



City of Ekurhuleni  
Annual Financial Statements  
for the year ended 30 June 2018

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## General Information

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<b>Legal form of entity</b>	City
<b>Legislation governing the entity's operations</b>	Municipal Finance Management Act (Act No. 56 of 2003)
<b>Mayoral Committee</b>	
Executive Mayor	Clr M Masina
Speaker	Clr P Khumalo
Chief Whip	Chief Whip: Clr J Dlabathi
Members of Mayoral Committee	MMC: Finance and Economic Development: Clr D Xhakaza MMC: Community Services: Clr D Mlambo MMC: Human Settlement: Clr L Mpya MMC: Environmental and Waste Management Services: Clr N Shongwe MMC: City Planning: Clr M Madhlaba MMC: Corporate and Shared Services: Clr K Mabaso MMC: Water, Sanitation and Energy: Clr T Nketele MMC: Community Safety: Clr V Chauke MMC: Infrastructure Services: Clr R Mashego MMC: Transport Planning: Clr P Mabunda
<b>Grading of local authority</b>	The City is a category A grade 6 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers act, 1998.
<b>City Manager</b>	Dr. I Mashazi 011 999 0760 imogen.mashazi@ekurhuleni.gov.za
<b>Group Chief Financial Officer (GCFO)</b>	Ms.G Malaza 011 999 6511 gugu.malaza@ekurhuleni.gov.za
<b>Registered office</b>	Corner of Rose and Cross Streets Germiston 1400
<b>Business address</b>	Corner of Rose and Cross Streets Germiston 1400
<b>Postal address</b>	Private Bag X69 Germiston 1400
<b>Bankers</b>	Nedbank
<b>Auditors</b>	Auditor-General of South Africa

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

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

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### Abbreviations

MEC	Member of the Executive Council
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GAMAP	Generally Accepted Municipal Accounting Practice
IPSAS	International Public Sector Accounting Standards
CoE	City of Ekurhuleni
GRAP	Generally Recognised Accounting Practice
SDL	Skills Development Levy
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
WCA	Workmans Compensation Act

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the City as at 30 June 2018 and the results of its operations and cash flows for the year then ended.

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 she is ultimately responsible for the system of internal financial control established by the City 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 City and all employees are required to maintain the highest ethical standards in ensuring the City's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the City is on identifying, assessing, managing and monitoring all known forms of risk across the City. While operating risk cannot be fully eliminated, the City 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 City's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the City has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the City, she is supported by the City's internal auditors.

The annual financial statements set out on pages 4 to 90 which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 August 2018.

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**Accounting Officer**  
**Dr. I Mashazi**

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**Group Chief Financial Officer**  
**Ms. G Malaza**

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investment property	3	485 963 516	452 597 143
Property, plant and equipment	4	52 243 651 254	49 162 809 788
Intangible assets	5	802 088 549	535 212 725
Heritage assets	6	62 583 512	62 583 512
Investments in controlled entities	7	106	106
Other investments	8	1 621 372 812	1 454 100 491
Long term receivables	9	3 317 824	3 124 380
		<b>55 218 977 573</b>	<b>51 670 428 145</b>
<b>Current Assets</b>			
Inventories	10	1 004 200 065	532 294 496
Other investments	8	547 105 419	116 916 646
Receivables from exchange transactions	11	1 227 577 823	891 333 660
Receivables from non-exchange transactions	12	62 252 027	40 403 310
Consumer debtors	13	5 486 430 787	4 778 588 110
Cash and cash equivalents	14	3 534 467 662	5 809 953 546
		<b>11 862 033 783</b>	<b>12 169 489 768</b>
<b>Total Assets</b>		<b>67 081 011 356</b>	<b>63 839 917 913</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Long term liabilities	15	5 497 508 615	4 669 348 050
Retirement benefit obligation	16	1 954 081 581	2 138 634 653
Provisions	17	914 593 869	834 046 367
		<b>8 366 184 065</b>	<b>7 642 029 070</b>
<b>Current Liabilities</b>			
Long term liabilities	15	502 569 199	402 710 089
Trade and other-payables from exchange transactions	18	7 375 085 737	7 126 290 662
Deposits	19	866 331 112	806 762 579
Unspent conditional grants and receipts	20	306 387 355	113 408 897
Provisions	17	593 887 616	477 371 489
		<b>9 644 261 019</b>	<b>8 926 543 716</b>
<b>Total Liabilities</b>		<b>18 010 445 084</b>	<b>16 568 572 786</b>
<b>Net Assets</b>		<b>49 070 566 272</b>	<b>47 271 345 127</b>
<b>Net Assets Attributable to Owners of Controlling Entity</b>			
Accumulated surplus		49 070 566 272	47 271 345 127

\* See Note 43

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated
<b>Revenue</b>			
Property rates	23	5 200 065 020	3 870 562 791
Property rates - penalties and collection charges		57 700 398	51 859 928
Service charges	24	18 930 199 029	18 746 400 361
Rental of facilities and equipment	25	73 830 270	67 521 340
Interest earned - outstanding debtors		279 018 363	304 694 051
Licences and permits		54 880 804	50 248 868
Income from agency services		293 198 719	282 218 826
Fines		334 253 645	282 428 172
Government grants & subsidies	26	7 532 975 220	6 836 096 411
Public contributions and donations		289 325 277	207 639
Interest revenue	27	609 502 980	637 392 535
Other income	28	330 362 766	156 816 712
<b>Total revenue</b>		<b>33 985 312 491</b>	<b>31 286 447 634</b>
<b>Expenditure</b>			
Employee related costs	29	(7 296 665 516)	(6 051 005 520)
Remuneration of councillors	30	(132 699 899)	(119 944 483)
Depreciation and amortisation	31	(2 223 414 977)	(1 885 512 196)
Impairment and derecognition loss	32	(83 938 847)	(228 691 387)
Finance costs	33	(921 399 008)	(901 847 024)
Debt impairment	34	(1 343 987 162)	(2 609 578 888)
Collection costs		(197 262 755)	(141 193 723)
Bulk purchases	35	(12 942 247 832)	(12 402 510 939)
Contracted services	37	(1 345 357 693)	(1 061 353 750)
Grants and subsidies paid	38	(1 724 782 549)	(1 086 755 916)
General expenses	39	(3 970 811 985)	(3 628 339 636)
<b>Total expenditure</b>		<b>(32 182 568 223)</b>	<b>(30 116 733 462)</b>
<b>Operating surplus</b>		<b>1 802 744 268</b>	<b>1 169 714 172</b>
(Loss)/profit on disposal of capital assets		(3 523 123)	7 951 480
<b>Surplus before taxation</b>		<b>1 799 221 145</b>	<b>1 177 665 652</b>
<b>Surplus for the year</b>		<b>1 799 221 145</b>	<b>1 177 665 652</b>

\* See Note 43

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

	Accumulated surplus	Total attributable to owners of the controlling entity	Non-controlling interest	Total net assets
Figures in Rand				
Opening balance as previously reported	45 131 448 476	45 131 448 476	-	45 131 448 476
<b>Balance at 01 July 2016</b>	<b>45 360 739 366</b>	<b>45 360 739 366</b>	-	<b>45 360 739 366</b>
Changes in net assets				
Other 3	732 940 109	732 940 109	-	732 940 109
Net income (losses) recognised directly in net assets	732 940 109	732 940 109	-	732 940 109
Surplus for the year	1 177 665 652	1 177 665 652	-	1 177 665 652
Total recognised income and expenses for the year	1 910 605 761	1 910 605 761	-	1 910 605 761
Total changes	1 910 605 761	1 910 605 761	-	1 910 605 761
<b>Restated* Balance at 01 July 2017</b>	<b>47 271 345 127</b>	<b>47 271 345 127</b>	-	<b>47 271 345 127</b>
Changes in net assets				
Surplus for the year	1 799 221 145	1 799 221 145	-	1 799 221 145
Total changes	1 799 221 145	1 799 221 145	-	1 799 221 145
<b>Balance at 30 June 2018</b>	<b>49 070 566 272</b>	<b>49 070 566 272</b>	-	<b>49 070 566 272</b>

\* See Note 43

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		4 953 044 152	3 705 249 088
Income from rendering of services		17 424 887 360	17 371 751 635
Grants - operational		5 494 736 267	4 727 762 787
Grants - capital		2 194 261 127	1 788 456 632
Interest income		605 470 764	637 392 537
Other receipts		984 957 379	758 660 659
		<u>31 657 357 049</u>	<u>28 989 273 338</u>
<b>Payments</b>			
Employee costs		(7 885 569 717)	(6 844 593 556)
Suppliers		(17 592 799 861)	(17 173 514 938)
Finance costs		(577 989 088)	(554 861 393)
Other payments		(2 432 441 219)	(1 239 994 731)
		<u>(28 488 799 885)</u>	<u>(25 812 964 618)</u>
<b>Net cash flows from operating activities</b>	40	<b><u>3 168 557 164</u></b>	<b><u>3 176 308 720</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment (PPE)	4	(5 260 268 043)	(4 372 471 600)
Purchase of investment property	3	(40 779 611)	(31 039 119)
Purchase of intangible assets	5	(334 762 909)	(299 838 451)
Increase in investments		(795 887 037)	(328 165 856)
Net movements in long-term receivables not due to cash movements		66 344	-
		<u>(6 431 631 256)</u>	<u>(5 031 515 026)</u>
<b>Net cash flows from investing activities</b>		<b><u>(6 431 631 256)</u></b>	<b><u>(5 031 515 026)</u></b>
<b>Cash flows from financing activities</b>			
Long-term liabilities raised		1 300 000 000	-
Repayment of long term liabilities		(371 980 325)	(363 604 563)
Net movement in consumer deposits		59 568 533	56 178 180
		<u>987 588 208</u>	<u>(307 426 383)</u>
<b>Net cash flows from financing activities</b>		<b><u>987 588 208</u></b>	<b><u>(307 426 383)</u></b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b><u>(2 275 485 884)</u></b>	<b><u>(2 162 632 689)</u></b>
Cash and cash equivalents at the beginning of the year		5 809 953 546	7 972 586 235
<b>Cash and cash equivalents at the end of the year</b>	14	<b><u>3 534 467 662</u></b>	<b><u>5 809 953 546</u></b>



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## 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						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	39 439 578 508	199 800 624	<b>39 639 379 132</b>	18 930 199 029	<b>(20 709 180 103)</b>	Note 54
Rental of facilities and equipment	158 242 504	-	<b>158 242 504</b>	73 830 270	<b>(84 412 234)</b>	Note 54
Interest received (trading)	938 216 652	-	<b>938 216 652</b>	279 018 363	<b>(659 198 289)</b>	Note 54
Agency services	638 620 582	-	<b>638 620 582</b>	293 198 719	<b>(345 421 863)</b>	Note 54
Licences and permits	155 996 513	-	<b>155 996 513</b>	54 880 804	<b>(101 115 709)</b>	Note 54
Other income - (rollup)	1 065 624 242	-	<b>1 065 624 242</b>	330 362 766	<b>(735 261 476)</b>	Note 54
Interest received - investment	784 973 819	-	<b>784 973 819</b>	609 502 980	<b>(175 470 839)</b>	Note 54
<b>Total revenue from exchange transactions</b>	<b>43 181 252 820</b>	<b>199 800 624</b>	<b>43 381 053 444</b>	<b>20 570 992 931</b>	<b>(22 810 060 513)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	10 124 495 504	289 280 936	<b>10 413 776 440</b>	5 200 065 020	<b>(5 213 711 420)</b>	Note 54
Property rates - penalties imposed	204 467 160	(93 385 214)	<b>111 081 946</b>	57 700 398	<b>(53 381 548)</b>	Note 54
<b>Transfer revenue</b>						
Government grants & subsidies	15 420 502 240	167 383 208	<b>15 587 885 448</b>	7 532 975 220	<b>(8 054 910 228)</b>	Note 54
Public contributions and donations	-	-	-	289 325 277	<b>289 325 277</b>	Note 54
Fines, Penalties and Forfeits	608 747 592	(50 000 000)	<b>558 747 592</b>	334 253 645	<b>(224 493 947)</b>	Note 54
<b>Total revenue from non-exchange transactions</b>	<b>26 358 212 496</b>	<b>313 278 930</b>	<b>26 671 491 426</b>	<b>13 414 319 560</b>	<b>(13 257 171 866)</b>	
<b>Total revenue</b>	<b>69 539 465 316</b>	<b>513 079 554</b>	<b>70 052 544 870</b>	<b>33 985 312 491</b>	<b>(36 067 232 379)</b>	
<b>Expenditure</b>						
Personnel	(16 304 373 825)	339 536 122	<b>(15 964 837 703)</b>	(7 296 665 516)	<b>8 668 172 187</b>	Note 54
Remuneration of councillors	(257 503 640)	(7 000 000)	<b>(264 503 640)</b>	(132 699 899)	<b>131 803 741</b>	Note 54
Depreciation and amortisation	(4 003 748 502)	-	<b>(4 003 748 502)</b>	(2 223 414 977)	<b>1 780 333 525</b>	Note 54
Impairment loss/ Reversal of impairments	-	-	-	(83 938 847)	<b>(83 938 847)</b>	Note 54
Finance costs	(1 539 570 134)	264 640 498	<b>(1 274 929 636)</b>	(921 399 008)	<b>353 530 628</b>	Note 54
Debt Impairment	(3 090 813 677)	434 622 168	<b>(2 656 191 509)</b>	(1 343 987 162)	<b>1 312 204 347</b>	Note 54
Collection costs	(402 901 767)	(9 639 102)	<b>(412 540 869)</b>	(197 262 755)	<b>215 278 114</b>	Note 54
Bulk purchases	(25 838 368 473)	(126 711 494)	<b>(25 965 079 967)</b>	(12 942 247 832)	<b>13 022 832 135</b>	Note 54
Contracted Services	(2 236 123 955)	(481 022 339)	<b>(2 717 146 294)</b>	(1 345 357 693)	<b>1 371 788 601</b>	Note 54
Transfers and Subsidies	(2 086 813 085)	(1 165 182 790)	<b>(3 251 995 875)</b>	(1 724 782 549)	<b>1 527 213 326</b>	Note 54
General Expenses	(9 918 649 608)	870 042 503	<b>(9 048 607 105)</b>	(3 970 811 985)	<b>5 077 795 120</b>	Note 54
<b>Total expenditure</b>	<b>(65 678 866 666)</b>	<b>119 285 566</b>	<b>(65 559 581 100)</b>	<b>(32 182 568 223)</b>	<b>33 377 012 877</b>	
<b>Operating surplus</b>	<b>3 860 598 650</b>	<b>632 365 120</b>	<b>4 492 963 770</b>	<b>1 802 744 268</b>	<b>(2 690 219 502)</b>	
Loss on non-current assets held for sale or disposal groups	(30 000 000)	-	<b>(30 000 000)</b>	(3 523 123)	<b>26 476 877</b>	Note 54
Surplus on distribution of non-cash assets to owners	(599 013 572)	752 924 788	<b>153 911 216</b>	-	<b>(153 911 216)</b>	Note 54
	<b>(629 013 572)</b>	<b>752 924 788</b>	<b>123 911 216</b>	<b>(3 523 123)</b>	<b>(127 434 339)</b>	
<b>Surplus before taxation</b>	<b>3 231 585 078</b>	<b>1 385 289 908</b>	<b>4 616 874 986</b>	<b>1 799 221 145</b>	<b>(2 817 653 841)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>3 231 585 078</b>	<b>1 385 289 908</b>	<b>4 616 874 986</b>	<b>1 799 221 145</b>	<b>(2 817 653 841)</b>	

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

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### Reconciliation

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The reasons for the difference between budget and actuals, refer to note 55.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts (Appropriation Statement)

