



MAKHADO LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2014
These annual financial statements were internally prepared by:
Budget and Treasury Office

Auditor General (S.A)
Registered Auditors

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

General Information

Executive committee

Mayor and chairperson of executive committee

F D Mutavhatsindi

Municipal manager

IP Mutshinyali

Speaker

L.B Mogale

Chief whip

Ludere R

Accounting Officer

I.P Mutshinyali

Registered office

Corner Krogh and Erasmus Street
Makhado
0920

Business address

Corner Krogh and Erasmus Street
Makhado
0920

Postal address

Private Bag X2596
Makhado
0920

Auditors

Auditor General (S.A)
Registered Auditors

MAKHADO LOCAL MUNICIPALITY

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Abbreviations

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

MAKHADO LOCAL MUNICIPALITY

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officers are primarily responsible for the financial affairs of the municipalities, 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 have been examined by the municipality's external auditors.

The annual financial statements set out on pages 5 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 29th August 2014 and were signed on its behalf by:



I.P Mutshinyali
Municipal Manager

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	3	105,772,021	106,190,458
Sundry debtors	4	10,144,330	11,394,618
Receivables from non-exchange transactions	5	2,371,180	8,880,708
Consumer debtors	6	51,375,840	49,395,742
Cash and cash equivalents	7	52,010,023	10,303,998
		221,673,394	186,165,524
Non-Current Assets			
Investment property	8	12,054,151	12,238,570
Property, plant and equipment	9	1,789,757,807	1,807,548,315
Intangible assets	10	544,330	846,666
Heritage assets	11	1,051,979	1,051,979
		1,803,408,267	1,821,685,530
Non-Current Assets		1,803,408,267	1,821,685,530
Current Assets		221,673,394	186,165,524
Total Assets		2,025,081,661	2,007,851,054
Liabilities			
Current Liabilities			
Borrowings	12	1,194,817	3,119,310
Finance lease liability	13	2,199,271	3,373,337
Operating lease liability	14	11,400	21,400
Payables from exchange transactions	15	124,525,336	113,194,630
VAT payable	16	2,871,463	8,803,933
Unspent conditional grants and receipts	17	48,099,226	42,149,361
Consumer deposits	18	11,502,303	9,592,126
Deferred income	19	50,997	48,296
		190,454,813	180,302,393
Non-Current Liabilities			
Borrowings	12	4,736,917	6,027,907
Finance lease liability	13	16,347,328	17,656,286
Retirement benefit obligation	20	81,935,356	72,864,461
Provisions	21	5,957,130	5,964,393
		108,976,731	102,513,047
Non-Current Liabilities		108,976,731	102,513,047
Current Liabilities		190,454,813	180,302,393
Liabilities of disposal groups		-	-
Total Liabilities		299,431,544	282,815,440
Assets		2,025,081,661	2,007,851,054
Liabilities		(299,431,544)	(282,815,440)
Net Assets		1,725,650,117	1,725,035,614
Reserves			
Revaluation reserve	22	1,101,246,127	1,101,246,127
Accumulated surplus		624,403,990	623,789,487
Total Net Assets		1,725,650,117	1,725,035,614

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Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Service charges	23	230,402,531	207,993,293
Rental of facilities and equipment		505,003	170,380
Interest received - outstanding debtors		13,006,579	16,356,985
Licences and permits		11,077,738	12,207,035
Other income	24	17,631,821	8,220,030
Interest received - investment	36	1,954,654	1,341,096
Total revenue from exchange transactions		274,578,326	246,288,819
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	28,523,281	28,077,270
Transfer revenue			
Government grants & subsidies	26	373,365,991	311,526,834
Fines		5,649,640	3,848,594
Total revenue from non-exchange transactions		407,538,912	343,452,698
		274,578,326	246,288,819
		407,538,912	343,452,698
Total revenue	27	682,117,238	589,741,517
Expenditure			
Employee related costs	28	(201,865,584)	(199,382,528)
Remuneration of councillors	29	(20,781,673)	(18,470,236)
Depreciation and amortisation	30	(119,517,074)	(112,377,589)
Impairment of non cash generating assets		(3,556,770)	(292,541)
Finance costs	31	(10,301,618)	(9,024,915)
Debt impairment	32	(12,893,946)	(40,623,956)
Repairs and maintenance	33	(17,585,088)	(14,675,871)
Bulk purchases	34	(157,753,908)	(156,721,190)
General Expenses	35	(137,247,074)	(89,566,597)
Total expenditure		(681,502,735)	(641,135,423)
		-	-
Total revenue		682,117,238	589,741,517
Total expenditure		(681,502,735)	(641,135,423)
Surplus (deficit) before taxation		614,503	(51,393,906)
Taxation		-	-
Surplus (deficit) for the year		614,503	(51,393,906)

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Revaluation Reserve	Accumulated surplus	Total net assets
Balance at 01 July 2012	1,101,246,127	934,600,887	2,035,847,014
Changes in net assets			
Correction of error	-	(259,417,494)	(259,417,494)
Net income (losses) recognised directly in net assets	-	(259,417,494)	(259,417,494)
Surplus for the year	-	(51,393,906)	(51,393,906)
Total recognised income and expenses for the year	-	(310,811,400)	(310,811,400)
Total changes	-	(310,811,400)	(310,811,400)
Balance at 01 July 2013	1,101,246,127	623,789,487	1,725,035,614
Changes in net assets			
Surplus for the year	-	614,503	614,503
Total changes	-	614,503	614,503
Balance at 30 June 2014	1,101,246,127	624,403,990	1,725,650,117
Note(s)	22		

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Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Property rates		30,437,294	28,090,803
Service charges		331,246,324	216,006,170
Grants		373,365,991	311,526,834
Interest income		1,954,654	1,341,096
Other income		12,081,055	13,934,938
		<u>749,085,318</u>	<u>570,899,841</u>
Payments			
Employee costs		(198,567,060)	(196,668,008)
Remuneration of council		(20,781,673)	(18,470,236)
Finance costs		(8,443,248)	(5,509,283)
Payment to suppliers		(369,144,130)	(238,522,371)
		<u>(596,936,111)</u>	<u>(459,169,898)</u>
Total receipts		749,085,318	570,899,841
Total payments		(596,936,111)	(459,169,898)
Net cash flows from operating activities	38	<u>152,149,207</u>	<u>111,729,943</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(176,489,780)	(86,676,106)
Proceeds from sale of property, plant and equipment	9	75,250,068	-
Purchase of other intangible assets	10	-	(715,637)
Purchases of heritage assets	11	-	(531,000)
Proceeds from sale of financial assets		(3,556,770)	-
		<u>(104,796,482)</u>	<u>(87,922,743)</u>
Net cash flows from investing activities		<u>(104,796,482)</u>	<u>(87,922,743)</u>
Cash flows from financing activities			
Repayment of borrowings		(3,215,483)	(2,906,057)
Movement in deferred income		-	-
Finance lease payments		(4,341,394)	(6,389,782)
Movements in consumer deposits		1,910,177	1,080,186
		<u>(5,646,700)</u>	<u>(8,215,653)</u>
Net cash flows from financing activities		<u>(5,646,700)</u>	<u>(8,215,653)</u>
Net increase/(decrease) in cash and cash equivalents		<u>41,706,025</u>	<u>15,591,547</u>
Cash and cash equivalents at the beginning of the year		10,303,998	(5,287,549)
Cash and cash equivalents at the end of the year	7	<u>52,010,023</u>	<u>10,303,998</u>

MAKHADO LOCAL MUNICIPALITY

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	248,921,000	4,515,000	253,436,000	230,402,531	(23,033,469)	52
Rental of facilities and equipment	201,554	41,700	243,254	505,003	261,749	52
Interest earned-outstanding receivables	19,245,352	-	19,245,352	13,006,579	(6,238,773)	52
Licences and permits	11,085,164	2,070,000	13,155,164	11,077,738	(2,077,426)	52
Other income - (rollup)	9,831,194	659,000	10,490,194	17,631,821	7,141,627	52
Interest earned-external investment	593,186	1,040,000	1,633,186	1,954,654	321,468	52
Total revenue from exchange transactions	289,877,450	8,325,700	298,203,150	274,578,326	(23,624,824)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	37,761,063	(4,511,710)	33,249,353	28,523,281	(4,726,072)	52
Government grants & subsidies	361,998,563	51,173,010	413,171,573	373,365,991	(39,805,582)	
Transfer revenue						
Fines	2,911,418	25,000	2,936,418	5,649,640	2,713,222	52
Total revenue from non-exchange transactions	402,671,044	46,686,300	449,357,344	407,538,912	(41,818,432)	
'Total revenue from exchange transactions'	289,877,450	8,325,700	298,203,150	274,578,326	(23,624,824)	
'Total revenue from non-exchange transactions'	402,671,044	46,686,300	449,357,344	407,538,912	(41,818,432)	
Total revenue	692,548,494	55,012,000	747,560,494	682,117,238	(65,443,256)	
Expenditure						
Personnel	(233,567,000)	20,150,000	(213,417,000)	(201,865,584)	11,551,416	52
Remuneration of councillors	(19,358,811)	-	(19,358,811)	(20,781,673)	(1,422,862)	52
Depreciation and amortisation	(137,650,000)	500,000	(137,150,000)	(119,517,074)	17,632,926	52
Impairment loss/ Reversal of impairments	-	-	-	(3,556,770)	(3,556,770)	
Finance costs	(246,528)	(5,270,000)	(5,516,528)	(10,301,618)	(4,785,090)	52
Debt impairment	(49,585,000)	-	(49,585,000)	(12,893,946)	36,691,054	52
Repairs and maintenance	-	-	-	(17,585,088)	(17,585,088)	52
Bulk purchases	(174,907,545)	720,000	(174,187,545)	(157,753,908)	16,433,637	52
General Expenses	(106,754,000)	(51,527,000)	(158,281,000)	(137,247,074)	21,033,926	52
Total expenditure	(722,068,884)	(35,427,000)	(757,495,884)	(681,502,735)	75,993,149	
	(29,520,390)	19,585,000	(9,935,390)	614,503	10,549,893	
Surplus before taxation	(29,520,390)	19,585,000	(9,935,390)	614,503	10,549,893	
Deficit before taxation	(29,520,390)	19,585,000	(9,935,390)	614,503	10,549,893	
Taxation	-	-	-	-	-	

MAKHADO 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						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(29,520,390)	19,585,000	(9,935,390)	614,503	10,549,893	

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1. Basis of preparation

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.

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

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.1 Presentation currency

These annual financial statements are presented in South African Rand.

