Current year subscription / fee	28 482 620	28 805 852
Amount paid-current year	(28 533 341)	(24 106 454)
	<b>6 941 612</b>	<b>6 992 333</b>
<b>VAT</b>		
VAT payable	(32 944 612)	(50 694 968)

VAT output payables and VAT input receivables are also shown in note 18.

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 2022:



# EC104 - Makana Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022		2021
<b>30 June 2022</b>	Outstanding less than 90 days R	Outstanding more than 90 days R	Total
Councillor RM Embling	1 643	-	1 643
Councillor BPM Jackson	828	-	828
Councillor P Machanick	766	-	766
Councillor XG Madyo	552	-	552
Councillor M Petros	-	73 632	73 632
Councillor LR Sizani	859	-	859
Councillor R Xonxa	241	-	241
	<b>4 889</b>	<b>73 632</b>	<b>78 521</b>

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

During the year 2022 no Councillors' had arrear accounts outstanding for more than 90 days.

<b>30 June 2022</b>	Highest outstanding amount	Aging (in days)
Councillor M Petros	73 632	120+
Councillor RM Embling	1 643	Current
	<b>75 275</b>	

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

### 59. Actual operating expenditure versus budgeted operating expenditure

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

### 60. 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.

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### 60. Deviation from supply chain management regulations (continued)

Additional costs were incurred during the financial year under review and process followed in incurring those costs deviated from the precision of par 12(1)(d)(i) as stated above. Detailed register containing reasons for the deviation together with supporting documentation can be accessed at the municipal premises on request.

Reasons for deviations	2022	2021
Opening balance	4 205 883	2 042 389
Exceptional case	5 195 960	1 977 319
Sole supplier	63 753	186 175
	<b>9 465 596</b>	<b>4 205 883</b>

### 61. Bulk Electricity and Water losses

Electricity	Purchased during the year	Sold during the year	Unaccounted for
Year 2022 (Units/kWh)	103 531 559	(85 510 743)	18 020 816
Year 2021 (Units/kWh)	101 364 974	(71 672 220)	29 692 754
	<b>204 896 533</b>	<b>(157 182 963)</b>	<b>47 713 570</b>

#### Loss calculated as follows:

	Total loss	Own use	Network loss accepted	Total loss after own use
Year 2022 (Units/kWh)	18 080 817	(9 183 000)	5 383 641	14 281 458
Year 2021 (Units/kWh)	29 692 754	(11 175 779)	(5 270 978)	13 245 997
	<b>47 773 571</b>	<b>(20 358 779)</b>	<b>112 663</b>	<b>27 527 455</b>

During the financial year 2022, the Municipality incurred Electricity losses of 8.54% (2021: 29%) due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, fault meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

Water	Lost Units	Cost per KL	Value
Unaccounted water losses - 2022	1 426 108	1.51	2 155 744
Unaccounted water losses - 2021	1 313 952	1.50	1 980 543
	<b>2 740 060</b>		<b>4 136 287</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% (2021: 19%) 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 2022 to R 2 135 744 (2021: R3 413 704)

### 62. Segment information

#### General information

#### Identification of segments

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.

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### 62. Segment information (continued)

#### 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:

##### Reportable segment

Community and Social services

Engineering and Technical services

Local Economic Development and Planning

Unallocated segments

##### Goods and/or services

Library Services, Police force, Cemeteries, Environmental Protection, Recreational facilities, Social Services

Provision and maintenance of water, Electricity, Sewer and refuse and infrastructure

Economic development of the Municipality

Administrative functions

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#### 62. Segment information (continued)

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

2022

	Community and Social Services	Engineering and Technical services	Local Economic Development and Planning	Unallocated segments	Total
<b>Revenue</b>					
Revenue from non-exchange transactions	20 675 051	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	302 013 163
<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
<b>Total segmental surplus/(deficit)</b>					<b>(5 387 754)</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>
<b>Total liabilities as per Statement of financial Position</b>					<b>464 901 633</b>

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#### 62. Segment information (continued)

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

#### 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	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>970 969 004</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>
<b>Liabilities</b>					
Current liabilities	12 118 050	230 720 217	27 243 867	6 297 788	276 379 922
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>

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### 63. 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 .

#### *Material differences between actual and final budget*

(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 difference between the budget and actual is 11 % and relates to less investment revenue due to low collection rate during the year which resulted in less cash available to invest.

(3). Integration issue between Trial balance and interest levy report - Trial balance has omitted the interest for Water

(4). Management has reviewed its debt book and accordingly impaired more debtors in 2021/22 than in prior year. Similar amounts will be written off in 2022/23 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..

(5). The depreciation contains an error and will be adjusted upwards upon correction of the AFS. Management does however acknowledge that there will be a significant difference as a full review of Non Current assets, including condition, useful life and depreciation was performed.

(6). The difference is 38% and major contributor to over spending is auditors fees and subscription and membership fees as well as other operational cost.

#### *Material differences between approved and final budget*

(7). The total operating revenue was decreased by R100 000 on transfers and subsidies, mainly due to MIG operational costs

(8). Increase in employee related cost, as a result of implementation of the a once-off amount of R4000 for employees earning less than R12500 and R3000 once-off for those earning R12501 and above.

(9). The inability of the ratepayers and consumers to service their municipal accounts at required 95% collection rate (payment rate was 85%); the additional repayment of external borrowings above the budgeted amount; and, the payment of trade creditors at year end resulted in less than the expected budgeted cash at year end.

(10). The substantial increase in bad debt provision for electricity, water, sewerage, refuse, housing rentals and sundry debtors are the main contributing factors for the material difference between the budget and actual amounts. The unpaid housing grants of R5,4 million was disclosed under current portion of long term receivables.

(11). Traffic fine debtors and bad debt provision is the main contributing factor for the material difference between the budget and actual amounts.

(12). The municipality carried more materials in stock that was anticipated at the beginning of the financial year. The municipality also accounted water inventory hence the increase in 2021/22 financial year.

(13). Differences were identified between the disclosure requirements in terms of GRAP and the reporting requirements in terms of National Treasury budget formats.

(14). Increase for Other Expenditure, is due to operational costs

(15). Certain adjustments on Capital budget also increased namely

- Expenditure, resulting in the reallocation of capital expenditure budgets for existing MIG funded projects and approved rollovers.

- Additional R25 million that was availed to the municipality in March 2022 through MIG and WSIG funding.

- A decrease of R1,6 million in the INEP resulting in the reallocation of capital expenditure budgets for existing INEP funded project.

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### 63. Budget differences (continued)