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2018</b>											
<b>Financial Performance</b>											
Property rates	10 328 962 664	195 895 722	10 524 858 386	-	1	10 524 858 387	5 257 765 418		(5 267 092 969)	50 %	51 %
Service charges	39 439 578 508	199 800 624	39 639 379 132	-	(19 650 000)	39 619 729 132	18 930 199 029		(20 689 530 103)	48 %	48 %
Investment revenue	784 973 819	-	784 973 819	-	-	784 973 819	609 502 980		(175 470 839)	78 %	78 %
Transfers recognised - operational	10 831 173 756	257 217 750	11 088 391 506	-	-	11 088 391 506	5 500 093 724		(5 588 297 782)	50 %	51 %
Other own revenue	3 565 448 085	(50 000 000)	3 515 448 085	-	(1)	3 515 448 084	1 294 838 148		(2 220 609 936)	37 %	36 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>64 950 136 832</b>	<b>602 914 096</b>	<b>65 553 050 928</b>	-	<b>(19 650 000)</b>	<b>65 533 400 928</b>	<b>31 592 399 299</b>		<b>(33 941 001 629)</b>	<b>48 %</b>	<b>49 %</b>
Employee costs	(16 304 373 825)	339 536 122	(15 964 837 703)	-	-	(15 964 837 703)	(7 296 665 516)		- 8 668 172 187	46 %	45 %
Remuneration of councillors	(257 503 640)	(7 000 000)	(264 503 640)	-	-	(264 503 640)	(132 699 899)		- 131 803 741	50 %	52 %
Debt impairment	(3 090 813 677)	434 622 168	(2 656 191 509)	-	-	(2 656 191 509)	(1 343 987 162)		- 1 312 204 347	51 %	43 %
Depreciation and asset impairment	(4 003 748 502)	-	(4 003 748 502)	-	-	(4 003 748 502)	(2 307 353 824)		- 1 696 394 678	58 %	58 %
Finance charges	(1 539 570 134)	264 640 498	(1 274 929 636)	-	-	(1 274 929 636)	(921 399 008)		- 353 530 628	72 %	60 %
Materials and bulk purchases	(25 838 368 473)	(126 711 494)	(25 965 079 967)	-	-	(25 965 079 967)	(12 942 247 832)		- 13 022 832 135	50 %	50 %
Transfers and grants	(2 086 813 085)	(1 165 182 790)	(3 251 995 875)	-	-	(3 251 995 875)	(1 724 782 549)		- 1 527 213 326	53 %	83 %
Other expenditure	(12 587 675 330)	379 381 062	(12 208 294 268)	-	-	(12 208 294 268)	(5 461 507 504)		- 6 746 786 764	45 %	43 %
<b>Total expenditure</b>	<b>(65 708 866 666)</b>	<b>119 285 566</b>	<b>(65 589 581 100)</b>	-	-	<b>(65 589 581 100)</b>	<b>(32 130 643 294)</b>		<b>- 33 458 937 806</b>	<b>49 %</b>	<b>49 %</b>
<b>Surplus/(Deficit)</b>	<b>(758 729 834)</b>	<b>722 199 662</b>	<b>(36 530 172)</b>	-	<b>(19 650 000)</b>	<b>(56 180 172)</b>	<b>(538 243 995)</b>		<b>(482 063 823)</b>	<b>958 %</b>	<b>71 %</b>
Transfers recognised - capital	4 589 328 484	(89 834 542)	4 499 493 942	-	27 466 000	4 526 959 942	1 997 953 813		(2 529 006 129)	44 %	44 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	289 325 277		289 325 277	- %	- %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>3 830 598 650</b>	<b>632 365 120</b>	<b>4 462 963 770</b>	-	<b>7 816 000</b>	<b>4 470 779 770</b>	<b>1 749 035 095</b>		<b>(2 721 744 675)</b>	<b>39 %</b>	<b>46 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>3 830 598 650</b>	<b>632 365 120</b>	<b>4 462 963 770</b>	-	<b>7 816 000</b>	<b>4 470 779 770</b>	<b>1 749 035 095</b>		<b>(2 721 744 675)</b>	<b>39 %</b>	<b>46 %</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	6 399 356 712	(37 404 386)	6 361 952 326	-		6 361 952 326	5 635 810 563		(726 141 763)	89 %	88 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	2 303 664 242	(17 540 328)	2 286 123 914	-		2 286 123 914	-		(2 286 123 914)	- %	- %
Internally generated funds	4 095 692 470	(19 864 058)	4 075 828 412	-		4 075 828 412	-		(4 075 828 412)	- %	- %
<b>Total sources of capital funds</b>	<b>6 399 356 712</b>	<b>(37 404 386)</b>	<b>6 361 952 326</b>	<b>-</b>		<b>6 361 952 326</b>	<b>-</b>		<b>(6 361 952 326)</b>	<b>- %</b>	<b>- %</b>
<b>Cash flows</b>											
Net cash from (used) operating	5 286 376 246	1 848 100 054	7 134 476 300	-		7 134 476 300	3 168 557 164		(3 965 919 136)	44 %	60 %
Net cash from (used) investing	(6 483 957 668)	(575 898 937)	(7 059 856 605)	-		(7 059 856 605)	(6 431 631 256)		628 225 349	91 %	99 %
Net cash from (used) financing	2 978 587 737	(110 859 556)	2 867 728 181	-		2 867 728 181	987 588 208		(1 880 139 973)	34 %	33 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1 781 006 315</b>	<b>1 161 341 561</b>	<b>2 942 347 876</b>	<b>-</b>		<b>2 942 347 876</b>	<b>(2 275 485 884)</b>		<b>(5 217 833 760)</b>	<b>(77)%</b>	<b>(128)%</b>
Cash and cash equivalents at the beginning of the year	8 288 844 836	(8 288 844 836)	10 465 716 471	-		10 465 716 471	5 809 953 546		(4 655 762 925)	56 %	70 %
<b>Cash and cash equivalents at year end</b>	<b>10 069 851 151</b>	<b>(7 127 503 275)</b>	<b>13 408 064 347</b>	<b>-</b>		<b>13 408 064 347</b>	<b>3 534 467 662</b>		<b>9 873 596 685</b>	<b>26 %</b>	<b>35 %</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

#### Basis of Preparation

The annual financial statements were prepared in accordance with 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 No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where otherwise specified.

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

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

The principal accounting policies, applied in the preparation of the 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, otherwise specified. Details of any changes in the accounting policies are provided in the note "Changes in accounting policy."

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

In the process of applying the City's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the annual financial statements:

- **Pension and other post – employment benefits**

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- **Impairment of receivables**

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. The City 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.

- **Impairment of property, plant and equipment**

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

- **Provisions, contingent liabilities and contingent assets**

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, the using cost of capital.

- **Useful lives of property, plant and equipment and investment property held at cost**

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. This was performed on an individual basis as well as per service-identifiable categories across all debtor classes.

- **Traffic Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the City.

- **Budget information**

A difference of 5% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

The accounting policies applied are consistent with those used to present the previous year's annual financial statements, unless explicitly stated otherwise.

#### 1.2 Presentation currency

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

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

At initial recognition, the City measures investment property at cost including transaction costs, once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

#### Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

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

Item	Useful life
Property - land	Indefinite
Property - buildings	50 - 60 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 the statement of financial performance in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in the statement of financial performance when the compensation becomes receivable.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 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 City; and
- the cost or the fair value 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. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. 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. Servitudes that are acquired with the relevant infrastructure items are capitalised with the relating infrastructure asset when it is an integral part of the asset.

Assets under construction represents capital expenditure incurred on projects not yet completed nor ready for use at period end.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

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

The City maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

The City depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets. Depreciation starts when the asset is available for use. Assets under construction are not depreciated.

The depreciation rates are based on the following estimated useful lives:

<b>Item</b>	<b>Useful life</b>
Land	Indefinite
Buildings	14 - 80 years
<b>Infrastructure</b>	
Roads and stormwater	2 - 100 years
Pedestrian malls	10 - 60 years
Electricity	3 - 100 years
Water	3 - 100 years
Sewer	3 - 100 years
Housing	80 years
Solid Waste	5 - 100 years
Servitudes	Indefinite
ICT	5 - 50 years
Waste water purification works	2 - 82 years
<b>Community</b>	
Buildings	14 - 80 years
Recreational facilities	10 - 80 years
Security	5 - 15 years
Landfill sites	10 - 80 years
<b>Other property, plant and equipment</b>	
Furniture and fittings	3 - 33 years
Water craft	15 years
Office equipment	3 - 35 years
Specialised plant and equipment	10 - 26 years
Other items of plant and equipment	2 - 29 years
Buildings	20 - 80 years
Specialised vehicles	3 - 20 years
Other vehicles	3 - 28 years

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of property, plant and equipment are reviewed at least at every reporting date.

At each reporting date all items of property, plant and equipment are reviewed for any indication that they may be impaired. An impairment exists when an asset's carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the asset's recoverable amount is calculated. An impairment loss is recognised in the statement of financial performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

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

The depreciation charge for each period is recognised in the statement of financial performance unless it is included in the carrying amount of another asset.

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

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

### 1.5 Intangible assets

An asset is identified as an intangible asset when it is capable of being separated or divided from the City and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the City 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 City; and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are subsequently measured 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.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation to intangible assets is provided on a straight line basis as follows:

<b>Item</b>	<b>Useful life</b>
Computer software	1 - 23 years

The gain or loss arising from the derecognition of an intangible asset is recognised in the statement of financial performance when the asset is derecognised.



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.5 Intangible assets (continued)

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

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

### 1.6 Heritage assets

A heritage asset is as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held indefinitely for the benefit of present and future generations.

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

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

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Heritage assets are subsequently measured at cost, less accumulated impairment losses. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Transfers to and from heritage assets are done at the carrying amount of the assets transferred at the date of transfer.

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

Most heritage assets have an indefinite useful life as they are to be preserved for current and future generations and might appreciate in value over time due to their cultural, environmental, historical, natural, scientific, technological and/or artistic significance. Based on this analysis, there is no definite limit to the period over which a heritage asset is expected to be held by the City. The useful life of the heritage asset is therefore likely to be indefinite or the annual depreciation is likely to be immaterial.

The City derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of a heritage asset is recognised in the statement of financial performance when the asset is derecognised.

### 1.7 Investments in controlled entities

Municipal controlled entities are those entities which the City owns or over whose financial and operating policies it has the power to exercise beneficial control.

In the City's annual financial statements, investments in controlled entities are carried at cost less any accumulated impairment.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments

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

- (i) the City designates at fair value at initial recognition; or
- (ii) are held for trading.

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

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

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

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

<b>Class</b>	<b>Category</b>
Other investments	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Other investments (unlisted shares)	Financial asset measured at cost

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

<b>Class</b>	<b>Category</b>
Long-term liabilities	Financial liability measured at amortised cost
Trade and other-payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

#### Initial recognition

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

The City recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The City measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a 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.

The City first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the City analysis a concessionary loan into its component parts and accounts for each component separately. The City accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Subsequent measurement of financial assets and financial liabilities

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

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

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

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the City establishes fair value by using a valuation technique.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in the statement of financial performance.

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

#### Impairment and uncollectibility of financial assets

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

##### a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly through the use of an allowance account. The amount of the loss is recognised in the statement of financial performance.

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

##### b) Financial assets measured at cost:

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

#### Derecognition

##### a) Financial assets

The City derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the City has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in the statement of financial performance.

##### b) Financial liabilities

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

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

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

Gains and losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the City does not offset the transferred asset and the associated liability.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business.

Inventories shall be recognised as an asset if, and only if:

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

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

Where inventory is acquired by the City 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.

Inventories held for sale in the ordinary course of business are valued at the lower of cost and net realisable value, or where 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.

Inventories held for consumption, distribution, consumables stores, raw materials, finished goods and unsold properties, are valued at lower of cost or net replacement cost.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at weighted average cost at the reporting date based on the water volume in the network on hand.

Redundant and slow-moving inventories are identified and written down to the estimated net realisable value, and are recognised as an expense in the period in which the write-down or loss occurs. Inventories identified for write-down/write-off, but for which a council resolution, to authorise the write-down/write-off, has not yet been obtained, is provided for as a provision for obsolete stock. 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 in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 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.

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end, any unused leave days are forfeited six months after the end of leave cycle.

#### Long services awards

The City offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

#### Retirement funds

The City contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the City's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### 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 an independent actuary for each separate plans.

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.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation, reduced by the fair value of plan assets (if any). Any asset is limited to the present value of available refunds and reduction in future contributions to the plan.

The City does not apply "defined benefit accounting" to the defined benefit funds to which it is a member, where these funds as classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the City will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

#### Medical aid: continued members

The City provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the City for the remaining portion.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Provisions and contingencies

A provision is recognised when the City has a present obligation (legal or constructive) as a result of a past event and 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 amount of the obligation.

The City does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

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 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.

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.

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

#### a) COID provision

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 7% (2017: 7.36%) per annum over members' expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 10.52% (2017: 10.46%).

#### b) Landfill rehabilitation provision

The landfill rehabilitation provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the statement of financial position date at the cost of capital (time value of money), which is currently 10.52% (2017: 10.46%).

The City has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which the City incurs as a consequence of having used the property during a particular period for landfill purposes. The City estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

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

- a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of financial performance; and
- c) if the adjustment results in an addition to the cost of an asset, the City considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If such an indication exists, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in the statement of financial performance.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in the statement of financial performance as they occur.

The periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

#### c) Workmen's compensation provision

The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

#### d) GMRF provision

The provision is for the City's obligation to the Germiston Municipal Retirement Fund due to the City failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the City 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.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

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 City; or
- (b) the number of production or similar units expected to be obtained from the asset by the City.

#### Identification

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

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

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

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the City estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the City applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the City:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the City expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted. The City considers the weighted average cost of capital as their discount rate (time value of money).

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in the statement of financial performance.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the City recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of impairment loss

The City assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in the statement of financial performance.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

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

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



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### Identification

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

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

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

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in the statement of financial performance.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The City assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the City estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in the statement of financial performance.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.14 Revenue from exchange transactions

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

Revenue from exchange transactions refers to revenue that accrued to the City directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the City and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. There are areas within the City where an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced.

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

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income earned on agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Dividends are recognised when the City's right to receive payment is established.

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

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

### 1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the City receives value from another entity without directly giving approximately equal value in exchange.

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

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

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### Taxes (property rates)

The City recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. Resources arising from taxes satisfy the definition of an asset when the City controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The City analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis. Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers, including grants and receipts

The City recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the City.

#### Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the City, and the fair value of the assets can be measured reliably.

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

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

#### Services in-kind

Except for financial guarantee contracts, the City recognises services in-kind that are significant to its operations and/or service delivery objective as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the City and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the City's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the City discloses the nature and type of services in-kind received during the reporting period.

#### Grants, donations and receipts

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

#### Unspent conditional grants and receipts

Amounts received before the related work is performed are included in the statement of financial position as a liability, as unspent conditional grants and receipts.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 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 City assesses the classification of each element separately.

#### Operating leases – lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

#### Operating leases – lessee

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

### 1.17 Borrowing costs

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

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

### 1.18 Value Added Tax

The City accounts for value-added tax (VAT) on the payment basis.

### 1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, City or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

### 1.21 Irregular expenditure

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

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.22 Internal reserves

Included in the accumulated surplus are internal reserves, no separate line items are presented, in accordance with the GRAP reporting framework, but provision is made in the budget process for funding of these reserves. The amounts set aside for these reserves are invested in accordance with the investment policy of the City. The following internal reserves are maintained:

#### Capital replacement reserve (CRR)

The reserve is created for the replacement of service delivery assets when they reach the end of their economic lives to ensure continue of provision of such services, and to minimise the impact of raising external funding or over reliance on grant funds.

#### Self-insurance reserve

A self insurance reserve was established for a self-insurance purpose and to minimize the external insurance costs. The reserve is based on recognised insurance industry principles to complement the external cover provided by insurance companies.

#### Sinking funds reserve

The reserve is created for the provision of repayments of long-term borrowing raised to funds capital projects, and to meet repayment conditions on such borrowings.

### 1.23 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this annual financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

### 1.24 Related parties

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

Management are those persons responsible for planning, directing and controlling the activities of the City, including those charged with the governance of the City 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 person in their dealings with the City.

Control is the power to govern the financial and operating policies of the City so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

### 1.25 Events after reporting date

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

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

Reporting date means the date of the last day of the reporting period to which the annual financial statements relate. The City adjusts the amounts recognised in its interim financial statements to reflect adjusting events after the reporting date. The City does not adjust the amounts recognised in its interim financial statements to reflect non-adjusting events after the reporting date.

### 1.26 Commitments

The City discloses each class of capital assets (PPE, investment properties, intangible assets and heritage assets) recognised in the annual financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year;
- Later than one year and not later than five years; and
- Later than five years.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.27 Going concern

The annual financial statements have been prepared on a going concern basis.

### 1.28 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are restated. Where accounting errors 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.

## Notes to the Annual Financial Statements

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Figures in Rand

2018

2017

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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the City's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

<b>Standard and Interpretation: Effective date:</b>	<b>Years beginning on or after</b>
>GRAP 12 (as amended 2016): Inventories	01 April 2018
>GRAP 27 (as amended 2016): Agriculture	01 April 2018
>GRAP 31 (as amended 2016): Intangible Assets	01 April 2018
>GRAP 20: Related parties	01 April 2017
>GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018
>GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018
>GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018
>GRAP 103 (as amended 2016): Heritage Assets	01 April 2018
>IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019

No material impact are expected from these changes.

**The following standards were approved, but their effective dates were not yet determined by the Minister of Finance.**

- >GRAP 20: Related Party Disclosures
- >GRAP 32: Service Concession Arrangements: Grantor
- >GRAP 34: Separate Financial Statements
- >GRAP 35: Consolidated Financial Statements
- >GRAP 36: Investments in Associates and Joint
- >GRAP 37: Joint Arrangements
- >GRAP 38: Disclosure of Interests in Other Entities
- >GRAP 108: Statutory Receivables
- >GRAP 109: Accounting by Principals and Agents
- >GRAP 110: Living and Non-living Resources
- >Directive 12: The Selection of an Appropriate Reporting Framework
- GRAP 110: Living and Non-living Resources

No material impact are expected from these changes.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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Figures in Rand

2018

2017

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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	587 881 182	(101 917 666)	485 963 516	547 101 572	(94 504 429)	452 597 143

#### Reconciliation of investment property - 2018

Investment property	Opening balance	Additions	Depreciation	Total
	452 597 143	40 779 611	(7 413 238)	485 963 516

#### Reconciliation of investment property - 2017

Investment property	Opening balance	Additions	Other changes, movements	Depreciation	Total
	427 179 494	31 039 119	1 210 436	(6 831 906)	452 597 143

#### Other disclosure

##### Total rental income received on investment property

Total rental income received on investment property	19 938 856	21 453 938
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Included in the carrying value of investment property is an amount R71,818,730 (2017: R31,039,119) which relates to work in progress at the reporting date.