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

The use of judgment, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

Judgements

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the municipality's accounting policies the following estimates, were made:

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

Other provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the 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 21 - Provisions.

Post retirement benefits

Post-employment benefits offered by the entity take the form of defined benefit plans. The cost of defined benefit pension plans, other post employment medical benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20

Effective interest rate

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

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Provision for rehabilitation of landfill site

The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value at 8.5%, representing the time value of money.

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Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

Impairment of non financial assets

In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

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.

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

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

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

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

Cost model

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

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

Item	Useful life
Property - Land	indefinite
Property - Buildings	30 years

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

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

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Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as 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.

Depreciation commences when the assets are available for use.

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

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

Item	Average useful life
• Land	Indefinite
• Buildings	30 years
• Vehicles	5-7 years
• Furniture and fittings	7-10 years

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1.5 Property, plant and equipment (continued)

Office equipment	
• Air conditioners	5-7 years
• Office machines	3-5 years
• Computer hardwares	5 years
Infrastructure	
• Roads	10-30 years
• Pedestrian malls	20 years
• Electricity	20-30 years
• security measures	3-5 years
Community assets	
• Buildings and other assets	30 years
• Recreational facilities	20 years
Watercraft	15 years
Emergency equipments	5-15 years
Plant and equipment	2-15 years
Landfill sites	5 years
Other assets	
• Bins and containers	5-10 years
• Buildings	30 years

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

Under-construction assets

Under-construction assets are stated at cost and not depreciated until the respective assets are completed and ready for use.

1.6 Intangible assets

An asset is identifiable if it either:

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

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.

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.

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

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

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

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

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1.6 Intangible assets (continued)

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

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

Item	Useful life
Computer software	6 years

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories which are measured at amortised cost :

- Loans and receivables,
- Consumer deposits, trade and other payables,
- Financial liabilities.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

The municipality recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial Measurement

When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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1.7 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends or similar distributions and interest.

Dividend or similar distributions income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

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Accounting Policies

1.7 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005, in accordance with the transitional requirements of GRAP 3.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

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

1.9 Inventories

Initial recognition and measurement

Inventories are initially recognised at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

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1.9 Inventories (continued)

Subsequent measurement

Inventories, consisting of consumable stores, raw materials and land inventories are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. The basis of determining cost is the Weighted Average Cost method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction of inventories recognised as an expense in the period in which the reversal occurs.

Unsold properties for the purpose of resale are accounted for as inventory. The fair value of these inventory was determined by the Professional Valuer.

Derecognition

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

It is the municipality's policy to write down the obsolete and slow moving inventory to the net realisable value of 66.67%.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised.

1.10 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

The municipality has subsequently changed from the fair value model for property, plant and equipment on a once-off basis to the cost model following the initial adoption of the Standards of GRAP by applying Directive 11. This Directive shall be applied by the municipality in preparing the financial statements for periods commencing on or after 1 April 2015. Earlier application is permitted.

1.11 Conditional grants and receipts

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

1.12 Budget information

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

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

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

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

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1.12 Budget information (continued)

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

1.13 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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 considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.14 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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 held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

Useful life is either:

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

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

1.15 Impairment of non-cash-generating assets

Non-cash generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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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Accounting Policies

1.15 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 held with the primary 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.

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.

1.16 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

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 amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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1.17 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 deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a 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 40.

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1.17 Provisions and contingencies (continued)

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

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

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

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

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

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

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

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

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1.18 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest earned

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

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

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

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

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

Prepaid Electricity

Prepaid electricity is estimated based on the average unit sales and rate per unit as at 30 June 2013 and 30 June 2014 based on the Contour Prepaid Electricity vending system.

Service charges relating to electricity

Service charges relating to electricity are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly. Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. At reporting date, an estimate of the prepaid electricity consumed is made and revenue is adjusted accordingly. The estimate is based on trend analysis and historical data of electricity consumption. Revenue arising from the consumption of electricity in the month of June is fully accounted for whether invoiced or not. Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Refuse removal

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

Rental income

Service charges relating to rental income are recognised on a monthly basis in arrears by applying the approved tariff and/or contract conditions. Tariffs are determined per category of property usage and are levied on a monthly basis.

1.19 Revenue from non-exchange transactions

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

Non-exchange transactions are defined as transactions where the municipality receives value from another municipality or entity giving approximately equal value 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 from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

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1.19 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information available from the courts, it is not possible to measure this revenue in the invoicing period.

The amount due by a particular offender is specified on the notice, summons or equivalent document. The entity issuing the traffic fine may indicate that reductions are available, subject to further processes being undertaken.

Fines reductions are not within the Makhado Municipality's discretion, they are subject to a further judicial process which is outside the municipality's control, then these reductions are not considered in measuring the asset (receivable) on initial recognition. This is because of the high degree of uncertainty in estimating the likely outcome of this process.

Relevant disclosures should be made on the assumptions used to estimate revenue and any other relevant information.

The municipality is able to reliably measure the fair value of fines issued. The value of the fine that can be imposed on the offender is usually stipulated in legislation, regulation or equivalent, and will vary depending on the nature and severity of the offence. The amount due by a particular offender is usually indicated on the notice, summons or similar document issued. In these instances, the asset (receivable) can be measured reliably.

The basis of a receivables provision for fines outstanding as at year end in Makhado municipality is based on % of fines settled which already has accounted for the discretion applied by court to reduce or withdraw fines requested from review by public members divided by the total fines issued for the current year.

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.

Government grants

Government grants are recognised as revenue when:

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,

The amount of the revenue can be measured reliably, and

To the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a differential rating system i.e business, farming and residential properties. In terms of this system, assessment rates are levied on the market value in respect of properties. Rebates are granted according to the use of the property concerned.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Collection charges

Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid bills is recognised on a time proportion basis.

1.20 Investment income

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

1.21 Borrowing costs

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

1.22 Comparative figures

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

Current year comparatives (Budget)

Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note to these annual financial statements.

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Certain comparative figures have been reclassified.

The nature and reasons for the reclassification and restatement are disclosed in note 42 correction of prior period error to the financial statements.

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.24 Fruitless and wasteful expenditure

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

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

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.25 Irregular expenditure

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

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

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

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

1.26 Commitments

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases :

- approved and contracted commitments,
- where the expenditure has been approved and the contract has been awarded at the reporting date, and
- where disclosure is required by a specific standard of GRAP.

Notes to the Annual Financial Statements

Figures in Rand

2014

2013

2. New standards and interpretations

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 18 : Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations not yet effective

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

3. Inventories

Consumable stores	7,555,385	6,681,219
Land inventory	98,264,000	99,597,000
	<hr/>	<hr/>
Slow moving inventory written down	105,819,385	106,278,219
	(47,364)	(87,761)
	<hr/>	<hr/>
	105,772,021	106,190,458

During the year the municipality had not yet completed the transfer of ownership of some of the properties sold.

The municipality has not yet completed the transfer of properties donated (RDP Houses) to beneficiaries of which the process is administered by Coghsta.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
4. Sundry debtors		
Other receivables	5,814,977	9,827,821
Debt collection commission	4,051,653	1,516,797
Deposit paid on office rental	50,000	50,000
Third parties vending receivables	227,700	-
	10,144,330	11,394,618
5. Receivables from non-exchange transactions		
Vhembe District Municipality : Water related transactions	-	6,684,242
Traffic fines	2,371,180	2,196,466
	2,371,180	8,880,708
Impairment of traffic fines		
Receivables from traffic fines were impaired during the year as follows:		
Gross balances	5,927,949	2,196,466
Impairment	(3,556,770)	-
	2,371,179	2,196,466
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	13,521,406	6,760,703
Provision for impairment	3,556,770	13,768,775
Amounts written off as uncollectible	-	(7,008,072)
	17,078,176	13,521,406
6. Consumer debtors		
Gross balances		
Rates	35,542,216	47,951,231
Electricity	55,590,424	64,741,644
Interest	37,959,537	54,313,170
Refuse	5,949,302	16,466,426
Sundries	9,835,622	10,106,929
Vat	11,842,160	18,148,640
Other	439,862	6,700,391
	157,159,123	218,428,431
Less: Allowance for impairment		
Rates	(25,431,995)	(35,913,467)
Electricity	(33,118,771)	(54,094,599)
Interest	(27,151,356)	(40,666,818)
Refuse	(4,261,052)	(12,335,140)
Sundries	(7,035,135)	(7,567,532)
Vat	(8,470,353)	(13,588,738)
Other	(314,621)	(4,866,396)
	(105,783,283)	(169,032,690)

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Consumer debtors (continued)		
Net balance		
Rates	10,110,221	12,037,764
Electricity	22,471,653	10,647,045
Interest	10,808,181	13,646,352
Refuse	1,688,250	4,131,286
Sundries	2,800,487	2,539,397
Vat	3,371,807	4,559,902
Other	125,241	1,833,996
	51,375,840	49,395,742
Included in above is receivables from exchange transactions		
Electricity	14,944,971	10,647,045
Interest	10,808,181	13,646,352
Refuse	1,688,250	4,131,286
Sundries	2,800,487	2,539,397
Vat	3,371,807	4,559,902
Other	125,241	1,833,996
	33,738,937	37,357,978
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	10,110,221	12,037,764
Net balance	43,849,158	49,395,742
Rates		
Current (0 -30 days)	2,283,726	5,831,084
31 - 60 days	1,168,856	1,103,493
61 - 90 days	937,477	1,080,274
91 - 120 days	894,608	1,025,893
121 - 365 days	30,257,549	38,910,487
	35,542,216	47,951,231
Electricity		
Current (0 -30 days)	20,386,654	12,220,041
31 - 60 days	2,762,090	2,715,775
61 - 90 days	1,503,990	1,922,088
91 - 120 days	1,152,911	2,265,632
121 - 365 days	22,258,097	45,618,108
	48,063,742	64,741,644
Interest		
Current (0 -30 days)	872,836	2,829,501
31 - 60 days	936,078	1,366,711
61 - 90 days	869,839	1,316,720
91 - 120 days	1,112,479	1,306,281
121 - 365 days	34,168,305	47,493,957
	37,959,537	54,313,170