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 City.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2 219 604 123	-	2 219 604 123	2 225 432 029	-	2 225 432 029
Infrastructure	55 070 056 528	(14 373 478 902)	40 696 577 626	51 301 529 641	(12 909 462 624)	38 392 067 017
Community	7 313 404 801	(1 951 923 516)	5 361 481 285	6 590 746 276	(1 711 826 318)	4 878 919 958
Other property, plant and equipment	3 779 769 614	(2 131 458 815)	1 648 310 799	3 306 028 763	(1 804 149 558)	1 501 879 205
Operational and housing buildings	3 238 665 347	(920 987 926)	2 317 677 421	2 970 428 377	(805 916 798)	2 164 511 579
<b>Total</b>	<b>71 621 500 413</b>	<b>(19 377 849 159)</b>	<b>52 243 651 254</b>	<b>66 394 165 086</b>	<b>(17 231 355 298)</b>	<b>49 162 809 788</b>

### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals//Derecognition	Transfers from assets under constructions	Transfers to asset class	Transfers other classes of assets	Depreciation	Total
Land	2 225 432 029	-	(9 786 980)	3 959 074	-	-	-	2 219 604 123
Infrastructure	38 392 067 017	3 769 034 870	(67 084 729)	1 354 569 254	(1 065 243 977)	(222 748 530)	(1 464 016 279)	40 696 577 626
Community	4 878 919 958	741 167 674	-	615 647 242	(615 647 242)	(18 509 150)	(240 097 197)	5 361 481 285
Other property, plant and equipment	1 501 879 205	481 828 530	(1 200 338)	600 169	-	-	(334 796 767)	1 648 310 799
Operational and housing buildings	2 164 511 579	268 236 969	-	53 720 935	(53 720 935)	-	(115 071 127)	2 317 677 421
	<b>49 162 809 788</b>	<b>5 260 268 043</b>	<b>(78 072 047)</b>	<b>2 028 496 674</b>	<b>(1 734 612 154)</b>	<b>(241 257 680)</b>	<b>(2 153 981 370)</b>	<b>52 243 651 254</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals/Derecognition	Transfers received	Transfers from assets under constructions	Other movements	Depreciation	Impairment loss	Total
Land	2 089 570 594	-	(832 000)	136 695 689	-	(2 254)	-	-	2 225 432 029
Infrastructure	36 980 787 361	2 735 394 766	(108 667 296)	968 095 666	(968 095 666)	21 364 794	(1 236 812 608)	-	38 392 067 017
Community	4 541 816 201	579 591 440	(23 712 810)	190 465 408	(190 465 408)	(7 917 332)	(209 172 690)	(1 684 851)	4 878 919 958
Other property, plant and equipment	1 463 396 733	407 445 718	(14 005 137)	-	-	(14 232 884)	(340 725 225)	-	1 501 879 205
Operational and housing buildings	1 747 339 047	650 039 878	(2 271 531)	240 282 367	(376 978 056)	-	(93 900 126)	-	2 164 511 579
	<b>46 822 909 936</b>	<b>4 372 471 802</b>	<b>(149 488 774)</b>	<b>1 535 539 130</b>	<b>(1 535 539 130)</b>	<b>(787 676)</b>	<b>(1 880 610 649)</b>	<b>(1 684 851)</b>	<b>49 162 809 788</b>

#### Classes of assets under construction

Assets under construction:

Infrastructure	6 509 983 849	4 339 821 856
Community	1 157 308 168	1 031 787 737
Other assets	675 152 657	460 636 623
	<b>8 342 444 674</b>	<b>5 832 246 216</b>

#### Disclosure of repairs and maintenance (material and other costs)

Infrastructure	1 739 371 446	1 436 465 321
Community	145 409 380	252 383 972
Investment property	42 268 200	55 160 476
Other property, plant and equipment	179 099 027	261 703 400
	<b>2 106 148 053</b>	<b>2 005 713 169</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

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

Compensation received for losses on property, plant and equipment – included in operating profit.

Buildings	367 334	672 916
Motor vehicles	62 856	437 694
IT equipment	88 930	-
Infrastructure	1 586 056	489 520
	<b>2 105 176</b>	<b>1 600 130</b>

The other movement relates to transfers out of property, plant and equipment, which were effected as follows, an amount of R234,321,871 (2017: R145,769,741) was transferred to inventory. Capital spares were bought as part of the project capital expenditure, which were transferred to inventory R45,045,033 (2017: R27,098,131), this relates to the net movement of capital spares for the year between the inventory account and the WIP account, refer to note 10.

### Deemed cost

Included in the additions for the year is public contributed assets with deemed cost amounts of R289,325,277 (2017: R103,657,550). Deemed cost was determined using fair value or depreciated replacement cost, depending on the most appropriate measurement for the specific asset/scenario.

### 5. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software (other)	681 748 057	(123 458 147)	558 289 910	352 851 948	(61 437 862)	291 414 086
Rights to use naturally occurring assets	243 798 639	-	243 798 639	243 798 639	-	243 798 639
<b>Total</b>	<b>925 546 696</b>	<b>(123 458 147)</b>	<b>802 088 549</b>	<b>596 650 587</b>	<b>(61 437 862)</b>	<b>535 212 725</b>

### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software (other)	291 414 086	334 762 909	(5 866 800)	(62 020 285)	558 289 910
Rights to use naturally occurring assets	243 798 639	-	-	-	243 798 639
	<b>535 212 725</b>	<b>334 762 909</b>	<b>(5 866 800)</b>	<b>(62 020 285)</b>	<b>802 088 549</b>

### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Derecognition/Impairments	Other changes, movements	Amortisation	Total
Computer software (other)	67 473 869	299 838 451	(57 646 098)	(4 079 068)	(14 173 068)	291 414 086
Rights to use naturally occurring assets	243 798 639	-	-	-	-	243 798 639
	<b>311 272 508</b>	<b>299 838 451</b>	<b>(57 646 098)</b>	<b>(4 079 068)</b>	<b>(14 173 068)</b>	<b>535 212 725</b>

### Other information

#### Reconciliation of work in progress

Included in additions is the following amounts relating to software still in development:

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>5. Intangible assets (continued)</b>		
<b>Work in progress</b>		
Opening balance	189 439 854	63 925 591
Software development incurred during the year	334 762 909	242 192 353
Transfers	(143 941 857)	(116 678 090)
	<b>380 260 906</b>	<b>189 439 854</b>

### 6. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Cultural	13 766 334	-	13 766 334	13 766 334	-	13 766 334
Conservation areas	351 149	-	351 149	351 149	-	351 149
Historical buildings	5 425 362	-	5 425 362	5 425 362	-	5 425 362
Other heritage assets	43 040 667	-	43 040 667	43 040 667	-	43 040 667
<b>Total</b>	<b>62 583 512</b>	<b>-</b>	<b>62 583 512</b>	<b>62 583 512</b>	<b>-</b>	<b>62 583 512</b>

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Cultural	13 766 334	13 766 334
Conservation areas	351 149	351 149
Historical buildings	5 425 362	5 425 362
Other various collections	43 040 667	43 040 667
	<b>62 583 512</b>	<b>62 583 512</b>

#### Reconciliation of heritage assets 2017

	Opening balance	Disposals	Transfers	Other movements	Total
Cultural	10 681 792	(31 600)	3 116 430	(288)	13 766 334
Conservation areas	351 149	-	-	-	351 149
Historical buildings	5 425 362	-	-	-	5 425 362
Other various collections	43 062 307	(21 640)	-	-	43 040 667
	<b>59 520 610</b>	<b>(53 240)</b>	<b>3 116 430</b>	<b>(288)</b>	<b>62 583 512</b>

#### Deemed costs

Deemed cost was determined using fair value or depreciated replacement cost.

### 7. Investments in controlled entities

Name of company	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
Brakpan Bus Company SOC Ltd	100,00 %	100,00 %	6	6
East Rand Water Care Company, NPC	97,00 %	97,00 %	-	-
Ekurhuleni Housing Company	100,00 %	100,00 %	100	100
			<b>106</b>	<b>106</b>

### 8. Other investments

At cost		
Unlisted shares	4 000 000	4 000 000

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>8. Other investments (continued)</b>		
<b>At amortised cost</b>		
Investments	2 164 478 231	1 567 017 137
These investments have varying interest rates as well as varying maturity dates.		
<b>Total other investments</b>	<b>2 168 478 231</b>	<b>1 571 017 137</b>
<b>Non-current assets</b>		
At cost	4 000 000	4 000 000
At amortised cost	1 617 372 812	1 450 100 491
	<b>1 621 372 812</b>	<b>1 454 100 491</b>
<b>Current assets</b>		
At amortised cost	547 105 419	116 916 646
	<b>2 168 478 231</b>	<b>1 571 017 137</b>

### Residual interest at cost

Fair value information has not been provided for equity instruments that do not have a quoted market price and for which a fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

Rand Airport (awaiting information)	4 000 000	4 000 000
20% interest in ordinary shares		

The company's draft financial statements used were for the period ended 29 February 2016 and no audited financial information was received for financial years ending 2016 and 2017.

The company's equity amounted to R605,743,120 represented by share capital of R5,201,000, reserves of R147,090,563 as well as retained income of R453,451,557 as at 28 February 2016.

The City has not reclassified any financial assets from cost or amortised cost to fair value during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets for the year ended 2018, as all the financial assets will be disposed of at their redemption date.

Investments with a carrying value of R1,617,372,812 (2017: R1,454,100,491) are held with the top five banks in South Africa for the repayment of long term liabilities with a carrying value of R2,415,000,000 (2017: R2,415,000,000) as disclosed in the long-term liabilities note (note 15). The amount of R2,415,000,000 consist of three bonds for which structured deposit sinking funds were established.

None of the investments at amortised cost are past due or impaired.

### Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (as determined by rating agencies) available, or to historical information about counterparty default rates. Investments are only made with South African top five banks.

### 9. Long term receivables

Non-current receivables	5 413 655	5 047 761
Bad debt provision	(2 095 831)	(1 923 381)
	<b>3 317 824</b>	<b>3 124 380</b>

#### The long-term receivables comprises of:

Rental deposits made	R1,221,993 (June 2017 - R1,220,747)
Housing schemes	R2,095,831 (June 2017 - R1,903,633)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>10. Inventories</b>		
Electrical consumables	334 745 095	114 635 462
Cleansing consumables	965 214	475 795
Consumable stores	2 681 120	1 325 306
Maintenance materials	11 671 400	7 351 207
Water consumables	13 239 844	4 602 446
Water inventory	10 885 929	9 159 565
Land held as inventory for development	623 507 295	389 185 424
Food and beverage	-	26 603
Fleet and transport consumables	604 576	641 097
Fuel (diesel, petrol)	6 893 775	5 385 934
	<b>1 005 194 248</b>	<b>532 788 839</b>
Provision for obsolete Inventories	(994 183)	(494 343)
	<b>1 004 200 065</b>	<b>532 294 496</b>

Inventory written down due to redundancy/obsolescence is valued at R994,183 (2017: R494,343) by way of a provision for obsolete inventories.

The provision for obsolete inventories amounting to R994 183 consists of:

Consumable items	R994,183
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### 11. Receivables from exchange transactions

Pre-paid electricity 3rd party vendors	71 408 476	77 919 343
Other receivables	245 107 162	331 353 989
VAT accruals on outstanding creditors	588 199 871	467 807 881
VAT receivables	396 912 766	68 476 162
Operating lease straightline	1 061 250	818 657
Allowance for impairment	(75 111 702)	(55 042 372)
	<b>1 227 577 823</b>	<b>891 333 660</b>

### Credit quality of trade and other receivables

In determining the recoverability of other receivables, the City considers any change in the credit quality of other receivables from the date on which the credit was initially granted up to the reporting date.

### 12. Receivables from non-exchange transactions

Traffic fines	165 603 173	116 803 548
GMRF	11 145 858	-
Impairment loss - traffic fines	(114 497 004)	(76 400 238)
	<b>62 252 027</b>	<b>40 403 310</b>

### Credit quality of receivables from non-exchange transactions

In determining the recoverability of other receivables, the City considers any change in the credit quality of other receivables from the date on which the credit was initially granted up to the reporting date.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	2 158 827 367	1 854 106 101
Electricity	3 640 154 693	3 917 895 017
Water	5 532 121 128	4 626 721 850
Waste water	1 571 975 841	1 344 297 738
Refuse	1 539 219 436	1 302 883 073
Other	134 863 617	113 687 823
Interest and sundries	2 256 456 038	2 075 746 903
	<b>16 833 618 120</b>	<b>15 235 338 505</b>
<b>Less: Allowance for impairment</b>		
Rates	(1 364 380 687)	(1 284 528 042)
Electricity	(1 111 692 673)	(1 684 192 149)
Water	(4 245 521 060)	(3 479 038 927)
Waste water	(1 206 074 027)	(1 011 854 231)
Refuse	(1 251 568 668)	(1 065 236 361)
Other	(128 917 550)	(109 930 386)
Interest and sundries	(2 039 032 668)	(1 821 970 299)
	<b>(11 347 187 333)</b>	<b>(10 456 750 395)</b>
<b>Net balance</b>		
Rates	794 446 680	569 578 059
Electricity	2 528 462 020	2 233 702 868
Water	1 286 600 068	1 147 682 923
Waste water	365 901 814	332 443 507
Refuse	287 650 768	237 646 712
Other	5 946 067	3 757 437
Interest and sundries	217 423 370	253 776 604
	<b>5 486 430 787</b>	<b>4 778 588 110</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	2 528 462 020	2 233 702 868
Water	1 286 600 068	1 147 682 922
Waste water	365 901 815	332 443 507
Refuse	287 650 768	237 646 712
Housing rental	5 946 067	3 757 437
Other	217 423 369	253 776 604
	<b>4 691 984 107</b>	<b>4 209 010 050</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	794 446 680	569 578 060
	<b>5 486 430 787</b>	<b>4 778 588 110</b>
<b>Rates</b>		
Current (0 -30 days)	370 201 264	280 019 274
31 - 60 days	99 392 932	80 330 503
61 - 90 days	69 516 083	70 190 664
91 - 120 days	1 619 717 088	1 423 565 660
	<b>2 158 827 367</b>	<b>1 854 106 101</b>
<b>Electricity</b>		
Current (0 -30 days)	2 182 824 406	2 409 125 037
31 - 60 days	135 012 265	120 258 604
61 - 90 days	81 463 382	52 732 900
91 - 120 days	1 240 854 641	1 335 778 475
	<b>3 640 154 694</b>	<b>3 917 895 016</b>



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>13. Consumer debtors (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	688 954 180	625 249 512
31 - 60 days	160 368 268	138 599 341
61 - 90 days	135 461 651	132 988 181
91 - 120 days	4 547 337 028	3 729 884 815
	<b>5 532 121 127</b>	<b>4 626 721 849</b>
<b>Waste water</b>		
Current (0 -30 days)	202 438 122	183 343 354
31 - 60 days	43 497 824	40 421 244
61 - 90 days	37 609 068	39 874 981
91 - 120 days	1 288 430 828	1 080 658 159
	<b>1 571 975 842</b>	<b>1 344 297 738</b>
<b>Refuse</b>		
Current (0 -30 days)	97 378 085	81 341 537
31 - 60 days	45 843 892	42 419 638
61 - 90 days	40 515 191	47 435 478
91 - 120 days	1 355 482 267	1 131 686 420
	<b>1 539 219 435</b>	<b>1 302 883 073</b>
<b>Housing rental</b>		
Current (0 -30 days)	1 546 491	1 590 494
31 - 60 days	2 232 219	2 166 944
61 - 90 days	2 167 356	2 103 913
91 - 120 days	128 917 550	107 826 472
	<b>134 863 616</b>	<b>113 687 823</b>
<b>Other (specify)</b>		
Current (0 -30 days)	99 613 260	76 341 956
31 - 60 days	51 296 731	39 246 816
61 - 90 days	43 165 831	42 544 135
91 - 120 days	2 062 380 215	1 917 613 997
	<b>2 256 456 037</b>	<b>2 075 746 904</b>

The total debtors for June 2018 includes a total of R1,754,847,113 (2017:R1,744,733,580) in respect of the value of revenue emanating from various meter reading cut-off dates at year end. This is an annual occurrence and is adjusted at every financial year-end.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>13. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	1 362 297 938	1 387 413 788
31 - 60 days	350 371 996	289 850 616
61 - 90 days	292 188 795	291 449 631
91 - 120 days	10 065 643 872	8 490 369 114
	<u>12 070 502 601</u>	<u>10 459 083 149</u>
Less: Allowance for impairment	(9 381 307 785)	(8 191 795 785)
	<b>2 689 194 816</b>	<b>2 267 287 364</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	2 138 453 792	2 077 615 576
31 - 60 days	166 522 727	153 988 250
61 - 90 days	110 657 778	82 276 639
91 - 120 days	1 825 070 803	1 842 464 065
	<u>4 240 705 100</u>	<u>4 156 344 530</u>
Less: Allowance for impairment	(1 578 893 486)	(2 029 431 285)
	<b>2 661 811 614</b>	<b>2 126 913 245</b>
<b>National and provincial government</b>		
Current (0 -30 days)	85 468 887	95 705 033
31 - 60 days	14 964 438	11 265 696
61 - 90 days	1 815 814	6 945 910
91 - 120 days	45 162 811	60 666 169
	<u>147 411 950</u>	<u>174 582 808</u>
Less: Allowance for impairment	(45 928 782)	(75 202 612)
	<b>101 483 168</b>	<b>99 380 196</b>
<b>Total</b>		
Current (0 -30 days)	3 642 955 809	3 657 011 164
31 - 60 days	537 644 131	463 443 091
61 - 90 days	409 898 563	387 870 252
91 - 120 days	12 243 119 617	10 727 013 997
	<u>16 833 618 120</u>	<u>15 235 338 504</u>
Less: Allowance for impairment	(11 347 187 333)	(10 456 750 394)
	<b>5 486 430 787</b>	<b>4 778 588 110</b>
<b>Allowance for impairment</b>		
31 - 60 days	(564 293 921)	(247 487 411)
61 - 90 days	(279 901 296)	(124 541 060)
91 - 120 days	(240 397 679)	(212 768 399)
121 - 365 days	(10 262 594 437)	(9 871 953 525)
	<u>(11 347 187 333)</u>	<u>(10 456 750 395)</u>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(10 456 750 395)	(7 966 251 084)
Contributions to allowance	(1 490 000 078)	(1 438 672 537)
Debt impairment written off against allowance	599 563 140	658 140 959
Additional allowance	-	(1 709 967 733)
	<b>(11 347 187 333)</b>	<b>(10 456 750 395)</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 13. Consumer debtors (continued)

#### Credit quality of consumer debtors

In determining the recoverability of a receivable, the City considers any change in the credit quality of the receivable from the date on which the credit was initially granted, up to the reporting date. The concentration of credit risk is limited but take into consideration the repayments trends and collections rate, as the customer base is large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

#### Consumer debtors past due but not impaired

At 30 June 2018, consumer debtors of R5,486,430,787 (2017:R4,778,588,110) were past due but not impaired.

30 Days	3 078 661 888	3 409 523 753
60 Days	257 742 835	338 902 031
90 Days	169 500 883	175 101 853
90+ Days	1 980 525 181	855 060 473

#### Consumer debtors impaired

As at 30 June 2018, consumer debtors of R11,347,187,332 (2017:R10,456,750,395) were impaired and provided for.

The ageing of these consumer debtors is as follows:

30 Days	564 293 921	247 487 411
60 Days	279 901 296	124 541 060
90 Days	240 397 679	212 768 399
90+ Days	10 262 594 436	9 871 953 525

### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	568 727	534 384
Bank balances	3 533 898 935	5 809 419 162
	<b>3 534 467 662</b>	<b>5 809 953 546</b>

The City has provided bank guarantees to the amount of R26,074,874 (2017: R26,074,874) with regard to special clauses in contracts concluded with various third parties. Most of these conditions have been met, and the guarantees will be cancelled in due course.

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>14. Cash and cash equivalents (continued)</b>		
<b>ABSA</b>		
ABSA - Income Alberton	-	(22 284)
ABSA - Direct banking Alberton	(2 170)	-
ABSA - Income Benoni	(1 630)	17 400 298
ABSA - Direct banking Benoni	15 358 331	(158 927)
MASK Account Benoni	(7 200)	(359 284)
ABSA - Income Boksburg	-	8 585 659
ABSA - Direct banking KL Boksburg	6 824 417	(1 163 974)
ABSA - Direct Banking Bt Boksburg	-	391 441
ABSA - Income Brakpan	9 263 765	1 939 100
Pre paid sales account Brakpan	-	(409 500)
ABSA - Income Germiston	-	15 193 654
ABSA - Direct banking Germiston	12 937 425	(148 287)
ABSA - Income account Kempton Park	-	(4 864 505)
ABSA - Direct banking Kempton Park	7 284 215	8 280 002
ABSA - Direct banking Edenvale	2 837 422	(74 998)
ABSA - Income Edenvale	-	2 817 582
ABSA - Income Nigel	-	10 495 200
ABSA - Income Springs	-	18 092 938
ABSA - Direct banking Springs	9 862 659	(106 327)
ABSA - Market account	1 134 982	1 134 982
ABSA - EFF Account (ex CLF)	-	158
ABSA - C R R Account (ex CDF)	-	1 489
ABSA - Primary bank account (ex from revenue)	-	10 116 607
ABSA - Salary account	(408 626)	(30 146)
ABSA - Treasury account	58 249 730	279 948 478
ABSA - Expenditure imprest account	1 104	(2 755 900)
ABSA - USDG Account	-	953
ABSA - Housing account	-	106
Short Term Deposits at various institutions with dates within 3 months	-	1 065 997 148
Lease bank account	71 334	240 439
Petty Cash and Floats	568 727	534 384
ABSA - Traffic fines collection	-	(48 395)
STANDARD BANK- Mask account Springs	336 502 057	208 617 356
FNB Musk account Edenvale	280 861 841	158 146 694
NEDBANK MASK ACCOUNT	100 325 450	272 186 670
E-Siyakhokha Mask Account	4 505 548	15 532 682
CoE Salary Account - Nedbank	107 896 164	78 518 001
CoE Expenditure Account - Nedbank	271 007 922	94 832 121
CoE Treasury account - Nedbank	190 596 582	1 397 123 715
CoEUSDG Account - Nedbank	744 250 820	602 935 872
CoE Housing Account - Nedbank	40 991 016	49 486 602
CoE Depreciation Reserve Account - Nedbank	555 139 180	628 072 497
CoE External Funding Fund - Nedbank	154 590 125	31 252 458
CoE Primary Bank Account - Nedbank	574 470 613	248 585 282
IRPTN Bank 2	1 199 314	-
IRPTN Bank Collect	324 298	-
CoE Springs Market Account - Nedbank	1 427 188	660 365
CoE Traffic Fines Collection Account - Nedbank	135 669	406 025
CoE License Account - Nedbank	2 823 129	5 722 870
CoE Disaster Relief Fund - Nedbank	-	1 584
CoE Income Alberton - Nedbank	2 037 977	3 995 416
CoE Direct banking Alberton - Nedbank	164 926	748 452
CoE Direct Banking Benoni - Nedbank	347 082	2 272 020
CoE Income Benoni - Nedbank	2 418 012	10 347 523
CoE Siyakhokha - Nedbank	(54 695)	25 617
CoE Income Boksburg - Nedbank	5 196 614	5 986 732
CoE Direct Banking Boksburg - Nedbank	1 521 170	1 559 447
CoE Prepaid Sales Account - Nedbank	-	5 845 536
CoE Solid Waste Account - Nedbank	38 961	344 680
CoE Direct Banking Brakpan - Nedbank	52 216	229 303
CoE Income Brakpan - Nedbank	3 864 024	1 239 472
CoE Direct Banking Edenvale - Nedbank	119 412	766 467
CoE Income Edenvale - Nedbank	767 829	1 822 878
CoE Direct Banking Germiston - Nedbank	303 113	3 206 066
CoE Income Germiston - Nedbank	3 850 161	6 229 948
CoE Direct Banking Kempton Park - Nedbank	428 483	1 629 467

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>14. Cash and cash equivalents (continued)</b>		
CoE Income Kemton Park - Nedbank	3 907 190	6 930 586
CoE Direct Banking Nigel - Nedbank	1 833 473	221 763
CoE Income Nigel - Nedbank	1 042 270	795 155
CoE Library Account - Nedbank	(72 858)	(85 770)
CoE Direct Banking Springs - Nedbank	13 740 363	14 225 820
CoE Income Springs - Nedbank	1 940 538	3 025 441
Sweeping Accounts	-	515 482 642
	<b>3 534 467 662</b>	<b>5 809 953 546</b>

The City had the following bank accounts

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA BANK - Income Alberton-111-841-0641	-	(22 284)	7 057 185	-	(22 284)	7 057 185
ABSA BANK - Direct Banking Alberton - 111-840-0646	-	-	133 498	(2 170)	-	133 498
ABSA BANK - Income Benoni - 4055327394	11 296	17 400 298	(2 565 901)	(1 630)	17 400 298	(2 565 901)
ABSA BANK - Direct Banking Benoni - 4055328015	15 494 808	-	(950 604)	15 358 331	(158 927)	57 715 340
ABSA BANK - Mask Account Benoni - 4065622380	-	-	(108 500)	(7 200)	(359 284)	(108 500)
ABSA BANK - Income Boksburg - 230000069	-	8 369 516	(887 894)	-	8 585 659	(887 894)
ABSA BANK - Direct Banking KL Boksburg - 230000220	6 840 482	-	(600 310)	6 824 417	(1 163 974)	(600 310)
ABSA BANK - Direct Banking BT Boksburg - 230000255	-	499 391	(14 932)	-	391 441	(14 932)
ABSA BANK - Income Brakpan - 240000024	8 336 677	2 057 691	(107 194)	9 263 765	1 939 100	(107 194)
ABSA BANK - Prepaid sales account Brakpan-240159392	-	182 810	1 159 650	-	(409 500)	1 159 650
ABSA BANK - Income Germiston - 2500002277	-	15 193 654	-	-	15 193 654	-
ABSA BANK - Direct banking Germiston - 250000804	13 317 168	-	(3 157 237)	12 937 425	(148 287)	(3 157 237)
ABSA BANK - Direct banking Kempton Park - 260181599	7 559 044	8 280 002	(368 673)	7 284 215	8 280 002	(368 673)
ABSA BANK - Income Kempton Park - 260000004	-	-	(7 925 460)	-	(4 864 505)	(7 925 460)
ABSA BANK - Income Edenvale - 4055442546	-	2 817 582	366 883	-	2 817 582	366 883
ABSA BANK - Direct banking Edenvale- 4055442596	2 837 422	-	(2 887 250)	2 837 422	(74 998)	(2 887 250)
ABSA BANK - Income Nigel - 270000010	-	10 584 320	(1 018 662)	-	10 495 200	(1 018 660)
ABSA BANK - Income Springs - 280000051	9 872 330	18 092 938	(1 193 461)	-	18 092 938	(1 193 461)
ABSA BANK - Direct Springs - 280000094	-	-	(254 247)	9 862 659	(106 327)	(254 247)
ABSA BANK - Fresh Produce Market - 1135470160	-	882 345	-	1 134 982	1 134 982	1 134 982
ABSA BANK - Lease Account 4075756252	-	240 375	-	71 334	240 439	-
ABSA BANK - EFF account (ex CLF) - 4053834321	-	158	217 432	-	158	217 432
ABSA BANK - C R R account (ex CDF) - 4053834779	-	1 489	1 677 694	-	1 489	1 677 694
ABSA BANK - Primary bank Acc - 4053835084	-	10 116 607	94 521 092	-	10 116 607	94 521 092
ABSA BANK - Salary account - 4055571973	-	(30 145)	29 382 719	(408 626)	(30 146)	29 382 719
ABSA BANK - Treasury account - 4055571931	58 249 730	795 431 120	2 180 193 827	58 249 730	795 431 120	2 180 193 827
ABSA BANK - Expenditure imprest acc - 4055571915	2 322	3 120	37 208 459	1 104	(2 755 900)	37 235 936
ABSA BANK - USDG account - 4055571884	-	953	1 092 668	-	953	1 092 668
ABSA BANK - Housing account - 4055571842	-	106	167 649	-	106	167 649
CoE Traffic fines 407277706	-	-	(16 144)	-	(48 395)	(16 144)
FNB Mask account 62379403745	280 898 399	164 327 195	87 103 922	280 861 841	158 146 694	87 103 922
Petty Cash and Floats	-	-	-	568 727	534 384	533 546
Short term deposit Nedbank	-	1 065 997 148	2 018 632 968	-	1 065 997 148	2 018 495 890
Short term deposit Sanlam	-	-	137 077	-	-	137 077
Standard bank mask account	336 516 929	208 619 384	96 803 199	336 502 057	208 617 356	96 803 199
E-Siyakhokha Mask Account	4 500 060	15 497 560	105 782 607	4 505 548	15 532 682	105 782 607

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand			2018			2017
<b>14. Cash and cash equivalents (continued)</b>						
Nedbank Income Alberton	-	1 427 525	(1 298 373)	2 037 977	3 995 416	(1 298 373)
Nedbank Direct banking Alberton	-	748 452	398 289	164 926	748 452	398 289
Nedbank Direct banking Benoni	-	2 275 441	1 065 857	347 082	2 272 020	1 065 857
Nedbank Income Benoni	-	6 110 298	11 211 907	2 418 012	10 347 523	11 211 907
Nedbank Income Boksburg	-	-	5 342 618	5 196 614	5 986 732	5 342 618
Nedbank Direct banking Boksburg	-	1 640 627	971 068	1 521 170	1 559 447	971 068
Nedbank Direct banking Brakpan	-	614 381	4 781 783	52 216	229 303	4 781 783
Nedbank Income Brakpan	-	229 303	4 401 927	3 864 024	1 239 472	4 401 927
Nedbank Direct banking Edenvale	-	806 448	567 128	119 412	766 467	567 128
Nedbank Income Edenvale	-	767 017	7 061 956	767 829	1 822 878	7 061 956
Nedbank Direct banking Germiston	-	3 206 066	2 636 583	303 113	3 206 066	2 636 583
Nedbank Income Germiston	-	3 386 422	5 251 978	3 850 161	6 229 948	5 251 978
Nedbank Di banking Kempton Park	-	1 694 500	925 328	428 483	1 629 467	925 328
Nedbank Income Kempton Park	-	3 120 210	2 622 519	3 907 190	6 930 586	2 622 519
Nedbank direct banking Nigel	-	413 603	237 215	1 833 473	221 763	237 215
Nedbank Income Nigel	-	619 381	517 330	1 042 270	795 155	517 330
Nedbank Direct banking Springs	-	1 840 820	1 587 618	13 740 363	14 225 820	1 587 618
Nedbank Income Springs	-	14 225 820	3 622 728	1 940 538	3 025 441	3 622 728
Nedbank Library account	-	-	(277 839)	(72 858)	(85 770)	(277 839)
Nedbank IRPTN Bank 2 Funding 1119114845	1 199 314	-	-	1 199 314	-	-
Nedbank IRPTN Transport - collection 1120949068	324 298	-	-	324 298	-	-
Nedbank Salary account 1119114837	108 308 936	79 560 184	58 581 982	107 896 164	78 518 001	58 581 982
Nedbank Expenditure account 1119114829	317 520 367	144 740 321	99 554 808	271 007 922	94 832 121	99 554 808
Nedbank Treasury account 1119114810	218 446 048	1 397 123 715	94 421 205	190 596 582	1 397 123 715	94 421 205
Nedbank USDG account 1119114802	744 250 820	602 935 872	1 070 309 442	744 250 820	602 935 872	1 070 309 442
Nedbank Housing account 1119114799	40 991 016	49 486 602	112 773 344	40 991 016	49 486 602	112 773 344
Nedbank Depreciation Reserve account 1119114780	555 139 180	628 072 497	1 383 473 019	555 139 180	628 072 497	1 383 473 019
Nedbank External Funding Fund 1119114772	154 590 125	31 252 458	162 605 459	154 590 125	31 252 458	162 605 459
Nedbank Primary Bank account 1119114764	574 470 613	248 585 282	233 131 247	574 470 613	248 585 282	233 131 247
Nedbank Springs Market account 1119114853	1 427 188	1 420 209	1 204 009	1 427 188	660 365	1 204 009
Nedbank Traffic Fines account	-	406 025	52 559	135 669	406 025	52 559
Nedbank License account	-	5 722 870	5 022 874	2 823 129	5 722 870	5 022 874
Nedbank Disaster Relief Fund	-	1 584	1 584	-	1 584	1 584
Nedbank E-Siyakhokha	-	69 417	18 401	(54 695)	25 617	18 401
Nedbank Tender account	-	-	1 750	-	-	1 750
Nedbank Mask account 1104446634	100 322 524	272 298 004	-	100 325 450	272 186 670	-
Nedbank Pre paid account	-	5 845 535	-	-	5 845 536	-
Nedbank Solid Waste account	-	344 680	-	38 961	344 680	-
<b>Total</b>	<b>3 561 427 096</b>	<b>5 855 534 902</b>	<b>7 912 361 363</b>	<b>3 534 467 662</b>	<b>5 809 953 546</b>	<b>7 972 586 236</b>

### 15. Long-term liabilities

#### Designated at fair value

Bank loan - Nedbank Interest rate - 10.78% per annum. Redemption period - December 2018.	82 844 271	236 140 196
Bank loan - ABSA Interest rate - 11.68% per annum. Redemption periods vary between from February 2025 and May 2025.	537 503 780	585 048 606
Municipal bonds Interest rates on the JSE CoE bonds vary between 9.155% and 11.32 % per annum. Final redemption dates on these bonds vary between July 2020 and July 2032.	5 379 729 763	4 250 869 337

**6 000 077 814    5 072 058 139**

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>15. Long-term liabilities (continued)</b>		
<b>At amortised cost</b>		
Bank loans and municipal bonds	(502 569 199)	(402 710 089)
<b>Non-current liabilities</b>		
At amortised cost	5 497 508 615	4 669 348 050
<b>Current liabilities</b>		
At amortised cost	502 569 199	402 710 089

### Encumbered investments

Investments with a carrying value of R1,617,372,812 (2017:R1,454,100,491) are encumbered in respect of long term liabilities above with a carrying value of R2,415,000,000 (2017: R2,415,000,000) as disclosed in the other investments note (note 8). The amount of R2,415,000,000 consist of three bonds for which structured deposit sinking funds were established.



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 16. Employee benefit obligations

#### 1. Retirement Funds

The City provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable. The City contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

The council took a resolution in terms of an agreement with SALGA that the contribution rate to pension funds will be capped at 18% of salaries for new members joining pension funds after 1 July 2012 and also that the deducted contribution will only be transferred to defined contribution pension funds.

#### Defined Contribution Funds

Where an employee has rendered services to the City during the year, the City recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

#### Defined Benefit Plans

The City does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved. The City contributes to the following defined benefit plans, which are governed by the Pension Fund Act of 1956 due to the nature of these funds and the fact that there is no consistent and reliable basis for allocating the obligation. Plan assets and cost to individual entities participating in the plan, these funds are accounted for as defined contribution funds in terms of paragraph 31 of GRAP 25, the total contributions are included in employee related costs, Note 29. As a result, GRAP 25 is applied and such funds are accounted for as defined contribution funds. The City's participation in these plans is limited to the obligation of its own employees. Due to the nature of the funds, the obligation for each fund cannot be reasonably determined.

The following funds have been treated as defined contribution plans although they are defined benefit funds:

#### 1. Joint Municipal Pension Fund

The average contribution rate payable is 7.5% by the members and on average 22% by the City of Ekurhuleni. The last actuarial valuation on this fund was performed in March 2018 certified that the fund is in a sound financial state. The City of Ekurhuleni has 100 employees in this plan.

#### 2. Municipal Employees Pension Fund

The average contribution rate payable is 7.5% by the members. The City of Ekurhuleni contributes 22% and 18% of members who existed as at 30 June 2012 and 01 July 2012, respectively. The last actuarial valuation on this fund was performed in February 2014 and it was certified that the fund is in a sound financial state. The City of Ekurhuleni has 1415 employees in this plan.

#### 3. South African Local Authorities Pension Fund

The average contribution rate payable is 9% by the members and on average 20.78% by the City of Ekurhuleni. The last actuarial valuation on this fund was performed as at 1 July 2015 and it was certified that the fund is in a sound financial state. The City of Ekurhuleni has 94 employees in this plan.

Germiston Municipal Retirement Fund (GMRF) is a defined contribution fund for active contributing members but a defined benefit fund for certain pensioners under the old rules taken in the rules of the fund. During 2005 GMRF outsourced the full administration of the pensioners component which relates to the old rules of the defined benefit fund.

To the extent that a surplus or deficit is in place, based on available information, this may affect the amount of future contributions once these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the City will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

#### 2. Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end. Refer to provisions note (note 17) for leave pay provision.