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	578,062	749,708
31 - 60 days	322,322	272,368
61 - 90 days	182,697	258,331
91 - 120 days	171,256	252,723
121 - 365 days	4,694,965	14,941,249
	5,949,302	16,474,379
Sundries		
Current (0 -30 days)	2,075,609	2,430,668
31 - 60 days	2,518,635	304,259
61 - 90 days	468,048	407,424
91 - 120 days	724,116	314,731
121 - 365 days	4,049,214	6,649,847
	9,835,622	10,106,929
Vat		
Current (0 -30 days)	2,258,682	3,006,016
31 - 60 days	429,813	458,653
61 - 90 days	236,305	340,948
91 - 120 days	388,304	528,232
121 - 365 days	8,529,056	13,814,792
	11,842,160	18,148,641
Other		
Current (0 -30 days)	3,729	16,754
31 - 60 days	3,729	6,472
61 - 90 days	3,631	5,134
91 - 120 days	226,717	3,791
121 - 365 days	202,056	6,467,236
	439,862	6,499,387

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
6. Consumer debtors (continued)		
Summary of debtors by customer classification		
Residential		
Current (0 -30 days)	5,634,697	10,822,745
31 - 60 days	3,795,470	2,379,936
61 - 90 days	1,885,552	2,334,131
91 - 120 days	2,257,326	2,335,546
121 - 365 days	1,873,265	105,579,476
> 365 days	60,492,401	-
	<u>75,938,711</u>	<u>123,451,834</u>
Less: Allowance for impairment	(71,680,102)	(119,679,697)
	<u>4,258,609</u>	<u>3,772,137</u>
Industrial/ commercial		
Current (0 -30 days)	13,246,094	10,014,348
31 - 60 days	3,163,967	2,570,402
61 - 90 days	1,555,552	1,905,532
91 - 120 days	1,378,458	2,163,540
121 - 365 days	854,826	46,724,614
> 365 days	26,469,288	-
	<u>46,668,185</u>	<u>63,378,436</u>
Less: Allowance for impairment	(16,486,249)	(23,037,768)
	<u>30,181,936</u>	<u>40,340,668</u>
Agricultural		
Current (0 -30 days)	4,164,026	6,030,939
31 - 60 days	1,133,731	1,273,097
61 - 90 days	707,690	1,081,877
91 - 120 days	1,044,997	1,201,186
121 - 365 days	791,234	19,295,109
> 365 days	12,611,972	-
	<u>20,453,650</u>	<u>28,882,208</u>
Less: Allowance for impairment	(17,616,933)	(26,315,225)
	<u>2,836,717</u>	<u>2,566,983</u>
Total		
Current (0 -30 days)	39,837,979	26,868,032
31 - 60 days	8,093,168	6,223,435
61 - 90 days	4,148,794	5,321,540
91 - 120 days	4,680,781	5,700,272
121 - 365 days	3,519,325	174,315,152
> 365 days	96,879,077	-
	<u>157,159,124</u>	<u>218,428,431</u>
Less: Allowance for impairment	(105,783,284)	(169,032,690)
	<u>51,375,840</u>	<u>49,395,741</u>
Less: Allowance for impairment		
Current(0-30 days)	(17,040,002)	(26,029,299)
31-60 days	(5,984,334)	(4,712,727)
61-90 days	(3,067,745)	(4,029,763)
191-365 days	(3,461,112)	(4,316,559)
121-365 days	(76,230,090)	(129,944,342)
	<u>(105,783,283)</u>	<u>(169,032,690)</u>

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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6. Consumer debtors (continued)

Reconciliation of provision for doubtful debts

Opening balance	169,032,690	136,804,840
Debts written off against provision	(78,530,281)	(1,369,328)
Contribution to the provision	15,280,875	27,915,696
Revision of contribution to the provision	-	5,681,482
	<hr/>	<hr/>
	105,783,284	169,032,690

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 32).

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7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1,369,940	2,381,532
Short-term deposits	50,621,883	7,903,766
Other cash and cash equivalents	18,200	18,700
	52,010,023	10,303,998

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
FNB BANK - Primary account - 623-0832-9988	1,517,975	2,272,136	766,434	(307,002)	2,381,532	(6,224,568)
FNB BANK - Investment account - 623-0833-0779	49,019,120	7,310,810	1,000	49,019,120	7,813,554	1,998
FNB BANK - Investment account - 624-0465-0435	1,602,763	502,744	-	1,602,763	-	-
Total	52,139,858	10,085,690	767,434	50,314,881	10,195,086	(6,222,570)

8. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	12,755,188	(701,037)	12,054,151	12,755,188	(516,618)	12,238,570

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	12,238,570	(184,419)	12,054,151

Reconciliation of investment property - 2013

	Opening balance	Correction of prior year error ref to note 42	Depreciation	Total
Investment property	52,491,463	(40,068,474)	(184,419)	12,238,570

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

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9. Property, plant and equipment

	2014		2013			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	392,981,526	(19,664,268)	373,317,258	362,389,070	(14,230,854)	348,158,216
Infrastructure assets	1,934,406,480	(592,989,133)	1,341,417,347	1,863,513,395	(493,696,996)	1,369,816,399
Community assets	41,655,720	(18,113,207)	23,542,513	48,506,702	(16,713,856)	31,792,846
Other assets	79,787,367	(38,667,055)	41,120,312	73,949,130	(29,436,451)	44,512,679
Finance lease assets	25,025,641	(14,665,264)	10,360,377	25,428,907	(12,160,732)	13,268,175
Total	2,473,856,734	(684,098,927)	1,789,757,807	2,373,787,204	(566,238,889)	1,807,548,315

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Under construction	Transfers	Depreciation	Total
Land and buildings	348,158,216	27,250,657	3,526,420	(184,620)	(5,433,415)	373,317,258
Infrastructure assets	1,369,816,399	102,922,484	34,444,166	(66,473,565)	(99,292,137)	1,341,417,347
Community assets	31,792,846	361,713	1,183,989	(8,396,784)	(1,399,251)	23,542,513
Other assets	44,512,679	5,838,237	-	-	(9,230,604)	41,120,312
Finance lease assets	13,268,175	962,114	-	(195,099)	(3,674,813)	10,360,377
Total	1,807,548,315	137,335,205	39,154,575	(75,250,068)	(119,030,220)	1,789,757,807

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Under construction	Correction of prior year error ref to note 42	Depreciation	Impairment loss	Total
Land and buildings	315,348,024	49,108	1,250,142	34,808,168	(3,297,226)	-	348,158,216
Infrastructure assets	1,404,798,996	-	60,924,259	1,227,273	(97,095,620)	(38,509)	1,369,816,399
Community assets	25,098,996	8,285,212	-	-	(1,337,330)	(254,032)	31,792,846
Other assets	34,765,345	16,167,385	-	-	(6,420,051)	-	44,512,679
Finance lease assets	17,223,039	-	-	-	(3,954,864)	-	13,268,175
	1,797,234,400	24,501,705	62,174,401	36,035,441	(112,105,091)	(292,541)	1,807,548,315

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.

10. Intangible assets

	2014		2013	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Intangible assets	1,843,053	(1,298,723)	544,330	(996,387)
			846,666	846,666

Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Intangible assets	846,666	(302,336)	544,330
	846,666	(302,336)	544,330

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10. Intangible assets (continued)

Reconciliation of intangible assets - 2013

	Opening balance	Correction of error	Additions	Amortisation	Total
Intangible assets	195,024	458,658	256,979	(63,995)	846,666
	195,024	458,658	256,979	(63,995)	846,666

11. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	1,051,979	-	1,051,979	1,051,979	-	1,051,979

Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets	1,051,979	1,051,979
	1,051,979	1,051,979

Heritage heritage asset (King Makhado Statue) was fair valued by a qualified professional valuer taking into account time value of money factors, a reasonable 5 % annual escalation costs was considered for a period of 20 years.

Reconciliation of heritage assets 2013

	Opening balance	Correction of error	Total
Heritage assets	520,979	531,000	1,051,979
	520,979	531,000	1,051,979

12. Borrowings

Annuity loans

Development bank of South Africa(DBSA) 2 : Current portion The loan is unsecured, bears interest at 5% and repayable on 31 March 2018.	313,484	298,352
Infrastructure finance corporation limited (INCA) : Current portion The loan is unsecured, bears interest at 11.47% and repayable on 30 June 2014.	-	2,020,668
Development bank of South Africa(DBSA) 1 : Long-term portion The loan is unsecured, bears interest at 9.86% and repayable on 31 March 2018.	3,629,478	4,591,853
Development bank of South Africa (DBSA) 2 : Long-term portion The loan is unsecured, bears interest at 5% and repayable on 31 March 2018.	1,107,439	1,436,054
Development bank of South Africa (DBSA) 2 : current portion The loan is unsecured, bears interest at 5% and repayable on 31 March 2018.	881,333	800,290
	5,931,734	9,147,217

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Figures in Rand	2014	2013
12. Borrowings (continued)		
Non-current liabilities		
At amortised cost	4,736,917	6,027,907
Current liabilities		
At amortised cost	1,194,817	3,119,310
13. Finance lease liability		
Minimum lease payments due		
- within one year	4,130,773	5,228,267
- in second to fifth year inclusive	20,064,303	20,268,095
- later than five years	-	2,906,008
	24,195,076	28,402,370
less: future finance charges	(5,648,477)	(7,372,747)
Present value of minimum lease payments	18,546,599	21,029,623
Present value of minimum lease payments due		
- within one year	2,497,281	3,373,337
- in second to fifth year inclusive	16,049,318	14,840,718
- later than five years	-	2,815,568
	18,546,599	21,029,623
Non-current liabilities	16,347,328	17,656,286
Current liabilities	2,199,271	3,373,337
	18,546,599	21,029,623

The average lease term is 5 years and the average effective borrowing rate was 10% (2013: 10%).

Interest rates are fixed at the contract date. All leases escalate between 6% and 10% p.a and no arrangements have been entered into for contingent rent.

14. Operating lease liability

Minimum lease payments due		
Within one year	242,000	341,400
In second to fifth year inclusive	-	242,000
	242,000	583,400

15. Payables from exchange transactions

Accruals	95,514,752	94,659,954
Retentions	12,106,526	7,914,062
Debtors with credit balances	11,322,516	2,744,023
Other Creditors	379,035	2,722,846
Accrual for Section 57 Bonuses	441,492	469,832
Accrual for 13th cheque	4,761,015	4,683,913
	124,525,336	113,194,630

There is no material difference between the fair value of payables from exchange transactions and their book value.