#### Retirement benefit obligation (medical aid plan)

The City provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the City for the remaining portion.

The number of employees who are eligible for post-retirement benefits as at 30 June 2018 are 12,056 (2017: 11,019) in-service employees and 1,859 (2017: 1,861) pensioners. The actuarial valuation was performed by Zaqen Actuaries (Pty) Ltd in the 2018 financial year and in the 2017 financial year, the actuarial valuation was performed by ARCH Actuarial Consulting CC, by applying the Projected Unit Funding method.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>16. Employee benefit obligations (continued)</b>		
<b>Pension benefits</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
Present value of the defined benefit obligation-wholly unfunded	(1 954 081 581)	(2 138 634 653)
<b>Movements for the year</b>		
Opening balance	(2 138 634 653)	(2 527 234 581)
Benefits paid	95 532 198	84 532 189
Net expense recognised in the statement of financial performance	89 020 874	304 067 739
	<b>(1 954 081 581)</b>	<b>(2 138 634 653)</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	(82 666 797)	(99 968 000)
Interest cost	(195 873 790)	(241 700 000)
Actuarial gains	367 561 461	645 735 739
	<b>89 020 874</b>	<b>304 067 739</b>

### Key assumptions used

Assumptions used on last valuation on Friday, 29 June 2018.

Discount rates used (controlling entity)	9,78 %	9,35 %
Health care cost inflation rate (controlling entity)	7,67 %	7,67 %

### Other assumptions:

#### Key Demographic Assumptions

Assumption	Value		
Average retirement age for the City	63		
Continuation of membership at retirement	90%		
Proportion assumed married at retirement	90%		
Mortality tables	SA 85/90		
Mortality post-retirement for pensioners	PA90		
Withdrawal from service	<b>Age</b>	<b>Males</b>	<b>Females</b>
	20 - 24	16%	24%
	25 - 29	12%	18%
	30 - 34	10%	15%
	35 - 39	8%	10%
	40 - 44	6%	6%
	45 - 49	4%	4%
	50 - 54	2%	2%
	55 - 59	1%	1%
	60 +	0%	0%

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 16. Employee benefit obligations (continued)

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in the statement of financial performance. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	<b>One percentage point increase</b>	<b>One percentage point decrease</b>
Medical inflation (service cost and interest cost)	257 305 000	239 192 000
Medical inflation (liability)	2 023 919 000	1 874 300 000
Valuation interest rate (service cost and interest cost)	256 989 000	241 774 000
Valuation interest rate (liability)	1 847 779 000	2 063 510 000

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	(1 954 081 581)	(2 138 634 653)	(2 527 235 581)	(2 049 898 581)	(1 967 931 581)
Deficit	(1 954 081 581)	(2 138 643 653)	(2 527 235 581)	(2 049 898 581)	(1 967 931 581)
Experience adjustments on plan	(128 639 000)	(234 450 000)	(271 494 000)	16 924 000	(73 044 000)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 17. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Increased during the year	Change in discount factor	Total
COVID provision	29 524 857	3 762 880	(1 950 663)	-	-	31 337 074
Bonus provision	55 777 169	25 778 287	(958 068)	-	-	80 597 388
Leave provision	421 594 320	150 536 712	(71 875 380)	-	-	500 255 652
Landfill rehabilitation provision	394 396 915	(18 508 148)	-	-	41 029 028	416 917 795
WCA provision	-	34 878 848	(39 765 310)	4 886 462	-	-
Long service awards	410 124 595	39 485 628	(8 804 169)	(6 198 324)	31 731 270	466 339 000
GMRP	-	13 034 576	-	-	-	13 034 576
	<b>1 311 417 856</b>	<b>248 968 783</b>	<b>(123 353 590)</b>	<b>(1 311 862)</b>	<b>72 760 298</b>	<b>1 508 481 485</b>

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
COVID provision	22 701 350	6 139 144	(1 690 198)	-	2 374 561	29 524 857
Bonus provision	63 478 582	30 423 257	(38 124 670)	-	-	55 777 169
Leave provision	340 328 187	154 720 609	(73 454 476)	-	-	421 594 320
Landfill rehabilitation provision	362 685 879	(9 090 694)	-	-	40 801 730	394 396 915
WCA provision	-	37 527 360	(30 110 064)	(7 417 296)	-	-
Long service awards	424 277 962	31 410 957	(56 970 835)	(25 713 155)	37 119 666	410 124 595
GMRP	137 046 109	-	(159 505 989)	-	22 459 880	-
	<b>1 350 518 069</b>	<b>251 130 633</b>	<b>(359 856 232)</b>	<b>(33 130 451)</b>	<b>102 755 837</b>	<b>1 311 417 856</b>

Non-current liabilities	914 593 869	834 046 367
Current liabilities	593 887 616	477 371 489
	<b>1 508 481 485</b>	<b>1 311 417 856</b>

#### GMRP provision

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 17. Provisions (continued)

The provision relates to claims against the City, instituted by the Germiston Municipal Retirement Fund in terms of the rules of the pension fund where the required investment yield was not being achieved. The timing of the outflow is uncertain, as well as the relating amount due to interest charges.

#### COID provision

This provision is made for future expected outflows as a result of the City's obligation to contribute towards occupational injuries with various employees in the old Benoni and Germiston local municipalities. The discount rate used in determining the present value of the obligation is 10.52% (2017: 10.46%) and the inflation assumption used for the increase in expenses/contributions is 7.00% (2017: 7.36%).

#### Leave and bonus provision

The liability is based on the total accrued leave days at year end. A section 57 bonus provision is also provided for. The bonus is performance based, and is dependant on a performance assessment. The timing of both the leave and bonus is uncertain.

#### Landfill rehabilitation provision

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision. The discounting rate is 10.52% (2017: 10.46%). The timing of outflow is uncertain, as well as relating amounts due to discounting and charges in inflation rates.

The net result of the re-estimation had the following effect on the current year amounts:

Decrease in the cost of property, plant and equipment R18,508,148 (2017: decrease of R9,090,694)

Amount recognised in profit and loss due to re-estimation where the adjustment exceeded the carrying amount of the asset by R18,508,148 (2017: R9,090,694)

#### Workman's compensation provision

The provision is for the period March to June, which has been estimated in the latest return submitted to the compensation commissioner. The current year was prepaid.

#### Long service awards provision

An actuarial valuation for 2018 was performed by Zaqen Actuaries (Pty) Ltd and for 2017 it was performed by ARCH Actuarial Consulting CC.

Discount rate used: 9.35% (2017: 8.52%)

CPI used: 6.17% (2017: 6.32%)

Salary increase rate used: 7.00% (2017: 7.36%)

### 18. Trade and other-payables from exchange transactions

Accrual for interest on external loans	91 648 478	97 502 714
Straight lining leases	11 444	409 289
Licence fees	14 914 694	4 238 974
Maintenance guarantees: new township development infrastructure	4 851 026	4 672 071
VAT balance on outstanding debtors	1 099 088 375	1 442 156 628
Other payables	281 019 315	824 978 633
Receipts in advance	625 427 713	579 364 700
Retentions	594 372 460	502 485 922
Trade payables	4 656 199 134	3 663 423 375
Unclaimed salaries	7 553 098	7 058 356
	<b>7 375 085 737</b>	<b>7 126 290 662</b>

### 19. Deposits

Consumer deposits - electricity and water	866 331 112	806 762 579
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Guarantees in lieu of electricity and water deposits is R124,075,216 (2017: R101,688,342).

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 20. Unspent conditional grants and receipts

The unspent conditional grant and receipts relates to funds received for multi-year capital projects for which the funds are not yet spend at year end, other than that the conditions were met.

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Operating Grants - Buntle Ke Botle	-	16 207
Disaster Management Grant (Human Settle)	-	8 773
Operating Grants - Township Initiatives	(245 403)	888 620
PTNG	10 121 070	-
USDG	149 315	-
EPWP (PUBLIC WORKS)	94 962	2 076
WIFI Connectivity Grant	-	201 078
Operating Grants HSDG Accreditation	19 999 371	30 976 364
Capital Grants - USDG	43 941 030	21 713 359
Capital Grants - Electricity Demand Side Management	107	107
Capital Grants - INEP	-	-
Capital Grants - NDPG	6 147 792	29 145 706
Capital Grants - PTNG	224 818 844	29 884 180
Capital Grant - Township Initiatives	1 360 267	-
Integrated City Development Grant	-	572 427
	<b>306 387 355</b>	<b>113 408 897</b>

#### Movement during the period

Balance at the beginning of the year	113 408 897	433 285 889
Additions during the year	7 826 158 814	6 861 608 434
Income recognition during the year	(7 532 975 218)	(6 836 096 417)
Appropriations	(100 205 136)	(345 389 009)
	<b>306 387 357</b>	<b>113 408 897</b>

See note 26 for reconciliation of all grants.

### 21. Financial instruments disclosure

#### Categories of financial instruments

#### 2018

##### Financial assets

	At amortised cost	At cost	Total
Other receivables	304 652 114	-	304 652 114
Consumer debtors	5 486 430 787	-	5 486 430 787
Cash and cash equivalents	3 534 467 662	-	3 534 467 662
Other investments (listed and unlisted shares)	-	4 000 000	4 000 000
Other investments	2 164 417 345	-	2 164 417 345
Long term receivables	3 317 824	-	3 317 824
	<b>11 493 285 732</b>	<b>4 000 000</b>	<b>11 497 285 732</b>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	5 650 558 205	5 650 558 205
Unspent conditional grants	306 387 355	306 387 355
Long term liabilities	6 000 077 815	6 000 077 815
Consumer deposits	866 331 112	866 331 112
	<b>12 823 354 487</b>	<b>12 823 354 487</b>

#### 2017

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017	
<b>Financial instruments disclosure (continued)</b>			
<b>Financial assets</b>			
	At amortised cost	At cost	Total
Other receivables	395 452 927	-	395 452 927
Consumer debtors	4 778 588 110	-	4 778 588 110
Cash and cash equivalents	5 809 953 546	-	5 809 953 546
Other investments (listed and unlisted shares)	-	4 000 000	4 000 000
Other investments	1 567 017 137	-	1 567 017 137
Long term receivables	3 124 380	-	3 124 380
	<b>12 554 136 100</b>	<b>4 000 000</b>	<b>12 558 136 100</b>
<b>Financial liabilities</b>			
	At amortised cost	Total	
Trade and other payables from exchange transactions	5 104 720 045	5 104 720 045	
Unspend conditional grants	113 408 897	113 408 897	
Long term liabilities	5 072 058 139	5 072 058 139	
Consumer deposits	806 762 579	806 762 579	
	<b>11 096 949 660</b>	<b>11 096 949 660</b>	
<b>Financial instruments in Statement of financial performance</b>			
<b>2018</b>			
	At amortised cost	Total	
Interest income (calculated using effective interest method) for financial instruments at amortised cost	888 521 343	888 521 343	
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(921 399 008)	(921 399 008)	
Impairment loss	(2 119 701 388)	(2 119 701 388)	
	<b>(2 152 579 053)</b>	<b>(2 152 579 053)</b>	
<b>2017</b>			
	At amortised cost	Total	
Interest income (calculated using effective interest method) for financial instruments at amortised cost	942 086 586	942 086 586	
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(901 847 024)	(901 847 024)	
Impairment loss	(2 013 796 870)	(2 013 796 870)	
	<b>(1 973 557 308)</b>	<b>(1 973 557 308)</b>	
<b>22. Revenue</b>			
Service charges	18 930 199 029	18 746 400 361	
Rental of facilities and equipment	73 830 270	67 521 340	
Interest earned - outstanding debtors	279 018 363	304 694 051	
Income from agency services	293 198 719	282 218 826	
Licences and permits	54 880 804	50 248 868	
Other income	330 362 766	156 816 712	
Interest revenue	609 502 980	637 392 535	
Property rates	5 200 065 020	3 870 562 791	
Property rates - penalties and collection charges	57 700 398	51 859 928	
Government grants & subsidies	7 532 975 220	6 836 096 411	
Public contributions and donations	289 325 277	207 639	
Fines	334 253 645	282 428 172	
	<b>33 985 312 491</b>	<b>31 286 447 634</b>	

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 22. Revenue (continued)

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

Service charges	18 930 199 029	18 746 400 361
Rental of facilities and equipment	73 830 270	67 521 340
Interest earned - outstanding debtors	279 018 363	304 694 051
Income from agency services	293 198 719	282 218 826
Licences and permits	54 880 804	50 248 868
Other income	330 362 766	156 816 712
Interest revenue	609 502 980	637 392 535
	<b>20 570 992 931</b>	<b>20 245 292 693</b>

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

<b>Taxation revenue</b>		
Property rates	5 200 065 020	3 870 562 791
Property rates - penalties and collection charges	57 700 398	51 859 928
<b>Transfer revenue</b>		
Government grants & subsidies	7 532 975 220	6 836 096 411
Public contributions and donations	289 325 277	207 639
Fines	334 253 645	282 428 172
	<b>13 414 319 560</b>	<b>11 041 154 941</b>

### 23. Property rates

#### Rates received

Residential	2 146 318 186	1 834 694 967
Commercial	2 701 578 671	1 578 469 300
Small holdings and farms	20 895 166	4 790 636
Vacant land	289 449 137	400 281 046
Other properties	41 823 860	52 326 842
	<b>5 200 065 020</b>	<b>3 870 562 791</b>

#### Valuations (R'000)

Residential	305 154 346	252 263 289
Commercial	130 808 271	102 923 953
Provincial and National Government	27 847 587	5 306 358
Municipal	3 846 722	2 382 257
Small holdings and farms	6 529 218	5 673 638
Sectional title	52 979 688	45 174 845
Vacant land	12 863 892	11 850 536
Other	5 128 241	22 922 146
	<b>545 157 965</b>	<b>448 497 022</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis, interest is levied on outstanding account if paid after due date.

### 24. Service charges

Sale of electricity	12 808 617 903	12 906 310 651
Sale of water	3 699 416 598	3 395 580 968
Solid waste	1 188 710 318	1 273 529 201
Sewerage and sanitation charges	1 167 180 772	1 109 672 360
Fresh produce market	20 863 367	13 459 218
Other service charges	45 410 071	47 847 963
	<b>18 930 199 029</b>	<b>18 746 400 361</b>



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>25. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	73 806 582	67 500 101
Rental of equipment	23 688	21 239
	<b>73 830 270</b>	<b>67 521 340</b>
	<b>73 830 270</b>	<b>67 521 340</b>

Included in the above rentals are operating lease rentals at straight-lined amounts of R7,160,238 (2017: R6,892,567) as well as contingent rentals of R22,584,408 (2017: R18,545,810).

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	2 719 861 000	2 381 366 993
Fuel levy	1 694 256 000	1 625 872 000
Ambulance subsidies	158 155 000	150 624 000
Finance Management Grant (FMG)	1 049 999	1 050 000
HIV/AIDS	13 236 906	12 719 535
Township Initiatives	4 875 799	-
Sector Education and Training Authority (Seta)	10 796 748	9 024 726
Disaster Grant	-	7 552 817
Bontle Ke Batho (BKB)	16 206	14 850
Health Subsidy	130 340 000	124 133 000
Human Settlements Development Grant (HSDG) Accreditation	31 203 789	34 805 312
Municipal Human Settlements Capacity	-	7 156 000
Urban Settlements Development Grant (USDG)	604 063 396	664 034 254
Public Transport Network Grant (PTNG)	119 214 670	780 079
Expanded Public Works Programme (EPWP)	44 623 038	22 122 924
Research and Technology Development	-	184 664
Libraries plan	-	6 198 620
	<b>5 531 692 551</b>	<b>5 047 639 774</b>
<b>Capital grants</b>		
Intergrated National Electrification Programme (INEP)	40 000 000	40 000 000
Urban Settlements Development Grant (USDG)	1 448 954 007	1 204 604 389
Public Transport Network Grant (PTNG)	346 563 416	419 337 740
Electricity Demand Site Management	12 000 000	14 999 893
WiFi Connectivity roll out	201 078	1 648 184
Human Settlements Development Grant (HSDG) Accreditation	-	23 158 888
Recap of Libraries	-	7 647 676
Intergrated city development	48 646 000	37 505 573
Township Initiatives	8 491 958	-
Neighbourhood Development Partnership Grant (NDPG)	96 426 208	39 554 294
	<b>2 001 282 667</b>	<b>1 788 456 637</b>
	<b>7 532 975 218</b>	<b>6 836 096 411</b>
<b>Equitable share</b>		
Current-year receipts	2 719 861 000	2 381 366 993
Conditions met - transferred to revenue	(2 719 861 000)	(2 381 366 993)
	-	-
<b>Fuel levy</b>		
Current-year receipts	1 694 256 000	1 625 872 000
Conditions met - transferred to revenue	(1 694 256 000)	(1 625 872 000)
	-	-
<b>Ambulance Subsidy</b>		
Current-year receipts	158 155 000	150 624 000
Conditions met - transferred to revenue	(158 155 000)	(150 624 000)
	-	-
<b>Finance Management Grant</b>		
Current-year receipts	1 050 000	1 050 000
Conditions met - transferred to revenue	(1 050 000)	(1 050 000)
	-	-
	-	-

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>26. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 20).		
<b>Hiv/Aids</b>		
Current-year receipts	13 236 906	12 719 535
Conditions met - transferred to revenue	(13 236 906)	(12 719 535)
	-	-
Conditions still to be met - remain liabilities (see note 20).		
<b>Township Initiatives</b>		
Balance unspent at beginning of year	888 620	2 291 932
Current-year receipts	13 594 000	13 000 000
Conditions met - transferred to revenue	(13 367 757)	(13 846 296)
Surrendered/Appropriated	-	(557 016)
	<b>1 114 863</b>	<b>888 620</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Seta</b>		
Current-year receipts	10 796 748	9 024 726
Conditions met - transferred to revenue	(10 796 748)	(9 024 726)
	-	-
<b>BKB</b>		
Balance unspent at beginning of year	16 207	31 057
Conditions met - transferred to revenue	(16 207)	(14 850)
	-	<b>16 207</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Health Subsidy</b>		
Current-year receipts	130 340 000	124 133 000
Conditions met - transferred to revenue	(130 340 000)	(124 133 000)
	-	-
<b>INEP</b>		
Current-year receipts	40 000 000	40 000 000
Conditions met - transferred to revenue	(40 000 000)	(40 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 20).		
<b>Integrated City Development</b>		
Balance unspent at beginning of year	572 427	1 560 299
Current-year receipts	48 646 000	38 078 000
Conditions met - transferred to revenue	(48 646 000)	(37 505 573)
Surrendered/Appropriated	(572 427)	(1 560 299)
	-	<b>572 427</b>
Conditions still to be met - remain liabilities (see note 20).		

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>26. Government grants and subsidies (continued)</b>		
<b>PTNG</b>		
Balance unspent at beginning of year	29 884 181	22 085 434
Current-year receipts	700 718 000	450 002 000
Conditions met - transferred to revenue	(465 778 086)	(420 117 819)
Surrendered/Appropriated	(29 884 181)	(22 085 434)
	<b>234 939 914</b>	<b>29 884 181</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Electricity Demand Site Management</b>		
Balance unspent at beginning of year	108	191 513
Current-year receipts	12 000 000	15 000 000
Conditions met - transferred to revenue	(12 000 000)	(14 999 893)
Surrendered/Appropriated	-	(191 512)
	<b>108</b>	<b>108</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Municipal Human Settlements Capacity</b>		
Balance unspent at beginning of year	-	36 945 673
Conditions met - transferred to revenue	-	(7 156 000)
Surrendered/Appropriated	-	(29 789 673)
	-	-
<b>USDG</b>		
Balance unspent at beginning of year	21 713 359	291 205 074
Current-year receipts	2 085 010 000	1 890 352 000
Conditions met - transferred to revenue	(2 053 017 403)	(1 868 638 641)
Surrendered/Appropriated	(9 615 610)	(291 205 074)
	<b>44 090 346</b>	<b>21 713 359</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>EPWP</b>		
Balance unspent at beginning of year	2 076	-
Current-year receipts	44 718 000	22 125 000
Conditions met - transferred to revenue	(44 623 038)	(22 122 924)
Surrendered/Appropriated	(2 076)	-
	<b>94 962</b>	<b>2 076</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>NDPG</b>		
Balance unspent at beginning of year	29 145 705	-
Current-year receipts	102 574 000	68 700 000
Conditions met - transferred to revenue	(96 426 208)	(39 554 295)
Surrendered/Appropriated	(29 145 705)	-
	<b>6 147 792</b>	<b>29 145 705</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>HSDG Accreditation</b>		

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>26. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	30 976 363	69 379 389
Current-year receipts	51 203 160	19 561 174
Conditions met - transferred to revenue	(31 203 789)	(57 964 200)
Surrendered/Appropriated	(30 976 363)	-
	<b>19 999 371</b>	<b>30 976 363</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>Research and Technology</b>		
Balance unspent at beginning of year	-	184 664
Conditions met - transferred to revenue	-	(184 664)
	-	-
<b>Disaster Grant</b>		
Balance unspent at beginning of year	8 773	7 561 590
Conditions met - transferred to revenue	-	(7 552 817)
Surrendered/Appropriated	(8 773)	-
	-	<b>8 773</b>
<b>WIFI Connectivity Roll Out</b>		
Balance unspent at beginning of year	201 079	1 849 263
Conditions met - transferred to revenue	(201 079)	(1 648 184)
	-	<b>201 079</b>
Conditions still to be met - remain liabilities (see note 20).		
<b>27. Interest revenue</b>		
<b>Interest revenue</b>		
Bank	313 094 119	412 098 034
External investments	296 408 861	225 294 501
	<b>609 502 980</b>	<b>637 392 535</b>
<b>28. Other income</b>		
Accident reports	1 157 288	1 074 106
Administration fees	127 909	169 580
Cleaning of stands	244 356	499 414
Entry fees	434 083	701 011
Essential services contributions	84 027 872	73 036 446
Printing and copying of documents	1 003 340	190 956
Sundry income	241 729 564	77 674 067
Supply of information	372 610	448 764
Tender documents	219 600	1 946 058
Training	1 046 144	1 076 310
	<b>330 362 766</b>	<b>156 816 712</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>29. Employee related costs</b>		
Basic	4 504 966 956	3 942 291 098
Bonus	347 770 074	265 146 609
Medical aid - company contributions	458 471 954	405 938 008
UIF	31 388 917	29 176 066
WCA	46 275 379	37 541 860
SDL	60 852 332	53 873 338
Other payroll levies	1 749 674	1 593 603
Leave pay provision charge	150 799 564	120 244 753
Standby Allowances	44 367 022	37 314 902
Defined contribution plans	466 591 284	126 381 398
Travel, motor car, accommodation, subsistence and other allowances	232 593 033	223 034 373
Overtime payments	762 853 581	750 989 796
Long-service awards	65 018 574	(45 339 455)
Acting allowances	70 036 135	55 277 501
Housing benefits and allowances	55 337 017	56 173 178
Allowances	20 231 756	18 795 206
Less: employee costs capitalised to property, plant and equipment	(22 637 736)	(27 426 714)
	<b>7 296 665 516</b>	<b>6 051 005 520</b>

Senior Management Remuneration (Key Management) for the period ended 30 June 2018	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	2 959 772	68 025	154 528	-	55 200	3 237 525
Chief Operating Officer	2 018 026	328 485	151 833	-	43 200	2 541 544
Chief Financial Officer	1 702 661	128 844	120 000	-	43 200	1 994 705
Head of Department: Internal Audit (Vacant from 1/08/2017)	138 528	13 797	10 000	-	3 600	165 925
Head of Department :Electricity & Energy	1 880 741	176 520	276 340	-	213 420	2 547 021
Head of Department: Strategy & corporate planning	1 664 298	214 446	99 645	-	43 200	2 021 589
Head of Department : Health	1 667 720	163 785	120 000	-	43 200	1 994 705
Head of Department:Customer Relations Management(Vacant from 1/09/2017)	532 161	297	30 000	-	10 800	573 258
Head of Department : Corporate Legal	2 113 981	131 533	120 000	-	43 200	2 408 714
Head of Department: Communication	1 686 779	144 726	120 000	-	43 200	1 994 705
Head of Department : Human Resource(Appointed 1/08/2017)	1 434 848	70 780	80 000	-	35 100	1 620 728
Head of Department : Sport, Recreation, Arts and Culture (SRAC)	1 868 604	1 785	108 000	90 906	43 200	2 112 495
Head of Department : City Development	1 528 382	183 122	240 000	-	39 600	1 991 104
Head of Department : Community Safety(Appointed 1/12/2017)	955 128	108 693	74 557	-	25 200	1 163 578
Head of Department : Community Safety(Contract expired 01/02/2017)	-	-	-	121 388	-	121 388
Head of Department: Human Settlement	1 699 112	96 393	156 000	-	43 200	1 994 705
Head of Department: Economic Development	2 142 804	1 785	180 000	-	43 200	2 367 789
Head of Department : ICT	1 642 662	128 844	180 000	-	43 200	1 994 706
Head of Department : Transport	1 796 604	1 785	180 000	-	43 200	2 021 589
Head of Department : Solid Waste (Vacant 01/02/2017)	-	-	-	89 151	-	89 151
Head of Department : Enterprise Project Management	1 292 792	1 338	96 000	-	28 800	1 418 930
Head of Department: Real Estate and Facilities	1 809 756	109 784	96 000	-	43 200	2 058 740
Head of Department ; Roads and Transport	1 901 604	1 785	240 000	-	39 600	2 182 989
Head of Department : Water Services	1 645 404	152 985	180 000	-	43 200	2 021 589
Head of Department : Water Services (Resigned 30/06/2016)	-	-	-	135 226	-	135 226

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand					2018	2017
<b>29. Employee related costs (continued)</b>						
Head of Department:Fleet	1 949 720	1 785	-	-	39 600	1 991 105
Chief Risk Officer(Vacant 01/01/2018)	884 860	1 041	90 000	-	21 600	997 501
Chief of Police	1 749 064	100 148	129 176	-	43 200	2 021 588
Secretary of Council	1 475 000	152 985	132 000	-	385 000	2 144 985
Subtotal	42 141 011	2 485 496	3 364 079	436 671	1 502 320	49 929 577
	<b>42 141 011</b>	<b>2 485 496</b>	<b>3 364 079</b>	<b>436 671</b>	<b>1 502 320</b>	<b>49 929 577</b>
<b>Senior Management Remuneration (Key Management) for period ended 30 June 2017</b>	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager(Expired 31/08/2016)	474 560	21 417	-	329 700	8 600	834 277
City Manager (Appointed 01/12/2016)	1 599 344	39 681	90 141	-	32 200	1 761 366
Chief Operating Officer(vacant 01/12/2016)	1 003 788	28 344	64 387	577 043	18 000	1 691 562
Chief Operating Officer(Appointed 01/06/2017)	181 041	149	-	-	3 600	184 790
Chief Financial Officer(Vacant 16/01/2017)	1 489 603	892	-	299 548	21 214	1 811 257
Chief Financial Officer(appointed 01/05/2017)	242 745	10 885	10 000	-	6 600	270 230
Head of Department: Internal Audit	1 598 340	94 484	120 000	307 529	43 200	2 163 553
Head of Department :Electricity & Energy	1 679 628	148 165	176 340	470 564	213 420	2 688 117
Head of Department: Strategy & Corporate Planning	814 217	107 220	-	-	21 600	943 037
Head of Department: Health	1 531 440	123 285	120 000	313 522	43 200	2 131 447
Head of Department: Customer Relations Management	1 974 348	1 785	120 000	441 287	43 200	2 580 620
Head of Department: Corporate & Legal	1 757 424	131 385	120 000	412 053	43 200	2 464 062
Head of Department: Communication	1 342 941	128 844	120 000	-	43 200	1 634 985
Head of Department: SRAC	1 343 113	1 487	90 000	168 110	33 900	1 636 610
Head of Department : City Development	1 532 102	182 825	100 000	293 808	39 600	2 148 335
Head of Department : Community Safety	1 122 489	110 093	80 000	207 751	28 800	1 549 133
Head of Department : Human Settlement	1 339 392	96 393	156 000	-	43 200	1 634 985
Head of Department : Economic Development	1 836 044	1 785	170 000	323 714	43 200	2 374 743
Head of Department : ICT (Resigned 31/12/2016)	1 405 044	27 892	50 857	301 388	21 600	1 806 781
Head of Department : ICT (Appointed 01/06/2017))	106 078	10 736	15 000	-	3 600	135 414
Head of Department : Transport	692 123	744	75 000	-	18 000	785 867
Head of Department : Environment	1 799 388	1 785	-	279 147	39 600	2 119 920
Head of Department : Solid Waste	892 914	31 966	49 000	103 452	25 200	1 102 532
Head of Department : Enterprise Project Management	1 796 376	1 785	144 000	304 997	43 200	2 290 358
Head of Department : Real Estate and Facilities	1 671 696	109 785	96 000	293 416	43 200	2 214 097
Head of Department : Roads and Transport	1 754 784	1 785	240 000	115 848	39 600	2 152 017
Head of Department : Water and Sanitation	754 947	38 692	90 000	-	21 600	905 239
Head of Department :Fleet	1 813 440	1 785	-	190 215	39 600	2 045 040
Chief Risk Officer	1 410 000	1 785	180 000	-	43 200	1 634 985
Chief of Police( Resigned 25/11/2016)	593 420	719	50 000	-	11 000	655 139
Chief of Police(Appointed 01/05/2017)	134 463	297	21 529	-	7 200	163 489
Secretary of Council	626 082	892	66 000	139 499	19 800	852 273
Subtotal	38 313 314	1 459 767	2 614 254	5 872 591	1 106 334	49 366 260
	<b>38 313 314</b>	<b>1 459 767</b>	<b>2 614 254</b>	<b>5 872 591</b>	<b>1 106 334</b>	<b>49 366 260</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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Figures in Rand

2018

2017

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29. Employee related costs (continued)

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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 30. Remuneration of councillors

#### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has full-time bodyguards.

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

#### Related parties

Refer to note 42 for related party relationships.

June 2018	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	1 242 409	-	55 908	-	40 800	1 339 117
Speaker	439 602	173 739	369 389	65 940	40 800	1 089 470
Chief Whip	940 680	-	47 034	-	40 800	1 028 514
Members of the Mayoral Committee	3 852 056	455 334	5 133 045	436 706	408 000	10 285 141
Chairpersons Section 79 Members	5 227 704	800 846	9 617 572	652 460	693 600	16 992 182
Other councillors	45 740 611	6 452 088	38 638 132	3 241 146	7 893 498	101 965 475
	<b>57 443 062</b>	<b>7 882 007</b>	<b>53 861 080</b>	<b>4 396 252</b>	<b>9 117 498</b>	<b>132 699 899</b>

June 2017	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	931 807	-	133 592	-	35 012	1 100 411
Speaker	423 919	173 739	312 546	74 580	40 069	1 024 853
Chief Whip	717 597	-	105 518	-	20 349	843 464
Members of the Mayoral Committee	3 590 438	3 759 778	1 073 343	516 759	224 153	9 164 471
Chairpersons Section 79 Members	4 834 017	813 277	7 889 059	628 564	374 896	14 539 813
Other councillors	43 811 570	2 256 413	39 153 361	3 666 445	4 383 683	93 271 472
<b>Total</b>	<b>54 309 348</b>	<b>7 003 207</b>	<b>48 667 419</b>	<b>4 886 348</b>	<b>5 078 162</b>	<b>119 944 484</b>

### 31. Depreciation and amortisation

Property, plant and equipment	2 153 981 370	1 880 610 649
Investment property	7 431 238	6 831 906
Intangible assets	62 020 285	14 173 068
	<b>2 223 432 893</b>	<b>1 901 615 623</b>

### 32. Impairments of assets

#### Impairments

Derecognition of property, plant and equipment	78 250 047	228 637 859
Derecognition of intangible assets	5 688 800	-
Heritage assets	-	53 528
	<b>83 938 847</b>	<b>228 691 387</b>

### 33. Finance costs

External borrowings	645 637 708	556 932 803
Trade and other payables	7 127 212	458 384
Unwinding of interest on provisions and obligations	268 634 088	344 455 837
	<b>921 399 008</b>	<b>901 847 024</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>34. Debt impairment</b>		
Debt debts written off	378 620 247	658 140 959
Changes in debt impairment provision	1 343 987 162	2 609 578 888
Changes in provision for bad debts written off	(378 620 247)	(658 140 959)
	<b>1 343 987 162</b>	<b>2 609 578 888</b>
<b>35. Bulk purchases</b>		
Electricity	9 310 610 747	9 253 232 812
Water	2 934 764 481	2 576 776 298
Sewer purification	696 872 604	572 501 829
	<b>12 942 247 832</b>	<b>12 402 510 939</b>
<b>36. Auditors' remuneration</b>		
External audit fees	23 764 006	18 203 749
<b>37. Contracted services</b>		
Information technology services	9 398 508	286 286
Security contracts	372 415 144	69 498 222
Meter management contracts	202 576 272	91 131 995
Environment contracts	283 290 319	184 733 415
Professional services	477 677 450	715 703 832
	<b>1 345 357 693</b>	<b>1 061 353 750</b>
<b>38. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Discretionary grant: sport and social support	108 619 016	133 524 426
Subsidy: Society for the Prevention of Cruelty to Animals (SPCA)	3 368 675	3 175 000
Discretionary grant: general	873 424 847	443 590 084
Excess consumption and other grants paid	612 316 665	399 871 324
Grants: education (external)	127 053 346	106 595 082
	<b>1 724 782 549</b>	<b>1 086 755 916</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>39. General expenses</b>		
Advertising	38 447 237	40 964 125
Animal care	3 980 174	3 628 454
Auditors remuneration	23 764 006	18 203 749
Awareness campaigns	23 048 044	30 200 072
Bank charges	10 189 785	11 603 048
Community development and wellbeing	16 527 854	97 985 585
Consulting and professional fees	203 546 452	165 722 645
Consumables (including materials)	106 172 336	52 521 700
Corporate Gifts	782 925	207 404
Disaster management	384 207	1 345 882
Entertainment	221 361	317 355
Fuel and oil	165 174 930	150 315 219
Human resource management	12 196 026	13 984 175
IT expenses	46 226 329	61 642 661
Insurance	72 559 656	64 841 579
Land management	37 826 932	88 523 326
Magazines, books and periodicals	1 133 193	931 165
Marketing	118 917 961	107 565 752
Repairs and maintenance costs and operating expenses	2 472 346 381	2 324 912 514
Postage	28 375 717	28 510 830
Printing and stationery	48 505 610	45 715 675
Productions	49 650	178 285
Refreshments	8 944 353	11 386 431
Refuse	31 759 354	47 509 428
Rental	31 805 713	24 627 845
Rodent control	9 157 990	2 182 247
Service connections	257 436 355	49 317 239
Software expenses	1 236 779	18 521 655
Stock adjustments and write-offs	-	1 459 657
Subscriptions and membership fees	13 418 597	14 486 561
Telephone and fax	34 074 338	16 689 932
Title deed search fees	915 645	498 959
Training	22 201 265	17 749 456
Travel - local	2 097 340	4 637 017
Travel - overseas	5 082 959	6 005 423
Uniforms	59 532 857	59 133 811
Venue expenses	23 801 418	23 261 376
Vehicle licences and hire cost	38 970 256	21 051 399
	<b>3 970 811 985</b>	<b>3 628 339 636</b>
<b>40. Cash generated from operations</b>		
Surplus	1 799 221 145	1 177 665 652
<b>Adjustments for:</b>		
Depreciation and amortisation	2 223 414 977	1 885 512 196
Gain on sale of fixed assets	-	-
Loss on disposal of assets	3 523 123	(7 651 480)
Impairment deficit	83 938 847	228 691 387
Debt impairment	1 343 987 162	2 609 578 888
Movements in retirement benefit	(184 553 072)	(388 599 928)
Movements in provisions	197 063 629	(39 100 214)
Net movement on provision for bad debt on long term receivables	-	3 766 251
Other non-cash items (other movements within PPE )	142 016 108	288 699 236
<b>Changes in working capital:</b>		
Inventories	(471 905 569)	(177 376 442)
Receivables from exchange transactions	(336 244 163)	(36 277 754)
Consumer debtors	(2 051 829 839)	(2 131 780 188)
Other receivables from non-exchange transactions	(21 848 717)	(10 951 276)
Trade and other-payables from exchange transactions	248 795 075	94 009 384
Unspent conditional grants and receipts	192 978 458	(319 876 992)
	<b>3 168 557 164</b>	<b>3 176 308 720</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand 2018 2017

### 41. Contingencies

#### Contingent liabilities

Category A: Claims exceeding R 500 000.