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16. VAT payable		
VAT payables	2,871,463	8,803,933
VAT is payable on the receipts basis. Vat is paid over to the receiver of revenue only once the payment is received from debtors.		
17. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
MIG	44,246,337	32,032,658
INEP	539,142	384,504
DWAF grant	2,567,495	2,567,495
VDM electrification grant	-	1,297,297
Finance management grant	9,541	50,483
PHP grant	379,168	413,643
Department of sports, arts and culture grant	207,369	207,369
VDM refuse removal truck grant	56,418	56,418
Drought relief grant	33,801	33,801
VDM graveyards grant	-	645
Electricity efficiency demand side management	-	2,929,133
Expanded public works programmes	-	715,915
Disaster management grant	59,955	1,460,000
	48,099,226	42,149,361
Movement during the year		
Balance at the beginning of the year	42,149,361	36,130,084
Additions during the year	152,971,000	85,086,000
Income recognition during the year	(147,021,135)	(79,066,723)
	48,099,226	42,149,361

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17. Unspent conditional grants and receipts (continued)

Included in the movement above for conditional grants are the following grants :

MIG :Municipal Infrastructure Grant ,this grant is used to construct basic municipal infrastructure to provide basic services for the benefit of poor households such as roads.Other than the unspent amounts the conditions of grants were met.

INEP : Intergrated National electrification Grant,this grant was used to adress the electrification backlog of permanently occupied residential dwellings. Other than the unspent amounts the conditions of the grant were met.

DWAF : Department of Water of Affairs funds, this grant was not utilised in current year as previously rolled over.

VDM Electrification Grant : Vhembe District Municipality Grant ,this grant was used to adress the elctrification backlog of permanently occupied residential dwellings. The conditions of the grant was met.

FMG : Financial managemtn Grant ,the purpose of this grant is to improve and support reforms to municipal finance managment processes and compliance to MFMA ,other than the unspent amounts the conditions of the grant were met

PHP: People Housing project -this grant was utelised for assisting beneficiary registration processes. Other than the unspent amounts the conditions of the grant were met.

Departmnet of Sports and Culture: This grant is utelised for community upliftment in sports and recreation facilities and programmes.Other than the unspent amounts the conditions of the grant were met.

VDM truck structure: Vhembe district municipality Grant ,this grant was used to adress waste collections programmes.Other than the unspent amounts the conditions of the grant were met.

Electricity Efficiency Demand Side Management : This grant was used to adress energy saving technology through various aquisitions such as streetlighting, traffic lighting and municipal buildings to achieve a reduction of energy consumption.

EPWP: Expanded Public works Programmes ,this grant was used to uplift socio and economic status of community members through various employment programmes in community work.Other than the unspent amounts the conditions of the grant were met

Disaster Management Grant : This grant was utelised to assitst communities affected by natural disasters , mainly floods in the municipality.Other than the unspent amounts the conditions of the grant were met

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

18. Consumer deposits

Electricity

Opening balance	9,592,126	8,511,940
Increase/(decrease) in the carrying amount recognised in the period as a result of a change in the fair value of the assets to be distributed	1,910,177	1,080,186
	<u>11,502,303</u>	<u>9,592,126</u>

Guarantees held in lieu of consumer deposits amounts to R 1, 440, 584 (2013: R 1, 060, 484)

19. Deferred income

The deferred income was estimated based on the average unit sales and rate per unit as at 30 June 2013 and 2014 based on the Contour Prepaid Electricity vending system.

Deferred income	<u>50,997</u>	<u>48,296</u>
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20. Retirement benefit obligations

Post retirement benefit plan

The municipality offers employees Long Service Awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

Total long service awards liability

Opening balance	13,980,348	12,231,850
Current service cost	1,932,594	1,648,596
Interest cost	907,349	885,059
Actuarial gains/loss	(886,220)	609,296
Subtotal	15,934,071	15,374,801
Expected employer benefit vesting	(2,398,710)	(1,394,453)
	13,535,361	13,980,348

Post retirement medical aid plan

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-retirement, the surviving dependants may continue membership of the medical scheme.

Total post-retirement health care benefits liability

Opening balance	58,884,113	48,008,988
Current service cost	3,298,524	2,714,520
Interest cost	4,937,216	3,784,551
Actuarial gains/loss	2,274,930	5,310,758
Subtotal	69,394,783	59,818,817
Contributions(benefits paid)	(994,788)	(934,704)
	68,399,995	58,884,113

Reconciliation and projection of the unfunded accrued liability

Carrying value

Opening balance	(72,864,461)	(60,240,838)
Current service cost	(5,231,118)	(4,363,116)
Interest cost	(5,844,565)	(4,669,610)
Expected employer benefit vesting	3,393,498	2,329,157
Actuarial (Gain)/Loss recognised in profit and loss	(1,388,710)	(5,920,054)
	(81,935,356)	(72,864,461)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.91 %	7.09 %
General salary inflation (long-term)	7.11 %	6.73 %
Net effective discount rate	0.74 %	0.33 %
Expected increase in healthcare costs	8.36 %	8.36 %

The salaries used in the valuation include an assumed increase on 1 July 2014 of 6.79% as per the SALGBC Circular No : 3/2014. The next salary increase was assumed to take place on the 1 July 2015.

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21. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Movement	Total
Rehabilitation of landfill site	5,964,393	(7,263)	5,957,130

Reconciliation of provisions - 2013

	Opening Balance	Movement	Total
Rehabilitation of landfill site	5,497,139	467,254	5,964,393

Provision for rehabilitation of landfill site

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate land fill sites used for waste disposal. It is calculated as the present value of future obligation, discounted at prime interest rate of 9.25% over an estimated useful life of 1 year. Rehabilitation cost is assumed to increase at inflation rate of 6.8%. The payment of expenditures relating to rehabilitation is expected to occur after the 30th June 2014.

22. Revaluation reserve

Opening balance	1,101,246,127	1,101,246,127
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The municipality has subsequently changed from the fair value model for property, plant and equipment on a once-off basis to the cost model following the initial adoption of the Standards of GRAP by applying Directive 11 and this has resulted in a change in accounting policy. This Directive shall be applied by the municipality in preparing the financial statements for periods commencing on or after 1 April 2015. Earlier application is permitted.

This was carried out in order to ensure that the results in the financial statements are reliable and provide more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flows.

23. Service charges

Sale of electricity	223,550,710	201,650,044
Refuse removal	6,851,821	6,343,249
	230,402,531	207,993,293

24. Other income

Burial fees	76,364	92,167
Advertising	10,046	27,033
Employee benefit vesting	3,393,498	2,329,157
Trading licence	78,023	108,273
Land sales	2,708,053	2,156,140
Sundries	4,260,709	2,562,469
Actuarial income	886,220	-
Refunds	1,705,534	37,279
Sale of tender documents	240,944	-
Profit on sale of assets	3,708,460	-
Building plans	171,640	-
Duplicates	230,488	233,741
Land use management	161,842	673,771
	17,631,821	8,220,030

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	2014	2013
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25. Property rates

Rates received

Residential	16,365,234	16,078,887
Commercial	9,959,327	9,773,979
State	2,198,720	2,224,404
	28,523,281	28,077,270

Valuations

Residential	4,370,873,519	4,349,956,519
Business	1,122,404,468	1,125,765,968
Agricultural	2,026,451,800	2,157,168,800
Municipal	246,481,100	251,389,100
Churches	75,297,100	74,900,100
Land reform	18,480,000	8,780,000
	7,859,987,987	7,967,960,487

The last valuation came into effect on 01 July 2008. A general rate of 0.005 (2012: 0.005) is applied to property valuation (Market Value) to determine assessment rates. Rebates are granted to residential and state property owners. Rates are levied on a monthly basis to property owners.

26. Government grants and subsidies

Operating grants

Equitable share	256,239,000	235,434,000
Municipal disaster management grant	1,400,045	-
Electricity efficiency demand side management	133	2,070,867
Expanded public works programmes	1,715,915	1,210,085
Finance management grant	1,590,942	1,620,424
Municipal systems management grant	890,000	800,000
PHP grant	4,234	852
Local Government Sector for Education and Training Authority	650,098	993,109
	262,490,367	242,129,337

Capital grants

Municipal Infrastructure Grant (MIG)	94,732,321	62,781,925
Integrated national electrification programme (INEP)	14,845,361	6,615,572
VDM electrification grant	1,297,942	-
	110,875,624	69,397,497
	373,365,991	311,526,834

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents received a subsidy of R7,724,967 (2013: R 8,402,578), which is funded from the grant during the year.

MAKHADO LOCAL MUNICIPALITY

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Figures in Rand	2014	2013
27. Revenue		
Fines	5,649,640	3,848,594
Government grants & subsidies	373,365,991	311,526,834
Interest earned - outstanding receivables	13,006,579	16,356,985
Interest received - investment	1,954,654	1,341,096
Licences and permits	11,077,738	12,207,035
Other income	17,631,821	8,220,030
Property rates	28,523,281	28,077,270
Rental of facilities and equipment	505,003	170,380
Service charges	230,402,531	207,993,293
	682,117,238	589,741,517
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	230,402,531	207,993,293
Rental of facilities and equipment	505,003	170,380
Interest earned- outstanding receivables	13,006,579	16,356,985
Licences and permits	11,077,738	12,207,035
Other income	17,631,821	8,220,030
Interest received - investment	1,954,654	1,341,096
	274,578,326	246,288,819
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	28,523,281	28,077,270
Transfer revenue		
Government grants & subsidies	373,365,991	311,526,834
Fines	5,649,640	3,848,594
	407,538,912	343,452,698

MAKHADO LOCAL MUNICIPALITY

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28. Employee related costs

	2014	2013
Basic	122,110,398	119,783,468
Bonus	9,930,114	9,549,557
Medical aid - company contributions	10,457,242	9,661,404
UIF	1,061,509	1,056,894
Other payroll levies	55,085	54,567
Leave pay provision charge	4,326,013	7,214,828
Post employment benefits	25,911,906	25,606,923
Travel, motor car, accommodation, subsistence and other allowances	7,772,373	8,149,910
Overtime payments	12,826,448	12,198,910
Long-service awards	5,231,118	4,363,116
Housing benefits and allowances	233,215	219,291
Standby allowance	1,198,988	1,038,891
Group life insurance	751,175	484,769
	201,865,584	199,382,528

Remuneration of municipal manager

Annual Remuneration	765,372	590,000
Car Allowance	276,873	211,308
Group life	-	11,800
Contributions to UIF, Medical and Pension Funds	235,286	170,225
Backpay	8,693	-
	1,286,224	983,333

Remuneration of chief finance officer

Annual Remuneration	547,762	380,026
Car Allowance	262,340	186,472
Contributions to UIF, Medical, Pension Funds and Group Life	102,834	66,879
Backpay	6,221	-
	919,157	633,377

Remuneration of director technical services

Annual Remuneration	-	448,124
Car Allowance	-	205,779
Contributions to UIF, Medical, Pension Funds and Group Life	-	92,970
Backpay	-	27,255
	-	774,128

The position of Director Technical Services remained vacant for the year ended 30 June 2014.

Remuneration of director corporate services

Annual Remuneration	-	481,830
Car Allowance	-	229,567
Contributions to UIF, Medical, Pension Funds and Group Life	-	91,652
Backpay	-	26,781
	-	829,830

The position of Director Corporate Services remained vacant for the year ended 30 June 2014.

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28. Employee related costs (continued)		
Remuneration of director planning and development		
Annual Remuneration	526,279	481,830
Car Allowance	283,283	259,278
Contributions to UIF, Medical, Pension Funds and Group Life	67,569	61,942
Backpay	-	26,781
	877,131	829,831
Remuneration of director community services		
Annual Remuneration	42,601	356,889
Car Allowance	18,772	192,120
Contributions to UIF, Medical, Pension Funds and Group Life	9,628	45,806
Leave payout	-	27,778
Backpay	-	25,229
	71,001	647,822
29. Remuneration of councillors		
Mayor	707,979	678,925
Speaker	637,633	549,200
Councillors	19,436,061	17,242,111
	20,781,673	18,470,236
30. Depreciation and amortisation		
Property, plant and equipment	113,596,906	108,807,867
Investment properties	184,419	184,419
Land and buildings	5,433,414	3,321,307
Intangible assets	302,335	63,996
	119,517,074	112,377,589
31. Finance costs		
Finance leases	1,858,370	3,515,632
Other interest	8,443,248	5,509,283
	10,301,618	9,024,915
32. Provision for doubtful debts		
Provision for doubtful debt	12,893,946	40,623,956
33. Repairs and maintenance		
Repairs and maintenance during the year	17,585,088	14,675,871
34. Bulk purchases		
Electricity	157,753,908	156,721,190

Included in the electricity bulk purchases is the 15.7% (2013: 17%) which relate to distribution losses. Makhado Municipality gets billed by Eskom on a monthly basis for electricity used/or given to Makhado based on readings.

MAKHADO LOCAL MUNICIPALITY

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Figures in Rand	2014	2013
35. General expenses		
Actuarial losses	2,274,930	5,920,054
Advertising	299,350	321,539
External audit fees	2,967,741	2,588,486
Assessment rates & municipal charges	595,527	682,885
Auditors remuneration	1,685,945	2,773,462
Bank charges	707,820	742,995
Bursaries	252,579	121,630
Municipal bylaws	321,113	692,721
Consulting and professional fees	7,991,061	7,800,297
Consumables	947,627	2,227,679
Cost of sales : Land	1,333,000	1,558,000
Delivery expenses	250,958	1,186
IDP representation forums	121,628	292,651
Local economic development	167,461	327,037
Employees assistance programmes	474,863	652,884
Expanded Public Works Programmes	2,461,408	1,185,254
Fuel and oil	10,082,368	8,051,589
Bush clearing	169,200	105,963
Township establishment	222,000	420,719
IT expenses	138,980	36,125
Formalisation of sites	315,542	-
Indigent policy	7,724,967	6,690,140
Insurance	1,418,657	1,898,522
Inventory written off	51,757	57,181
Lease rentals on operating lease	331,000	331,501
Levies	1,848,360	1,606,735
Loss on disposal of assets	51,552	-
Environmental management plan	431,430	-
Meter reading	1,411,150	1,596,190
Debt collectors commission	1,581,164	612,743
Non asset items	17,949,694	1,245,834
Other expenses	1,372,002	1,960,583
Postage and courier	58,903	39,767
Printing and stationery	2,706,900	2,775,149
Compilation of municipal valuation roll	5,779,889	-
Royalties and license fees	285,384	458,438
Security costs	13,891,425	13,929,355
Special programmes	1,101,527	156,928
Subscriptions and membership fees	2,175,164	1,677,466
Subscriptions and publications	1,959,126	2,370,244
Telephone and fax	2,591,417	2,320,084
Training	1,879,350	2,748,628
Travel - local	3,481,514	2,803,509
Uniforms	1,406,987	378,902
Ward committees allowances	4,724,749	6,376,959
Water transactions write off	25,269,998	-
Workmens compensation	1,981,907	1,028,583
	137,247,074	89,566,597
36. Investment earned - external investments		
Interest revenue		
Bank	1,954,654	1,341,096

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37. Interest earned- outstanding receivables		
Receivables	16,356,985	16,694,669
38. Cash generated from operations		
Surplus (deficit)	614,503	(51,393,906)
Adjustments for:		
Depreciation and amortisation	119,517,074	112,377,589
Finance costs - Finance leases	1,858,370	3,515,632
Impairment deficit	3,556,770	292,541
Debt impairment	12,893,946	40,623,956
Movements in operating lease assets and accruals	(10,000)	(1,567)
Movements in retirement benefit assets and liabilities	9,070,895	12,623,623
Movements in provisions	(7,263)	467,254
Other non-cash items	(98)	60,523,011
Changes in working capital:		
Inventories	418,437	(102,631,829)
Sundry debtors	1,250,288	11,394,618
Consumer debtors	(14,874,045)	(2,614,774)
Other receivables from non-exchange transactions	6,509,528	62,638,903
Prepayments	-	66,171
Movements in deferred income	2,701	47,259
Payables from exchange transactions	11,330,706	(39,328,753)
VAT	(5,932,470)	(2,889,062)
Unspent conditional grants and receipts	5,949,865	6,019,277
	152,149,207	111,729,943
39. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure - roads	25,262,038	73,868,330
• Infrastructure - electricity supply	15,145,151	3,405,647
• Other services	7,522,216	-
• Community halls	322,445	17,429,584
	48,251,850	94,703,561

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

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40. Contingencies

Litigations is in process against the municipality relating to a dispute with defendants in the following cases, should the judgement or ruling be in favour of the defendants the municipality will have to pay the estimated damages as indicated below:

Vhuthi Cleaning/Security Services CC : The plaintiff claims damages for unlawful termination of contract under Tender No.59 of 2008.	667,000	
Dique Jan Arnold : The plaintiff claims damages for wrongful detention by municipality's traffic officers together with SAPS officer.	60,350	60,350
Mabula NE : Claim for damages as a result of malicious prosecution of the plaintiff by the municipality's traffic officers at Vuwani SAPS.	100,000	100,000
Antoinette Albertus Yeerds : Claim for damages as a result of malicious prosecution of the plaintiff by municipality's traffic officers.	340,000	
Gobela : Claim for alleged services rendered for the training of councillors and officials of the municipality on anti-fraud and corruption.	6,369,750	6,300,000
Tshisa TM : Claim for unlawful dismissal	439,000	
Synergy Income Fund t/a Hubyeni Shopping Centre : Claim for damages being costs to unblock the shopping center sewerage line to be in proper order and cleaning of the shopping center due to the sewerage spillage.	279,515	279,515
Damages for failure to pay for services rendered	-	1,320,000
Claim regarding loss of life involving municipal infrastructure	-	2,005,000
Defendant made to pay more licence fee for his vehicle	-	19,318
The municipality is being sued for extraction of water in a private property without the approval of the owner	-	16,000,000
Tricor Signs/MLM: The claimant sold a second hand broom machine to MLM	-	102,030
Vuthi Security/MLM: Unlawful cancellation of security contract without proper notice and damaged reputation	-	1,540,000
NE Mashige/MLM: Recession of warrant of execution	-	26,400
M Makhahanise/MLM: Claim for damages against MLM for unlawful use of private information to motivate for the name change of Louis Trichardt Town to Makhado	-	100,000
Dique Jan Arnold/MLM: Claim for damages for unlawful arrest by municipal traffic officers and SAPS	-	60,000
Antoinette Albertus Geedts/MLM: Claim for payment of damages for unlawful arrest	-	216,000
SGL Engineers Consulting/MLM: Payment for outstanding consulting services on Tsianda Mutsha Road	-	66,000
Munaka Mpho/MLM: Claim for damages for broken leg after he fell on the side walk during the reconstruction of the street	-	70,000
Damages for failure to pay for services rendered	-	1,320,000
	8,255,615	29,584,613

41. Change in estimates

1. In terms of GRAP 17, the depreciation method applied to assets shall be 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 shall be changed to reflect the changed pattern. Identified movable and infrastructure assets were assessed for their remaining useful lives based on a professional judgement on their expected lifecycle.

This resulted in an additional remaining useful life in the identified various category of assets and an increase in the depreciation in the current financial year.

2. The provision on rehabilitating of the landfill site was re-assessed as at 30 June 2014, as a result of existing conditions at the landfill site on estimated costs to rehabilitate until 31 January 2015.

This resulted in a decrease in a provision and a decrease in the carrying value of the asset.

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42. Prior period errors

1. Receivables

Receivables for 2012/2013 financial year has been restated on recalculation of the provision for impairment and the recategorisation of debtors. (R 5,810,543)

Receivables for 2012/2013 financial year has been restated on reversal of interdepartmental accounts incorrectly duplicated against consumer debtors (R 7,526,672.33)

2. Income and expenditure transactions

During the financial year 2013 other income, repairs and maintenance and other general expenditures was not accounted for and the effect of the transactions is recorded as correction of error. (R 4,686,025)

The debt impairment for 2012/2013 financial year has been increased on recalculation of impairment considering the debtors payment risk factors and after recategorisation of debtors per type. (R 5,681,482)

3. VAT

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42. Prior period errors (continued)

The vat balance reported in 2013 financial year has been restated to account for vat on income and expenditure transactions not accounted for in that year which has been reported as correction of error. (R 879,630)

4. Payables from exchange transactions

Payables from prior year has been restated on reversal of accrual of interdepartmental electricity consumption which has been erroneously not reversed in 2012/2013 financial year. (R 7,107,007)

5. Property, Plant and Equipments

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under PPE was incorrectly stated as a result of land stock incorrectly classified as PPE (R1,884,313.73).

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under land and buildings was incorrectly stated as a result of omission of land that belonged to the municipality that had not been capitalised in the municipality books. (R 34,808,168)

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated infrastructure assets: electricity was incorrectly stated as a result of major spare parts that had been incorrectly classified as inventory and some that were not capitalised at all in the books of the municipality, this resulted in the prior year electricity balance being understated. (R 1,405,273)

6. Inventory

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory, was incorrectly stated as a result of land inventory duplicated as it was already accounted for as PPE (R 209,098,200)

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory, was incorrectly stated as a result of major spare parts on electricity infrastructure incorrectly classified as inventory. (R 370,950)

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory, was incorrectly stated as a result of land inventory that was not included in closing balance as it was initially earmarked for housing RDP structures. The land inventory will be subsequently sold to ordinary members of public (R 1, 862,000)

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory was incorrectly stated as a result of a mathematical casting error (R 21,729,000).