Category B: Claims between R100,000 and R500,000

Category C: Other legal matters less than R100,000.

#### **CONTINGENT LIABILITIES**

Category A Claims:

The claim revolves around a dispute regarding payment for work done. EMM is defending the matter.	57 000 000	-
Plaintiff issued summons against EMM for the purchase of the remainder of ptn 9 of the farm driefontein no.87 in the amount of R63 000 000.00 which is illegally occupied and seeks to force the EMM to pay the purchase price.	17 825 900	17 825 900
Other	35 005 628	35 144 079
Ingwempisi Security Services CC *(B)	123 872 435	123 872 435
Red Ants	37 000 000	-
Hlaniki	23 653 137	-
	<b>294 357 100</b>	<b>176 842 414</b>

Category B Claims

Other various claims	-	1 076 747
	<b>-</b>	<b>1 076 747</b>

#### **CONTINGENT ASSETS**

e-Valuations	-	39 000 000
Anicic Engineering	-	2 941 710
NCP Clorchem - Dispute regarding price charged for energy supply	-	178 788 869
Combi trade Eleven (Pty) - Unpaid rate and taxes	-	2 832 963
Lucmer construction & New National Assurance - Failure to comply with contract conditions	-	3 174 615
Kgorong and another	-	260 232
Quigely Khuanyane	8 500 000	-
Mkhabela Sibeko and others - Goods supplied did not comply with safety standard	-	1 024 290
D Msimango	-	500 000
J P Ruhling	1 313 606	-
Civcon	5 963 644	-
Weber Wentzel	1 140 000	-
Liviero Moseme Joint Venture	4 600 000	-
Madisha & Associates	1 383 652	-
Elspark Golfbaan	1 172 830	-
	<b>24 073 732</b>	<b>228 522 679</b>

#### **\*NOTES**

(A) Plaintiff issued summons against CoE for failure to issue sec.82 certificate. The plaintiff took CoE to court and lost the case and is in the process of appeal.

(B) Plaintiff was unsuccessful in a bid for security services and now challenge the award to the successful bidder and they are claiming damages of R123,872,435.28.

(C) Plaintiff alleges that it has been appointed by CoE through the tender process on an as and when basis. Plaintiff's application was dismissed with cost. We are awaiting court date to go to trial.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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Figures in Rand

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### 42. Related parties

Relationships

Accounting officer

Controlling entity

Controlled entities

Close family member of key management

Members of key management

Dr. I Mashazi refer to accounting officer's report

City of Ekurhuleni

Brakpan Bus Company SOC Ltd (BBC)

East Rand Water Care Company NPC (ERWAT)

Germiston Phase II Housing Company SOC Ltd (EHC)

Declarations are retained in a register at tender office.

For details of Members of key management see note below, for remuneration refer to note 29

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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Figures in Rand

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### 42. Related parties (continued)

#### Key Management

City Manager  
Chief Operating Officer  
Chief Financial Officer  
Head of Department: Internal Audit  
Head of Department: Electricity & Energy  
Head of Department: Organisational Performance  
Head of Department: Health  
Head of Department: Corporate & Legal  
Head of Department: Communication  
Head of Department: Human Resources  
Head of Department: SRAC  
Head of Department: City Development  
Head of Department: Community Safety  
Head of Department: Housing  
Head of Department: Economic Development  
Head of Department: ICT  
Head of Department: Transport  
Head of Department: Environment  
Head of Department: Solid Waste  
Head of Department: Enterprise Project Management  
Head of Department: Customer Relations Management  
Head of Department: Real Estate and Facilities  
Head of Department: Roads and Transport  
Head of Department: Water and Sanitation  
Head of Department: Fleet  
Chief Director: RTCW  
Chief Director: Water Services  
Chief Risk Officer  
Chief of Police  
Secretary of Council

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Related parties (continued)

#### June 2018

#### Tenders awarded to family members

No	Contract number	Supplier Name	Relation	Employee name	Employee designation	Amount R0,00
1	A-RE 06/2016	Bizzy Boyz Trading Enterprise	Spouse	L P Khumalo	Chief Clerck	3 719 232
2	A-EE 02/2017	MPPM Consulting Engineers CC	Spouse	M Sentatsi	ICT Manager	1 833 333
3	A-IA 01/2017	PWC	Son	W Valentin	Executive Manager	5 123 050
4	P-CM 01/2016	Imbalenhle Catering and Projects	Spouse	L I Dlamini	EPWP Learnership	182 932
5	P-CM 01/2016	MA-ZEE Marketing Enterprises	Mother	L G G Ngcakana	Internal audit officer	379 250
6	EFW-DEMS 17/2018	Seletje Construction & Management CC	Spouse	P M Lekgwathi	Senior Clerk	32 251 602
Subtotal						43 489 399
						<b>43 489 399</b>

#### June 2017

#### Tenders awarded to family members

No	Contract number	Supplier Name	Relation	Employee name	Employee designation	Amount R0,00
1	A- ICT 08/2016\	Altech Alcom Matomo	Spouse	R van Vuuren	Exec Manager	30 379 207
2	A-RS 09/2016	Anix Trading	Spouse	M J Msimango	Senior Clerk	5 357 143
3	A-RE 13/2016	Empower Electrical CC	Spouse	H E Sikihitha	Snr Admin Officer	2 525 000
4	A-RS 09/2016	LMM Trading and Development CC	Spouse	K Mangwane	Senior Clerk	5 357 143
5	A-EE 21/2016	MPPM consulting Engineers CC	Spouse	M Senyatsi	Senior Clerk	4 020 000
6	A -EE 13/2016	Green today projects (pty) ltd	Spouse	GLN Nqubezelo	Professional Nurse	3 028 632
7	C-EMPO 01/2017	IMQS	Father	W Valentin	Executive Manager	58 532 355
Subtotal						109 199 480
						<b>109 199 480</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Related parties (continued)

#### June 2017

#### Deviations on tenders awarded to family members of staff

No	Contract number	Supplier Name	Relation	Employee name	Employee designation	Amount R0.00
1	A-ED WMS 12/2009(T)	Hlanzekhile Waste Services (Pty) Ltd	Spouse	PM Lekgwathi	Senior Clerk	1 805 003
2	PS-EE 27/2014(T)	Tsekema Consulting Engineers	Child	D A Motsoane	Apprentice	3 251 375
Subtotal						5 056 378
						<b>5 056 378</b>

#### June 2018 staff

#### Quotations awarded to family members of staff

No	Supplier Name	Relation	Employee Name	Employee designation	Amount
1	LMM Training and Development	Spouse	K Mangwane	Senior Clerk	32 000
2	Restery Trading (Pty) Ltd	Spouse	A Sihlangu	EDIC Co-ordinator	122 860
					<b>154 860</b>

#### Heading

#### Quotations awarded to family members of staff

Amount

-

-

-

#### Related party balances

#### Amounts included in trade receivable and consumer debtors regarding related parties - municipal entities

East Rand Water Care Company, NPC	4 487 909	7 557 523
Brakpan Bus Company SOC Ltd	14 656 871	4 941 244



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>42. Related parties (continued)</b>		
<b>Amounts included in trade payable regarding related parties - municipal entities</b>		
East Rand Water Care Company, NPC	77 947 430	99 091 678
Brakpan Bus Company SOC Ltd	53 894	-
<b>Related party transactions</b>		
<b>Sales to related parties - municipal entities</b>		
East Rand Water Care Company, NPC	70 554 098	71 896 187
Germiston Phase II Housing Company SOC Ltd	7 228 902	6 039 867
Brakpan Bus Company SOC Ltd	110 000	110 000
<b>Purchases from related parties - municipal entities</b>		
East Rand Water Care Company, NPC	771 360 910	699 057 055
Brakpan Bus Company	9 605 627	6 531 689
<b>Grants to related parties - municipal entities</b>		
Brakpan Bus Company SOC Ltd	-	5 000 000
Germiston Phase II Housing Company SOC Ltd T/A Ekurhuleni Housing Company	33 862 183	18 147 435
East Rand Water Care Company, NPC	50 000 000	50 000 000
Germiston Phase II Housing Company SOC Ltd T/A Ekurhuleni Housing Company Assets transferred	67 084 729	78 233 893
<b>Development contributions to related parties - municipal entities</b>		
East Rand Water Care Company, NPC	65 784 571	85 408 228

### Guarantee and debtors ceded

CoE guaranteed the Nedbank loan to ERWAT, with a carrying value of R490,305,536 (2017: R533,281,072). The guarantee shall expire at 15h00,10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. ERWAT has agreed to cede to CoE claims against its book debtors, in the event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of CoE all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for so long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by CoE in favour of Nedbank Ltd as guarantee for the loan remains in effect.

Refer to employee related costs note (note 29) for remuneration paid to key management.

### 43. Prior period errors

#### 2017

Property plant and equipment, investment property, projects completed prior years were only capitalised in the current year as projects close out reports were provided the current year, and certain projects were derecognised as they did not meet the subsequent capitalisation requirements.

Other assets were reclassified between the asset categories as they either categorised incorrectly between the various types, were found or removed from the relating registers.

Other property, plant and equipment and other property, plant and equipment: buildings, were previously shown as one line item, due to significant amounts in other property, plant and equipment, management deemed it fit to separate the line items.

Other investments - There was an error on the investment shedule used for the accrual of interest income'.

The correction of the errors results in adjustments as follows (identified in 2018):

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 43. Prior period errors (continued)

#### Statement of Financial Position

Inventory	4 586 238	-
Investment property	(72 136 654)	-
Property, plant and equipment	(124 969 280)	-
Intangible assets	180 117 834	-
Heritage assets	66 430	-
Other investments	101 089 399	-
Other receivables from exchange transactions	6 376 308	-
Trade and other payables	398 987 909	-
Deposits	262 970	-

#### Statement of Financial Performance

Property rates	182 995 369	-
Property rates - penalties imposed and collection charges	11 865 102	-
Other income	(207 639)	-
Gain on fair value adjustment	207 639	-
Interest revenue	(101 089 398)	-
Impairment on assets	100 406 713	-
Grants and subsidies paid	(119 874 011)	-
Net surplus for the year	74 303 774	-
Other	-	-
Irregular expenditure	(118 602 562)	-
Fruitless and wasteful expenditure	(2 877 036)	-
Deviation from SCM regulations	(242 002 553)	-

### 44. Comparative figures

Certain comparative figures have been reclassified as a result of the Municipal Standard Chart Of Accounts (mSCOA).

### 45. Risk management

#### Capital Risk Management

The City's objectives, when managing capital, are to safeguard the City's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the City consists of debt, which includes the borrowings disclosed in note 15 and cash and cash equivalent disclosed in note 14.

Consistent with others in the industry, the City monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the City manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio 2018 and 2017 respectively are as follow:

Other financial liabilities	(6 000 077 815)	(5 072 058 139)
Less: Cash and cash equivalent	<u>3 534 467 662</u>	<u>5 809 953 546</u>
Net Debt	(2 465 610 153)	737 895 407
Total equity	49 298 300 676	47 530 446 408
<b>Total capital</b>	<b><u>46 832 690 523</u></b>	<b><u>48 268 341 815</u></b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Risk management (continued)

#### Financial risk management

The City's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The City's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the City's financial performance.

Risk management is carried out by the risk management department under policies approved by the accounting officer. The City's treasury identifies, evaluates and hedges financial risks in close co-operation with the City's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The City's risk to liquidity is a result of the funds available to cover future commitments. The City 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 analysis the City's financial liabilities and net-settled derivative 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.

#### Interest rate risk

The City's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the City to cash flow interest rate risk. Borrowings issued at fixed rates expose the City to fair value interest rate risk. The City's policy is to maintain approximately 100% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk is as follows:

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years
Consumer debtors	10,5 %	5 486 430 787		
Long term receivables	variable %	1 128 056	1 128 056	1 128 056

#### Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years	Due after five years
Long term and other liabilities	Various	502 569 199	2 309 276 326	1 904 557 843	1 283 674 447

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Risk management (continued)

#### Credit risk

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

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 board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

Financial instrument	Controlling entity - 2018	Controlling entity - 2017
Other Investments	2 164 417 345	1 567 017 137
Long-term receivables	3 317 824	3 124 380
Consumer debtors	5 486 430 787	4 778 588 110
Other receivables	304 652 114	395 452 927
Cash and cash equivalents	3 534 467 662	5 809 953 546
Listed and Unlisted shares	4 000 000	4 000 000
	<b>11 497 285 732</b>	<b>12 558 136 100</b>

The City has a R4,000,000 investment in unlisted shares, which is the exposure to price risk. The price risk on this investment cannot be determined due to the fact that the shares are not listed and therefore unknown.

### 46. Going concern

This annual financial statements have been prepared on a going concern basis.

Management has reviewed the City's cash flow forecast for the period ended 30 June 2018 and the next financial year budget is fully funded, in the light of this review and the current financial position, management is satisfied that the City has, or has access to, adequate resources to continue in operational existence for the foreseeable future.

### 47. Events after the reporting date

There were no subsequent events affecting this annual financial statements at the reporting date.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Unauthorised, Fruitless, Wasteful and Irregular expenditure

Items of unauthorised, irregular and fruitless and wasteful expenditure are referred to MPAC for further investigations and determination of appropriate steps to be taken. During the current year the Council approved R10,173,528 (2017: R5,281,886) for irregular expenditure and R0 (2017: R291,734) for fruitless expenditure for write-off. The remaining amounts are still under investigation by the MPAC and other organs of state. No resolutions were not yet available.

#### Irregular expenditure

Opening balance	1 250 709 115	783 307 530
Add: Expenditure identified for the year	35 709 365	248 849 225
Add: Expenditure identified in the current year, relating to prior years	51 865 916	223 834 246
Less: Amounts ratified/approved by council/board and/or not recoverable	(10 173 528)	(5 281 886)
	<b>1 328 110 868</b>	<b>1 250 709 115</b>

#### Fruitless and Wasteful expenditure

Opening balance	151 234 840	146 455 409
Add: Expenditure identified for the year	-	4 500 114
Add: Expenditure identified in the current year, relating to prior years	4 691 208	963 441
Less: Amounts ratified/approved by council/board	-	(291 734)
	<b>155 926 048</b>	<b>151 627 230</b>

#### Unauthorised expenditure

Add: Expenditure identified for the year	-	67 090 606
Less: Amounts ratified/approved by council/board	-	(67 090 606)
	-	-

#### June 2018

##### Unauthorised, Fruitless, Wasteful and Irregular Expenditure

Department	Description	Classification	Amount
Energy	Contravention of SCM Policy	Irregular	6 463 530
Transport	Contravention of SCM Policy	Irregular	511 182
Human resource	Contravention of SCM Policy	Irregular	79 750
ICT	Contravention of SCM Policy	Irregular	8 667 683
Real Estate	Contravention of SCM Policy	Irregular	78 146
Various Departments	Splitting of goods or services	Irregular	19 909 074
			<b>35 709 365</b>

#### June 2018

##### Identified in the current year relating to prior years:

Department	Description	Classification	Amount
Human Settlements	Contravention of SCM Policy	Irregular	23 392 353
Real Estate	Contravention of SCM Policy	Irregular	27 583 618
Communication and Brand Management	Contravention of SCM Policy	Irregular	479 256
Transport, Planning	Contravention of SCM Policy	Irregular	379 000
Health & Social EMPD	Contravention of SCM Policy	Irregular	31 689
Waste Management	Value for money not obtained	Fruitless	1 395 294
Economic Development	Value for money not obtained	Fruitless	495 256
Corporate and Legal	Value for money not obtained	Fruitless	157 303
Finance	Value for money not obtained	Fruitless	6 692
	Fraudulent transactions	Fruitless	623 972

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 48. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