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory, was incorrectly stated as a result of land stock that was duplicated (R 11,658,000).

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory, was incorrectly stated as a result of land inventory that was sold but was still pending legal transfer to the recipients and should have been derecognised as land inventory as the risks and rewards no longer vest with the municipality.

7. Consumables

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under consumables was incorrectly stated as a result of incorrect classification for major spare parts (R 370,951)

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under inventory, was incorrectly stated as a result of water inventory off, which has been subsequently reversed (R661 116)

8. Investment properties

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under investment property was incorrectly stated as a result of depreciation that was not accounted for as the municipality accounting policy on investment properties is at cost model this resulted in the overstatement of the closing balance on investment property. (R 516,618)

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42. Prior period errors (continued)

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under investment property was incorrectly stated as a result of duplication of some PPE that was already capitalised as land inventory. (R 39,736,274)

9. Heritage assets

In the previous set of financial statements for the year ending 30 June 2013, the figure indicated under Heritage Assets was incorrectly stated as a result of the Statue of King Makhado that was not accounted for this resulted in the understatement of the closing balance of heritage assets.(R 531,000)

10. Intangible assets

In the previous set of financial statements for the year endig 30 June 2013, the figure indicated under intangible assets was incorrectly stated as a result of omission of other intangible assets that were aquired in the 2010, 2011 and 2012 financial years.(R 314,559)

11. Investments

In the previous set of financial statements for the year endig 30 June 2013, the figure indicated under interest received from external investments was understated due to investment account ommitted from the financial statements. The interest thereof amounted to (R 1999) and the capital portion amounted to (R 90,211)

12. Employee benefits

In the previous set of financial statements for the year endig 30 June 2013, the municipality erroneously ommitted to disclose the liability on post retirement medical benefits. The employee benefit liability as at 30 June 2013 increased by (R58 884 113) and actural losses increased by (R 5 310 758)

The comparative amounts affected the accumulated surplus / (deficit) as at 30 June 2013, and has been restated as follows

Statement of financial position

Payables from exchange transactions decreased by	-	7,107,007
VAT payable increased by	-	(879,630)
Sundry debtors increased by	-	201,400
Receivables from non-exchange transactions decreased by	-	(76,461)
Consumer receivables from exchange transactions decreased by	-	(13,337,215)
Historical Cost: Infrastructure Assets: Electricity	-	1,405,273
Historical Cost: Land and Buildings	-	34,808,168
Land inventory decreased by	-	(209,518,200)
Investment properties decreased by	-	(40,252,893)
Heritage assets increased by	-	531,000
Intangible assets increased by	-	314,559
Short term deposits increased by	-	90,211
Consumable stores on hand increased by	-	661,116
Employee benefits increased by	-	(58,884,113)

Statement of Financial Performance

Other income increased by	-	(5,342,084)
Repairs and maintenance increased by	-	284,582
General expenses increased by	-	3,109,509
Finance cost decreased by	-	3,761,039
Debt impairment increased by	-	5,681,482
Interest received from external investments increased by	-	(1,999)
Inventory writte off decreased by	-	(661,116)
Employee benefit vesting increased by	-	(934,704)
Actural loss increased by	-	5,310,758

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43. Comparative figures

Certain comparative figures in the statement of financial performance and the statement of financial position have been reclassified to ensure proper disclosure of other items considered to be material.

The effects of the reclassification are as follows:

Statement of financial position

Property, plant and equipment (Community assets)	1,351,997	-
Property, plant and equipment (Other Assets)	(1,351,997)	-
Major spare parts (Inventory)	(370,951)	-
Property, plant and equipment (Electricity Assets)	370,951	-

Statement of Financial Performance

Revenue from non-exchange transactions (Property rates)	(8,896,293)	(8,876,969)
General expenses (Property rates discounts)	8,896,293	8,876,969

44. 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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,194,817	-	4,736,917	-
Finance lease liability	2,199,271	16,347,328	-	-
Trade and other payables	111,199,981	-	-	-

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	2,020,668	-	7,126,549	-
Finance lease liability	3,373,337	17,656,286	-	-
Trade and other payables	107,942,402	-	-	-

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 counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored.

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45. Fruitless and wasteful expenditure

	2014	2013
Opening balance	2,835,143	1,100,631
Fruitless and wasteful expenditure current year	1,088,077	1,734,512
Condoned by council	(3,923,220)	-
	<u>-</u>	<u>2,835,143</u>

46. Irregular expenditure

Opening balance	47,389,556	-
Add : Irregular Expenditure - current year	77,692,982	47,389,556
Less : Condoned by council	(118,493,463)	-
	<u>6,589,075</u>	<u>47,389,556</u>

Analysis of expenditure awaiting condonation per age classification

Prior year	47,389,556	47,389,556
Current year	77,692,982	-
Condoned by council	(118,493,463)	-
	<u>6,589,075</u>	<u>47,389,556</u>

Details of irregular expenditure

Description of services		
Review of Makhado LED strategy	-	35,580
Supply of cleaning materials	-	27,444
Construction of piesanghoek to khunda road from gravel to surfacing	14,114,447	3,506,005
Purchasing of three graders	-	6,375,906
Purchase of vehicles	-	643,000
Construction of dzanani community hall	8,738,324	4,081,083
Sereni to mashamba road construction	7,945,654	4,937,891
Mphaila access road and bridge phase 1	6,882,903	6,029,720
Eltivillas extension 2 street surfacing	7,921,976	2,896,347
Rehabilitation of eltivillas business area street phase 1	10,247,419	2,519,586
Watervaal street rehabilitation	2,231,654	11,968,985
Supply and delivery of six new Toyota sedans	-	1,476,000
Supply and delivery of six new double cabs	-	2,322,009
Design, upgrade and refurbishment of Bungeni sports field	-	570,000
Security services at strategic points of the municipality	13,021,530	-
Compilation of municipal valuation roll	6,589,074	-
	<u>77,692,981</u>	<u>47,389,556</u>

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2,102,103	1,633,296
Amount paid - current year	(2,102,103)	(1,633,296)
	<u>-</u>	<u>-</u>

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47. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Current year subscription / fee	4,653,686	5,361,947
Amount paid - current year	(4,653,686)	(5,361,947)
	-	-
PAYE and UIF		
Current year subscription / fee	30,063,256	28,139,324
Amount paid - current year	(30,063,256)	(28,139,324)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	54,636,759	50,913,978
Amount paid - current year	(54,636,759)	(50,913,978)
	-	-
VAT		
VAT payable	2,871,463	8,803,933

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Nemafhohoni MG	166	384	550
Malange TM	2,741	-	2,741
Mathoma MP	17,558	-	17,558
Ahmed MO	22,704	914	23,618
Baloyi SR	8,234	298	8,532
Mboyi MD	2,588	3,631	6,219
	53,991	5,227	59,218

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Underwood KG	1,290	-	1,290
Nemafhohoni N	498	668	1,166
Wilson LE	2,588	-	2,588
Malima E	69	1,416	1,485
Chililo NF	131	3,981	4,112
Mahlalisa SV	667	2,973	3,640
Ahmed MO	7,040	(25)	7,015
Baloyi SR	398	12,769	13,167
Mboyi MD	29,106	-	29,106
Ngobeni NE	408	(45)	363
Mamafha TJ	631	5,491	6,122
Kennealy MD	6,124	2,611	8,735
Mathoma MP	1,404	21,732	23,136
	50,354	51,571	101,925

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

30 June 2014	Highest outstanding amount	Aging (in days)
Nemafhohoni MG	384	90
Ahmed MO	914	90
Baloyi SR	298	90
Mboyi MD	3,631	90
	5,227	360

30 June 2013	Highest outstanding amount	Aging (in days)
Mathoma MP	21,732	90
Kennealy MD	2,611	90
Baloyi SR	12,769	90
Mamafha TJ	5,491	90
Mahlalisa SV	2,973	90
Chililo NF	3,981	90
Malima E	1,416	90

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47. Additional disclosure in terms of Municipal Finance Management Act (continued)	50,973	630
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48. Events after the reporting date

There were no events after reporting date (30 June 2014), known to management that can lead to significant changes in the statement of financial position in future.

49. Unauthorised expenditure

Opening balance	145,627,236	-
Unauthorised expenditure	4,384,000	145,627,236
Less : Condoned by council	(145,627,236)	-
	<u>4,384,000</u>	<u>145,627,236</u>

Unauthorised expenditures resulted from the following:

Virements between votes however this did not result with actual aggregate overspending of the total municipal budget. The expenditure will be submitted to the next council meeting for condonment.

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50. 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.

The following is the quotation and tender deviation for the year as approved by the Accounting Officer. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Quotation deviations for the 2013/2014 financial year in terms of the Supply Chain Management Regulations amounted to R 7 367 181.

Below is a table with tender deviations for the 2013/2014 financial year.

Tender Deviation For 2013/2014 Financial Year Service Provider	Date	Description of items	Motivation	Department	
Tshikoni Construction and Services	05/8/2013	Regravelling of damaged road	Emergency	Technical	245,000
HTE Construction	05/8/2013	Regravelling of rain damaged Majosi Madobi roads	Emergency	Technical	324,045
Konanani Business Enterprise	05/8/2013	Regravelling of rain damaged Masia Kurhuleni roads	Emergency	Technical	340,000
HT Chippy Construction and Services	05/8/2013	Regravelling of rain damaged Majosi Madobi roads	Emergency	Technical	315,005
Mercurius Motors Polokwane	07/8/2013	Purchasing of mayors vehicle	Sole service provider	Community Services	761,595
Mercurius Motors Polokwane	07/8/2013	Purchasing of speakers vehicle	Sole service provider	Community Services	734,644
Mbatini	15/10/2013	Supply, installation and commissioning of airfield lights at airport	Urgent	Technical	621,881
P.D. Otto Elec	15/10/2013	Supply, installation and commission of mvx lv damaged cable at Elivilus	Urgent	Technical	505,886
Mbofho Valuation Services	15/11/2013	Valuation of 698 land stock	Urgent	Planning and Development	318,288
ITNA (Pty) Ltd	19/3/2014	Upgrade of microsoft exchange (emails) server for 250 licences and software upgrade	Urgent	Coporate Services	362,740
Rocla	29/5/2014	Supply and delivery of concrete poles	Sole services provider	Technical	2,140,521

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50. Deviation from supply chain management regulations (continued)

6,669,605

Paragraph 45(a), (b) & (c) of Government gazette No. 27636 issued on 30 May 2005 states that the notes to the annual financial statements of a municipality must disclose particulars of any awards of more than R2 000 to person who is a spouse, child or parent in the service of the state, or has been in the service of the state in previous twelve months.

51. Awards to persons in service of the state

Paragraph 45(a), (b) & (c) of Government gazette No. 27636 issued on 30 May 2005 states that the notes to the annual financial statements of a municipality must disclose particulars of any awards of more than R2 000 to person who is a spouse, child or parent in the service of the state, or has been in the service of the state in previous twelve months.

Persons awarded tenders while in service of the state

Mbofho Valuation Services (C Radzilani)	Public Investment Corporation Limited	336,691
Betram (pty) Ltd (Ms Mpungose)	LP Agriculature	13,680
E.Lek Engineering (Luyanda Gantsho)	Passenger Rail Agency	94,676
Total		<u>445,047</u>

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52. Detailed explanation of variances between actual and budgeted amounts 30 June 2014

	Current year actuals	Current year final budget	Variance	% variance	Explanations
Property rates	28,523,281	33,249,354	(4,726,072)	14	Less revenue on property rates was collected during the year than actually budgeted for.
Service charges	230,402,531	253,436,000	(23,033,469)	9	collection of income increased due enforced credit control
Government grants and subsidies	373,365,991	413,171,573	(39,805,582)	10	
Rental of facilities and equipments	505,003	243,254	261,749	(100)	Increased rental of municipal facilities during the year than anticipated.
Interest received-outstanding receivables	13,006,579	19,245,352	(6,238,773)	32	Decrease in debt collection during the year and thus less interest charged on consumer accounts.
Licences and permits	11,077,738	13,155,164	(2,077,426)	15	Licences and permits revenue raised during the year was lower than predicted.
Other income	17,631,821	10,490,194	7,141,627	68	1954654
Interest received-investments	1,954,654	1,633,186	321,468	20	Increase in investments of surplus funds during the year.
Fines	5,649,640	2,936,418	2,713,222	92	Increase in traffic fines issued and collected during the year.
Total revenue	682,117,238	747,560,495	(65,443,256)		
Personnel	(201,865,584)	(213,417,000)	11,551,416	5	
Remuneration of councillors	(20,781,673)	(19,358,811)	1,422,862	7	Reduced payments of councillors remuneration as per the gazette than initially budgeted for.
Depreciation	(119,517,074)	(137,150,000)	17,632,926	13	The budget was slightly increased to cover possible reassessment of assets.
Finance costs	(10,301,618)	(5,516,528)	4,785,090	87	
Debt impairment	(12,893,946)	(49,585,000)	36,691,054	73	Significant amount of debtors were written off during the year.
Repairs and maintenance	(17,585,088)	-	(17,585,088)	-	Reduced maintenance costs on roads as a result of the decision to reconstruct.
Bulk purchases	(157,753,908)	(174,187,545)	16,433,637	8	
General expenses	(136,666,133)	(158,281,000)	21,614,867	28	
Total expenditure	(680,921,794)	(757,495,884)	76,574,090		

53. 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 following:

The municipality has subsequently changed from the fair value model for property, plant and equipment on a once-off basis to the cost model following the initial adoption of the Standards of GRAP by applying Directive 11. This Directive shall be applied by the municipality in preparing the financial statements for periods commencing on or after 1 April 2015. Earlier application is permitted.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2013 is as follows:

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

2014

2013

53. Changes in accounting policy (continued)

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2014 annual financial statements is as follows:

54. Related parties

Makhado Local Municipality, is a category B municipalities which in terms of the Constitution of South Africa, section 155 (1) (b) means, "A Municipality that shares executive and legislative authority in its area with a category C municipality within whose area it falls. "Vhembe municipality"

Makhado Municipality is an performing agency services on behalf of Vhembe District Municipality as well as an agency service with the Department of Transport, Roads and Works related to motor Vehicle license renewal fees.

Council does not have and associates nor any joint ventures or any other form of association that may be defined as related parties

Relationships

Remuneration of councillors
Members of key management
Department of Transport
Vhembe District Municipality

Remuneration - Refer to note 29
Remuneration - Refer to note 28
Licences and permits- R 11 077 738
Water services- R 24 689 057

Municipality is involved in an Agency relationship with Vhembe District Municipality. Related party transactions are:

Municipality runs billing services for water consumption on behalf of the District. Expenditure of water related services was subsequently written off by council refer to note general expenditure disclosure.

MAKHADO LOCAL MUNICIPALITY
Appendix A

Schedule of external loans as at 30 June 2014

Loan Number	Amount	Balance at 30 June 2013	Interest paid	Redeemed written off during the period	Balance at 30 June 2014	Current portion	Long term portion
		Rand	Rand	Rand	Rand	Rand	Rand
Annuity Loans							
INCA	12,656,600	2,020,668	-	2,020,668	-	-	-
Development Bank of South Africa 1	7,000,000	5,392,143	-	881,333	4,510,810	881,333	3,629,478
Development Bank of South Africa 2	2,110,000	1,734,406	-	313,484	1,420,922	313,484	1,107,439
		9,147,217	-	3,215,485	5,931,732	1,194,817	4,736,917
Total external loans							
Annuity Loans		9,147,217	-	3,215,485	5,931,732	1,194,817	4,736,917
		9,147,217	-	3,215,485	5,931,732	1,194,817	4,736,917

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2014
Accumulated depreciation
Cost/Revaluation

	Opening Balance Rand	Correction of errors Rand	Additions Rand	Transfers Rand	Revaluations Rand	Work in progress Rand	Closing Balance Rand	Opening Balance Rand	Correction of errors Rand	Additions Rand	Transfers Rand	Impairment/Revalu ations Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Developed land	211,048,050	9,586,088	-	-	-	-	220,634,138	-	-	-	-	-	-	220,634,138
Undeveloped land	56,287,763	25,037,460	-	-	-	-	81,325,223	-	-	-	-	-	-	81,325,223
Dwellings	17,846,547	61,203	-	(61,203)	-	-	17,846,547	1,309,083	-	588,521	-	-	1,877,604	15,968,943
Landfill site	6,747,280	-	3,577,901	-	-	3,526,420	13,851,601	3,241,206	-	3,683,995	-	-	6,925,201	6,926,399
Non residential structures	35,641,261	123,418	23,672,756	(123,418)	-	-	59,314,017	9,680,564	-	1,180,898	-	-	10,861,462	48,452,555
	327,580,901	34,808,169	27,250,657	(184,621)	-	3,526,420	392,981,526	14,230,853	-	5,433,414	-	-	19,664,267	373,317,258
Infrastructure														
Electricity	921,380,029	1,227,273	2,073,453	(9,400,958)	-	15,773,042	931,052,839	284,403,651	-	40,719,987	-	-	335,123,638	595,929,202
Roads	940,906,092	-	100,849,031	(57,072,807)	-	18,671,124	1,003,353,640	199,293,344	-	58,572,150	-	-	257,865,494	745,488,145
	1,862,286,121	1,227,273	102,922,484	(66,473,565)	-	34,444,166	1,934,406,479	483,696,995	-	99,292,137	-	-	592,989,132	1,341,417,347
Other														
Machinery and equipment	25,082,992	-	3,030,068	-	-	-	28,113,060	10,098,820	-	2,695,445	-	-	12,794,265	15,328,825
Furniture and office equipment	2,102,066	-	300,066	-	-	-	9,410,131	3,989,619	-	658,055	-	-	4,647,674	4,762,457
Computer equipment	5,789,050	-	878,836	-	-	-	6,677,886	3,316,373	-	780,163	-	-	4,096,536	2,581,350
Transport assets	33,965,021	-	1,621,238	-	-	-	35,576,259	12,031,638	-	5,086,942	-	-	17,128,580	18,447,680
Library books	1,688,551	-	381,713	-	-	-	2,050,264	336,554	-	409,792	-	-	746,346	1,303,918
	75,637,680	-	6,199,950	-	-	-	81,837,630	29,773,004	-	9,640,397	-	-	39,413,401	42,424,230

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2014
Accumulated depreciation

	Opening Balance Rand	Correction of errors Rand	Additions Rand	Transfers Rand	Revaluations Rand	Work in progress Rand	Closing Balance Rand	Opening Balance Rand	Correction of errors Rand	Additions Rand	Transfers Rand	Impairment/Revaluations Rand	Closing Balance Rand	Carrying value Rand
Finance lease														
Finance leased assets	25,428,907	-	962,114	(1,365,381)	-	-	25,025,640	12,160,732	-	3,674,813	(1,170,282)	-	14,665,263	10,360,377
	25,428,907	-	962,114	(1,365,381)	-	-	25,025,640	12,160,732	-	3,674,813	(1,170,282)	-	14,665,263	10,360,377
Community assets														
Cemeteries	6,293,689	-	-	-	-	-	6,293,689	1,956,120	-	208,923	-	-	2,165,043	4,128,646
Cemeteries perimeter protection	183,978	-	-	-	-	-	183,978	95,244	-	95,276	-	-	99,520	84,458
Community center	27,784,530	-	-	(8,396,784)	-	-	19,387,746	10,089,327	-	437,623	-	-	10,526,950	8,860,796
Libraries	1,567,592	-	-	-	-	-	1,567,592	434,098	-	39,438	-	-	473,536	1,094,057
Sport and recreational facilities	10,988,362	-	-	-	1,183,989	-	12,172,351	3,802,512	-	299,300	-	-	4,101,812	8,070,539
	46,818,151	-	-	(8,396,784)	-	1,183,989	39,605,356	16,377,301	-	989,560	-	-	17,366,861	22,238,496

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2014
Accumulated depreciation