CRM	Fraudulent transactions	Fruitless	2 012 823
			<b>56 557 256</b>

June 2017

### Unauthorised, Fruitless, Wasteful and Irregular Expenditure

Department	Description	Classification	Amount
Comms and Marketing	Contravention of SCM Policy	Irregular	29 520
Economic Development	Paid wrong service provider	Irregular,	27 800
Customer Relations	Contravention of SCM Policy	Irregular	15 612
Fleet	Contravention of SCM Policy	Irregular	4 277 845
SRAC	Contravention of SCM Policy	Irregular	7 000 000
SRAC	Contravention of SCM Policy	Irregular	1 972 000
Health	Contravention of SCM Policy	Fruitless	1 003 349
Waste management	Contravention of SCM Policy	Fruitless	3 159 714
Human Settlements	Contravention of SCM Policy	Fruitless	243 724
Human Settlements	Contravention of SCM Policy	Fruitless	39 327
Comms and Marketing	Contravention of SCM Policy	Irregular	1 431 934
City Planning	Contravention of SCM Policy	Fruitless	54 000
City Planning	Contravention of SCM Policy	Fruitless	2 877 036
Comms and Marketing	Contravention of SCM Policy	Irregular	479 256
Real Estate	Contravention of SCM Policy	Irregular	2 040 435
EMPD	Contravention of SCM Policy	Irregular	593 241
EMPD	Contravention of SCM Policy	Irregular	1 456 477
Energy	Contravention of SCM Policy	Irregular	320 902
Health	Contravention of SCM Policy	Irregular	452 401
Human Resources	Contravention of SCM Policy	Irregular	332 704
ICT	Contravention of SCM Policy	Irregular	62 212 222
ICT	Contravention of SCM Policy	Irregular	3 058 802
Real Estate	Contravention of SCM Policy	Irregular	2 574 913
Waste Management	Contravention of SCM Policy	Irregular	69 289
City Planning	Contravention of SCM Policy	Irregular	3 731 320
Energy	Contravention of SCM Policy	Irregular	3 806 806
Energy	Contravention of SCM Policy	Irregular	128 952
Human Settlements	Contravention of SCM Policy	Irregular	10 114 621
ICT	Contravention of SCM Policy	Irregular	69 962
Environment	Contravention of SCM Policy	Irregular	1 768 200
Real Estate	Contravention of SCM Policy	Irregular	149 500
Transport	Contravention of SCM Policy	Irregular	5 000
Human Resource	Contravention of SCM Policy	Irregular	10 736
Real Estate	Contravention of SCM regulation no 36	Irregular	1 450 560
Waste Management	Contravention of SCM regulation no 36	Irregular	23 000 000
Water	Contravention of SCM regulation no 36	Irregular	40 698 000
Human Settlement	Contravention of SCM regulation no 36	Irregular	22 996 087
Waste Management	Contravention of SCM regulation no 36	Irregular	2 609 609
Human Settlement	Contravention of SCM regulation no 36	Irregular	7 133 004
Real Estate	Contravention of SCM Policy	Irregular	5 178 600
Finance	Contravention of SCM Policy	Irregular	24 866 279
Energy	Contravention of SCM Policy	Irregular	7 973 851
Finance	Contravention of SCM Policy	Irregular	1 587 535
Finance	Contravention of SCM Policy	Irregular	236 118
Finance	Contravention of SCM Policy	Irregular	112 096

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 48. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

					<u>253 349 339</u>
June 2017 Identified in the current year relating to prior years:	Department	Description	Classification	Amount	
	Fleet	Contravention of SCM Policy	Irregular	2 134 058	
	SRAC	Contravention of SCM Policy	Irregular	6 500 000	
	SRAC	Contravention of SCM Policy	Irregular	11 700	
	SRAC	Contravention of SCM Policy	Irregular	20 000	
	SRAC	Contravention of SCM Policy	Irregular	29 900	
	Fleet	Contravention of SCM Policy	Irregular	607 360	
	Customer relations	Contravention of SCM Policy	Fruitless	59 400	
	Customer relations	Contravention of SCM Policy	Fruitless	58 600	
	Customer relations	Contravention of SCM Policy	Fruitless	59 690	
	Customer relations	Contravention of SCM Policy	Fruitless	59 250	
	Customer relations	Contravention of SCM Policy	Fruitless	58 050	
	Customer relations	Contravention of SCM Policy	Irregular	144 210	
	Fleet	Contravention of SCM Policy	Irregular	4 277 845	
	Energy	Contravention of SCM Policy	Irregular	78 425	
	Energy	Contravention of SCM Policy	Fruitless	184 808	
	Energy	Contravention of SCM Policy	Fruitless	222 516	
	Energy	Contravention of SCM Policy	Fruitless	89 976	
	Energy	Contravention of SCM Policy	Fruitless	111 461	
	Human Resources	Contravention of SCM Policy	Irregular	90 915	
	Customer relations	Contravention of SCM Policy	Fruitless	59 690	
	Transport	Contravention of SCM Policy	Irregular	209 939 833	
				<u>224 797 687</u>	

### 49. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	12 825 000	12 635 000
Amount paid - current year	(12 825 000)	(12 635 000)
	-	-

#### Material losses through criminal conduct and fraudulent activities

##### Audit fees

Opening balance	5 564 302	303 801
Current year fees	24 771 358	20 404 113
Amount paid - current year	(24 181 809)	(15 143 612)
	<u>6 153 851</u>	<u>5 564 302</u>

##### PAYE and UIF

Amount paid - current year	1 146 642 709	1 000 047 952
	(1 146 642 709)	(1 000 047 952)
	-	-

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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

#### Pension and Medical Aid Deductions

Current year charges	1 974 320 182	1 711 983 523
Amount paid - current year	(1 974 320 182)	(1 711 983 523)
	-	-

#### VAT

VAT paid during the year	(6 403 494)	(36 171 150)
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# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 49. 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 as at 30 June 2018..

30 June 2018	Outstanding more than 90 days	Aging in days
Mabanga V	8 942	480
Sarila MF	3 070	270
Shezi KE	48 747	1 830
	<b>60 759</b>	<b>2 580</b>

During the year the following Councillors had arrears, where their accounts were outstanding for more than 90 days.

30 June 2018	Highest outstanding amount	Aging (in days)
Chonco M F	27 551	1 200
Mafanga Z L	4 975	780
Ueckermann S	562	120
Makaleng P J	1 647	120
Bambeni T	1 306	120
Moloko J	847	150
Mabanga V	25 349	1 110
Nyathe K B	5 614	1 800
Phakathi N M	2 622	210
Matheba S T	4 161	150
Kodisang M N	3 837	150
Mahano F L	841	120
Mkhize A L	3 952	150
Nkosi P	3 580	120
Lukhele V K	1 953	120
Shongwe N G	2 850	120
Wondo M B	3 204	120
Chauke E V	2 064	120
Reid B	2 221	120
Mathonsi S	42 194	1 830
Masina M C	32 999	120
Sarila M F	3 526	240
Shezi K E	48 747	1 830
	<b>226 602</b>	<b>10 920</b>
30 June 2017	Highest outstanding amount	Aging (in days)
Anticevich J A	1 765	120
De Iange P R	7 834	120
Kriek M van N	16 938	120
Kruger S	628	120
Mohoaladi M S	2 348	120
Ngobese A K	26 999	120
Nkosi M I	3 808	120
Nxumalo A	2 158	120
Zwane T S	3 195	120
	<b>65 673</b>	<b>1 080</b>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 50. Utilisation of long-term liabilities reconciliation

Outstanding long-term liabilities beginning of the year	5 072 058 139	5 411 930 237
Redemption of loans	(433 174 086)	(361 074 769)
New loans	1 300 000 000	-
Interest accrued	61 193 762	21 202 671
	<u>6 000 077 815</u>	<u>5 072 058 139</u>
Used to finance property, plant and equipment: Opening balance	(5 072 058 139)	(5 411 930 237)
Redemption of loans	433 174 086	361 074 769
Interest accrued	(61 193 762)	(21 202 671)
<b>Unspend long term liabilities</b>	<b><u>1 300 000 000</u></b>	<b><u>-</u></b>

Cash was invested for the repayment of long-term liabilities for the year 1 617 372 812 1 349 011 092

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sinking funds (investments) were established to ensure that long-term liabilities can be repaid on redemption date.

The new loan raised relates to capital expenditure re-financed in the previous financial year

### 51. 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 expenses incurred, as listed hereunder, have been approved/condoned

Emergencies	11 187 843	6 018 965
Sole supplier	-	5 805 223
Work of art	-	12 100 000
Other - Impractical	149 429 671	160 122 923
	<u>160 617 514</u>	<u>184 047 111</u>

During the year the accounting officer ratified minor breaches in line with SCM regulation 36(2) R0,00 (2016:R502,464)

30 June 2018

Extension of contracts include inter alia the following salient amounts:

Consultants - R7,131,045  
 Maintenance and other related services - R28,825,687  
 Security services - R71,787,437  
 Other services - R17,173,665

30 June 2017

Extension of contracts include inter alia the following salient amounts:

Variation of contract - R166,400,055;  
 Consultants - R41,272,228; and  
 Maintenance and other related services - R34,330,270.

### 52. Unaccounted Electricity And Water

Electricity	30 June 2018	30 June 2018	30 June 2017	30 June 2017
	Units	Value	Units	Value
Units purchased	10 647 195 913	9 212 421 577	10 605 719 430	9 159 611 397
Units sold	(9 403 041 901)	(8 135 924 877)	(9 291 460 429)	(8 024 536 497)
	<u>1 244 154 012</u>	<u>1 076 496 700</u>	<u>1 314 259 001</u>	<u>1 135 074 900</u>

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 52. Unaccounted Electricity And Water (continued)

Technical loss %	5,90 %	5,90 %	5,90 %	5,90 %
Non-technical loss %	5,79 %	5,79 %	6,49 %	6,49 %
<b>Total loss %</b>	<b>11,69 %</b>	<b>11,69 %</b>	<b>12,39 %</b>	<b>12,39 %</b>

### Water

	30 June Units	30 June 2018 Value	30 June 2017 Units	30 June 2017 Value
Opening balance	1 201 918	9 159 565	1 201 918	8 185 488
Purchases	349 769 470	2 934 764 481	338 445 271	2 581 568 004
Less: closing balance	(1 296 566)	(10 885 929)	(1 201 918)	(9 159 565)
Units sold	(250 259 297)	(2 099 675 505)	(234 969 845)	(1 792 819 918)
	<b>99 415 525</b>	<b>833 362 612</b>	<b>103 475 426</b>	<b>787 774 009</b>
Technical loss %	15,00 %	15,00 %	15,00 %	15,00 %
Non-technical loss %	13,45 %	13,45 %	15,60 %	15,60 %
	<b>28,45 %</b>	<b>28,45 %</b>	<b>30,60 %</b>	<b>30,60 %</b>

### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has full-time bodyguards.

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 53. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	3 835 348 858	4 793 248 912
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##### Not yet contracted for and authorised by accounting officer

• Other financial assets	2 933 359 863	1 606 107 800
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#### Total capital commitments

Already contracted for but not provided for	3 835 348 858	4 793 248 912
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Not yet contracted for and authorised by accounting officer	2 933 359 863	1 606 107 800
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<b>6 768 708 721</b>	<b>6 399 356 712</b>
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This committed expenditure relates to the acquisition of property, plant and equipment for the 2018/2019 financial year (Approved Capital Expenditure Programme) based on the projects values as approved by Council for the City's Capital Budget programme for the following year for which suppliers contracts are in place. These commitments will be financed by appropriated grants, internally generated funds (revenue or accumulated surplus), and other borrowings options where applicable.

Commitments not yet contracted for and authorised, relate to capital projects as approved by Council on the City Capital Budget which there is no contracts in place at the end of the financial year.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	83 462	25 745 709
- in second to fifth year inclusive	-	6 998

<b>83 462</b>	<b>25 752 707</b>
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Operating lease payments represent rentals payable by the City for certain of its office buildings and photocopier machines. Leases are negotiated for periods ranging from one year to five years, for office buildings, and the expired photocopier machine leases are incurred on a month to month basis. The rentals escalate on average at 7.00% (2017: 8.00%) for office buildings.

The actual lease contract amounts range between R6,000 and R561,912 (2017: R49,220 and R539,999) per month on the office buildings.

#### Operating leases - as lessor (income)

##### Minimum lease payments due

- within one year	6 424 991	7 246 195
- in second to fifth year inclusive	24 430 098	24 695 422
- later than five years	23 208 450	28 842 374

<b>54 063 539</b>	<b>60 783 991</b>
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Certain of the City's property generates lease rental income. The majority of these leases are on a month to month basis. Lease periods range from month-to-month up to 99 years. Monthly lease payments range from R1 (2017: R1) (social benefit) up to R374,500 (2017: R212,070).

### 54. Change in estimate

#### Property, plant and equipment

##### Economic entity

Useful lives review for 2017/2018 had the following impact:

Depreciation expense before remaining useful lives review	(R1,475,696,737)
Depreciation expense after remaining useful lives review	(R1,348,241,106)
Future increase in depreciation due to review	(R127,455,277)

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 54. Change in estimate (continued)

#### Other 1

The discount rate has changed from 10.46% (2016: 10.49%) to 10.46% (2016: 10.47%). The impact of this change has been disclosed in the relevant note, where applicable.

### 55. Budget differences

#### 2018

#### REVENUE

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 55. Budget differences (continued)

The total revenue for the year is 2.1% less than the budgeted revenue. The actual revenue is R31.5 billion while the budgeted revenue amounts to R32.3 billion, the variance amount is R661 million.

The contributing factors to the positive deviation is as follows:

#### i) Investment revenue

The budget provision on the investment revenue was a conservative allocation and the positive deviation (over-recovery) was as a result of the interest yielded from investments made by the City and the higher-than-anticipated bank balance.

The negative movements were as follows:

#### ii) Transfers recognised - operational

Transfer recognised-operational relates to the Government grant and subsidies income which is reflecting a deviation of -1.2%. The budget was for R 3,9 billion while the actual receipts amounted to R 3,8 billion with a balance of R 61,7 million to be requested as a roll-over. This income reflects all the grants received from National and Provincial Government. The negative deviation is attributable to the following factors:

1. Public Transport and Systems Opex  
Contractor's poor performance  
Delays in the issuing of works permits as per OHS legislation  
Community unrests has resulted in project stoppage  
Transgressions on the conditions of water use license-causing stoppage to construction works.  
Transformation route has shacks on the servitude of the roads  
Illegal occupants in the Grey building encroaching the BRT busway.  
Long lead-time on procurement.
2. Urban Settlements Development Grant  
Contractor's poor performance on some projects  
Design changes.  
Delay in procurement  
Withdrawal of appointed contractors which negatively affected the implementation of projects for walk-in containers (Waste Management).

#### 3. Human Settlements Development Grant

##### Refurbishment of Hostels

The contractor had cashflow challenges thus expenditure of the grant was slow however the pace of work and expenditure picked up late in the project.

Local leaderships did not agree on a number of issues. Numerous engagement meetings were held before the project could start and during the commencement of the project.

##### Housing Construction

Funds were initially allocated to a project (Mayfield Ext 32 & 34) which was not ready for implementation as a result the following challenges were experienced:

Geo-Tech Phase 2 Investigations  
Raft Foundations Designs  
Project was not enrolled with NHBRC  
House plans were not compiled  
Project was not allocated a G-Number

#### 4. Township Initiatives (Libraries)

Procurement processes which took longer than expected.  
Responses from Province on request for re-directions were delayed, which negatively affected the performance of the grant.  
Challenges with imported equipment

#### iii) Services Charges

The largest income source on municipal revenue is Service Charges. The negative deviation is as a result of reduction in consumption is due to the lower water consumption levels experienced during the Dec/Jan industry shut-down periods including the Easter week. The City also conducted zero-pressure drop tests to confirm that all supply points are metered and illegal connections identified in at least 700

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 55. Budget differences (continued)

industrial properties which are high water users since March 2018.

### EXPENDITURE

The total expenditure for the year is R210 million less than the budgeted expenditure. The actual expenditure amounts to R32.182 billion while the budgeted expenditure was R32.258 billion.

#### i) Employee related costs

The variance of less than 6% is an indication that most of the critical positions identified and funded during the institutional review were filled during 2017/18 financial year. Other departments identified most critical positions which were unfunded and redirected the funding to fill the previously unfunded vacant positions.

#### ii) Debt impairment

Final calculation for debt impairment was based on the actual consumer debt and determined as per provision for Bad debt policy

#### iii) Finance cost

Finance cost is budgeted according to all the existing loans of City plus the interest payable on any new loans to be obtained the particular financial year

#### iv) Depreciation and assets impairment

The deviation on depreciation and assets impairment relates to accelerated impairment as part of the year end assessment of the conditions of the assets.

#### v) Other expenditure

Negative deviation on other expenditure is as a result of underspending of repair and maintenance and cost containment measures implemented on general expenses.

### ADJUSTMENT BUDGET CHANGES AS INDICATED ON THE APPROPRIATION STATEMENT

The reasons for variances between the original and final adjustments budget are due to virements and adjustment budget approved on 25 January 2018 and 26 April 2018.

The following reasons are for virements processed post the final adjustment budget.

### REVENUE BUDGET

#### i) Transfers recognised - operational

The increase in grant revenue is as a result of grant funding which was rolled over from 2016/17, amounting to R 14,7 million .

An additional R 10,4 million for HIV/AIDS and Human Settlements Development Grant respectively was allocated as per the extraordinary gazette no 330 dated 11 December 2017.

The adjustment of the income budget for Transfers recognised - operational also affected the expenditure budget for the Transfers and grants in the Operating Expenses.

### EXPENDITURE BUDGET

#### ii) Employee Costs

The budget for employee costs was reduced due to the following reasons:

Savings were identified from the Clean City contracted workers which did not materialize in during the 2017/18 financial year. The funding was used to address the budget shortfall on refuse removal, illegal dumping and mini dumping sites contracts.

Savings were further identified from overtime in order to fund the budget shortfall on meter management, postage costs, connections and reconnection contracts.

#### iii) Finance Charges

# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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Figures in Rand

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### 55. Budget differences (continued)

Increase in the budget was for the settlement of interest on overdue invoices for the Valuation contractors.

#### iv) Bulk Purchases

The 2017/18 budget for electricity bulk purchases was increased post the adjustment budget process in order to address the insufficient budget resulting from the following factors:

Impact of numerous external factors impacting electricity consumption, for example weather conditions, economic conditions  
Increase in electricity losses. Losses are mainly caused by:

Illegal connections  
Bypassed meters in all areas

Reduction in the water consumption has resulted in unspent budget which was used to supplement the insufficient budget on the ablution facilities to informal settlement.

#### v) Transfers and grants

The transfer and grants expenditure budget was increased as a result of the following:

Additional budget was required in order to provide ablution facilities to informal settlements around the City.

Provision for bursaries was also increased to address the shortfall resulting from misalignment of academic year in relation to the City's financial year.

#### vi) Other Expenditure

Other expenditure decreased with a net amount of R25.3 million attributable to the following major items:

Refuse removal, illegal dumping and mini dumping sites contracts were increased with saving from Clean City contracted workers which did not materialize in during the 2017/18 financial year

Meter management, postage costs, connections and reconnection contracts were increased with savings identified from overtime to enhance the revenue collection and billing processes.



# City of Ekurhuleni

Annual Financial Statements for the year ended 30 June 2018

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\* See Note 43