Cost/Revaluation

	Opening Balance	Correction of errors	Additions	Transfers	Revaluations	Work in progress	Closing Balance	Opening Balance	Correction of errors	Additions	Transfers	Impairment/Revaluations	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Total property plant and equipment														
Land and buildings	327,580,901	34,808,169	27,250,657	(184,621)	-	3,526,420	392,981,526	14,230,853	-	5,433,414	-	-	19,664,267	373,317,258
Infrastructure	1,862,286,121	1,227,273	102,922,484	(66,473,565)	-	34,444,166	1,934,406,479	493,696,995	-	99,292,137	-	-	592,989,132	1,341,417,347
Other	75,637,680	-	6,199,950	-	-	-	81,837,630	29,773,004	-	9,640,397	-	-	39,413,401	42,424,230
Finance lease	25,428,907	-	962,114	(1,365,381)	-	-	25,025,640	12,160,732	-	3,674,813	(1,170,282)	-	14,665,263	10,360,377
Community assets	46,818,151	-	-	(8,396,784)	-	1,183,989	39,605,356	16,377,301	-	989,560	-	-	17,366,861	22,238,496
	2,337,751,760	36,035,442	137,335,205	(76,420,351)	-	39,154,575	2,473,856,631	586,238,885	-	119,030,321	(1,170,282)	-	684,098,924	1,789,757,708
Investment properties														
Developed land	44,033,525	(39,736,274)	-	-	-	-	4,297,251	-	-	-	-	-	-	4,297,251
Dwellings	6,482,575	-	-	-	-	-	6,482,575	-	516,618	184,419	-	-	701,037	5,781,538
Non residential structures	1,975,362	-	-	-	-	-	1,975,362	-	-	-	-	-	-	1,975,362
	52,491,462	(39,736,274)	-	-	-	-	12,755,188	-	516,618	184,419	-	-	701,037	12,054,151
Intangible assets														
Computers - software & programming	1,384,395	458,658	-	-	-	-	1,843,053	996,389	144,098	158,237	-	-	1,298,724	544,329
	1,384,395	458,658	-	-	-	-	1,843,053	996,389	144,098	158,237	-	-	1,298,724	544,329
Heritage assets														
Heritage assets	520,979	531,000	-	-	-	-	1,051,979	-	-	-	-	-	-	1,051,979
	520,979	531,000	-	-	-	-	1,051,979	-	-	-	-	-	-	1,051,979
Total														
Land and buildings	327,580,901	34,808,169	27,250,657	(184,621)	-	3,526,420	392,981,526	14,230,853	-	5,433,414	-	-	19,664,267	373,317,258
Infrastructure	1,862,286,121	1,227,273	102,922,484	(66,473,565)	-	34,444,166	1,934,406,479	493,696,995	-	99,292,137	-	-	592,989,132	1,341,417,347
Other	75,637,680	-	6,199,950	-	-	-	81,837,630	29,773,004	-	9,640,397	-	-	39,413,401	42,424,230
Finance lease	25,428,907	-	962,114	(1,365,381)	-	-	25,025,640	12,160,732	-	3,674,813	(1,170,282)	-	14,665,263	10,360,377
Community assets	46,818,151	-	-	(8,396,784)	-	1,183,989	39,605,356	16,377,301	-	989,560	-	-	17,366,861	22,238,496
Investment properties	52,491,462	(39,736,274)	-	-	-	-	12,755,188	-	516,618	184,419	-	-	701,037	12,054,151
Intangible assets	1,384,395	458,658	-	-	-	-	1,843,053	996,389	144,098	158,237	-	-	1,298,724	544,329
Heritage assets	520,979	531,000	-	-	-	-	1,051,979	-	-	-	-	-	-	1,051,979
	2,392,148,596	(2,711,174)	137,335,205	(76,420,351)	-	39,154,575	2,489,506,851	567,235,274	660,716	119,372,977	(1,170,282)	-	686,098,685	1,803,405,167

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2013
Accumulated depreciation

Cost/Revaluation

	Opening Balance Rand	Correction of errors Rand	Additions Rand	Work in progress Rand	Disposal Rand	Work in progress Rand	Work in progress Rand	Opening Balance Rand	Correction of errors Rand	Additions Rand	Disposals Rand	Impairment/Revaluations Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Developed land	211,048,050	-	-	-	-	-	-	211,048,050	-	-	-	-	211,048,050	211,048,050
Undeveloped land	56,297,763	-	-	-	-	-	-	56,297,763	-	-	-	-	56,297,763	56,297,763
Dwellings	17,846,547	-	-	-	-	-	-	17,846,547	-	568,910	-	-	1,309,083	18,537,464
Landfill site	5,497,139	-	-	1,250,141	-	-	1,591,151	7,401,733	-	1,650,055	-	-	9,741,889	10,531,828
Non residential structures	35,641,261	-	-	-	-	-	8,578,224	44,219,485	-	1,102,341	-	-	45,321,826	46,431,767
	326,330,760	-	-	1,250,141	-	-	10,909,548	338,530,451	-	3,321,306	-	-	341,851,757	342,973,503
Infrastructure														
Electricity	912,886,949	-	-	8,493,080	-	-	253,664,631	1,174,480,659	-	40,739,020	-	-	1,215,219,679	1,215,219,679
Roads	888,474,671	-	-	52,431,421	-	-	142,698,235	1,083,574,327	-	56,356,601	-	38,509	1,140,470,433	1,140,470,433
	1,801,361,620	-	-	60,924,501	-	-	396,362,866	2,168,054,986	-	97,102,380	-	38,509	2,265,437,773	2,265,437,773
Other														
Machinery and equipment	18,359,762	-	6,753,230	-	-	-	7,994,883	25,113,045	-	2,103,937	-	-	27,217,025	27,217,025
Furniture and office equipment	8,544,372	-	557,694	-	-	-	3,423,228	12,529,364	-	566,392	-	-	13,623,056	13,623,056
Computer equipment	4,965,139	-	631,911	-	-	-	2,652,563	8,249,623	-	683,811	-	-	8,933,434	8,933,434
Transport assets	25,892,471	-	8,062,350	-	-	-	8,945,724	42,912,545	-	3,085,914	-	-	46,003,459	46,003,459
	57,781,744	-	16,185,385	-	-	-	23,016,398	96,983,527	-	6,420,054	-	-	103,403,581	103,403,581

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2013
Accumulated depreciation

	Cost/Revaluation				Accumulated depreciation				Carrying value Rand					
	Opening Balance Rand	Correction of errors Rand	Additions Rand	Work in progress Rand	Disposal Rand	Work in progress Rand	Closing Balance Rand	Opening Balance Rand		Impairment/Revalu ations Rand	Disposals Rand	Additions Rand	Correction of errors Rand	Closing Balance Rand
Finance leases														
Finance lease assets	25,428,907	-	-	-	-	25,428,907	8,205,868	3,954,864	-	-	-	-	12,160,732	13,268,174
	25,428,907	-	-	-	-	25,428,907	8,205,868	3,954,864	-	-	-	-	12,160,732	13,268,174
Investment property														
Community assets														
Cemeteries	6,293,689	-	-	-	-	6,293,689	1,747,054	209,066	-	-	-	-	1,956,120	4,337,569
Cemeteries perimeter protection	183,978	-	-	-	-	183,978	90,966	4,278	-	-	-	-	95,244	88,734
Community center	22,182,818	-	-	-	-	22,182,818	9,651,404	437,923	-	-	-	-	10,089,327	17,695,203
Libraries	1,567,592	-	-	-	-	1,567,592	394,635	39,465	-	-	-	-	434,100	1,133,494
Sport and recreational facilities	9,993,413	-	-	-	-	9,993,413	3,238,438	310,042	-	-	-	-	3,548,480	7,185,850
Library books	-	-	1,688,551	-	-	1,688,551	-	336,554	-	-	-	-	336,554	1,351,997
	40,221,490	-	1,688,551	-	-	41,910,041	15,122,497	1,337,328	-	-	-	-	16,459,825	31,792,847

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2013
Accumulated depreciation

	Opening Balance	Correction of errors	Additions	Work in progress	Disposal	Work in progress	Closing Balance	Opening Balance	Correction of errors	Additions	Disposals	Impairment/Revaluations	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Total property plant and equipment														
Land and buildings	326,330,760	-	-	1,250,141	-	1,250,141	327,580,901	10,909,548	-	3,321,306	-	-	14,230,854	313,350,047
Infrastructure	1,801,361,620	-	-	60,924,501	-	60,924,501	1,862,286,121	396,578,077	-	97,102,380	-	38,509	493,718,966	1,368,589,125
Other	57,781,744	-	16,185,385	-	-	-	73,967,129	23,016,398	-	6,420,054	-	-	29,436,452	44,512,678
Finance leases	25,428,907	-	-	-	-	-	25,428,907	8,205,868	-	3,954,864	-	-	12,160,732	13,288,174
Community assets	40,221,490	-	1,688,551	-	-	-	41,910,041	15,122,497	-	1,337,328	-	-	16,459,825	31,792,847
	2,251,124,521	-	17,873,936	62,174,642	-	62,174,642	2,331,173,099	453,832,388	-	112,135,932	-	38,509	566,006,829	1,771,512,871
Investment properties														
Developed land	44,033,525	-	-	-	-	-	44,033,525	-	-	-	-	-	-	44,033,525
Dwellings	6,482,575	-	-	-	-	-	6,482,575	-	-	-	-	-	-	6,482,575
Non residential structures	1,975,362	-	-	-	-	-	1,975,362	-	-	-	-	-	-	1,975,362
	52,491,462	-	-	-	-	-	52,491,462	-	-	-	-	-	-	52,491,462
Intangible assets														
Computers - software & programming	1,134,395	-	250,000	-	-	-	1,384,395	932,385	-	63,996	-	-	996,381	388,014
	1,134,395	-	250,000	-	-	-	1,384,395	932,385	63,996	-	-	-	996,381	388,014
Heritage assets														
Heritage assets	520,979	-	-	-	-	-	520,979	-	-	-	-	-	-	520,979
	520,979	-	-	-	-	-	520,979	-	-	-	-	-	-	520,979
Total														
Land and buildings	326,330,760	-	-	1,250,141	-	1,250,141	327,580,901	10,909,548	-	3,321,306	-	-	14,230,854	313,350,047
Infrastructure	1,801,361,620	-	-	60,924,501	-	60,924,501	1,862,286,121	396,578,077	-	97,102,380	-	38,509	493,696,996	1,368,589,125
Other	57,781,744	-	16,185,385	-	-	-	73,967,129	23,016,398	-	6,420,054	-	-	29,436,452	44,512,678
Finance leases	25,428,907	-	-	-	-	-	25,428,907	8,205,868	-	3,954,864	-	-	12,160,732	13,288,174
Community assets	40,221,490	-	1,688,551	-	-	-	41,910,041	15,122,497	-	1,337,328	-	-	16,459,825	31,792,847
Investment properties	52,491,462	-	-	-	-	-	52,491,462	-	-	-	-	-	-	52,491,462
Intangible assets	1,134,395	-	250,000	-	-	-	1,384,395	932,385	-	63,996	-	-	996,381	388,014
Heritage assets	520,979	-	-	-	-	-	520,979	-	-	-	-	-	-	520,979
	2,305,271,357	-	18,123,936	62,174,642	-	62,174,642	2,385,569,935	454,764,773	112,199,928	-	-	38,509	566,981,240	1,824,913,326

