



Emfuleni Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Mayoral committee

Executive Mayor	JL Khawe
Speaker	ME Tsokolibane
Chief whip	MC Sale
Members of mayoral committee	
MMC - Infrastructure planning and development	K Ntombela
MMC - Human settlement	ME Kele
MMC - Public safety	MJ Mosholuba
MMC - Corporate and governance	B Mncube
MMC - Health and social development	DM Malisa
MMC - Sports, recreation, arts and culture, library information services, parks and cemeteries	S Sengoatsi
MMC - Environmental management and planning	NR Thulo
MMC - Agriculture, local economic development, development planning and tourism	BP Maseko

Accounting Officer

D Nkoane

Auditors

Auditor-General of South Africa

Primary banking institution

Standard bank of South Africa

Registered office

Cnr Frikkie Meyer Boulevard & Klasie Havenga Street
Vanderbijlpark
1900

Business address

Cnr Frikkie Meyer Boulevard & Klasie Havenga Street
Vanderbijlpark
1900

Postal address

P.O Box 3
Vanderbijlpark
1900

Fax number

Email

Website

Emfuleni Local Municipality

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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ELM	Emfuleni Local Municipality
DBSA	Development Bank of South Africa
GRAP	Standards of Generally Recognised Accounting Practice
RUL	Remaining Useful Life
EUL	Estimated Useful Life
AUC	Asset under construction
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Local Government : Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AFS	Annual Financial Statements
PAYE	Pay As You Earn
UIF	Unemployment Insurance Fund

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's responsibilities and approval

I am responsible for the preparation of these financial statements which are set out on pages 5 to 90, in terms of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of councillors as disclosed in Note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearer's act, 1998 (Act no. 20 of 1998) and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act.

D Nkoane
Municipal Manager

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of financial position as at 30 June 2018

	Note(s)	2018 R	2017 Restated* R
Assets			
Current assets			
Cash and cash equivalents	2	67,452,861	67,859,661
Trade and other receivables from exchange transactions	3	308,769,124	405,230,620
Trade and other receivables from non-exchange transactions	4	274,526,418	222,428,769
Inventories	5	23,574,489	58,862,552
VAT receivable	6	311,844,669	187,502,172
		986,167,561	941,883,774
Non-current assets			
Property, plant and equipment	7	10,261,036,603	9,932,254,261
Investment property	8	962,368,300	1,420,103,946
Intangible assets	9	23,330,932	17,817,553
Heritage assets	10	57,016	57,016
Sanlam shares		18,919	17,470
		11,246,811,770	11,370,250,246
Total Assets		12,232,979,331	12,312,134,020
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	2,747,606,356	2,059,351,445
Unspent conditional grants and receipts	13	22,969,137	20,730,098
Borrowings	14	3,162,631	2,719,829
Finance lease	15	7,824,681	6,849,736
Provision	16	13,885,861	13,885,862
Employee benefit obligation	37	21,971,964	15,143,880
Bank overdraft	2	-	87,630,391
		2,817,420,630	2,206,311,241
Non-current liabilities			
Consumer deposits	12	51,309,073	46,971,119
Borrowings	14	5,743,139	8,905,770
Provision	16	133,276,369	153,534,585
Finance lease	15	3,421,511	10,670,337
Employee benefit obligation		192,793,075	194,617,090
		386,543,167	414,698,901
Total liabilities		3,203,963,797	2,621,010,142
Net assets		9,029,015,534	9,691,123,878
Reserves			
Self insurance reserve	45	-	2,139,552
Accumulated surplus		9,029,015,534	9,688,984,326
Total Net Assets		9,029,015,534	9,691,123,878

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Note(s)	2018 R	2017 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	17	3,786,591,915	3,742,679,376
Rental of facilities and equipment	18	16,409,849	11,975,167
Trade and other licenses		189,299	117,359
Actuarial gain		6,937,081	10,240,881
Other income	20	102,142,775	141,060,900
Interest income	19	70,014,644	53,125,820
Fair value adjustments		29,842,266	140,951,550
Total revenue from exchange transactions		4,012,127,829	4,100,151,053
Revenue from non-exchange transactions			
Property rates	21	799,015,311	659,290,922
Donations		8,001,953	46,465,766
Fines	23	347,646,120	165,126,155
Transfer revenue			
Government grants & subsidies	22	921,513,185	869,359,907
Total revenue from non-exchange transactions		2,076,176,569	1,740,242,750
Total revenue		6,088,304,398	5,840,393,803
Expenditure			
Employee related costs	24	(1,023,257,805)	(1,156,531,907)
Remuneration of councillors	25	(55,234,346)	(49,341,720)
Depreciation and impairment		(374,935,261)	(456,233,333)
Finance costs	26	(141,951,489)	(111,845,169)
Debt Impairment		(1,161,360,330)	(1,141,400,998)
(Loss)/Gain on sale of assets		(2,634,989)	(4,612,301)
Repairs and maintenance		(63,739,600)	(234,414,989)
Bulk purchases	27	(2,432,273,179)	(2,148,564,047)
Contracted services		(159,598,609)	(149,143,101)
Imputed interest		8,569,855	7,610,230
General expenses	28	(1,343,997,372)	(1,028,970,363)
Total expenditure		(6,750,413,125)	(6,473,447,698)
(Deficit)/surplus for the year		(662,108,727)	(633,053,895)

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of changes in net assets

	Insurance reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	24,220,470	10,193,182,629	10,217,403,099
Adjustments			
Correction of errors	-	106,774,674	106,774,674
Balance at 01 July 2016 as restated*	24,220,470	10,299,957,303	10,324,177,773
Changes in net assets			
Deficit for the year	-	(633,053,895)	(633,053,895)
Issue of shares	(22,080,918)	22,080,918	-
Total changes	(22,080,918)	(610,972,977)	(633,053,895)
Restated* Balance at 01 July 2017	2,139,552	9,688,984,709	9,691,124,261
Changes in net assets			
Deficit for the year	-	(662,108,727)	(662,108,727)
Insurance reserve	(2,139,552)	2,139,552	-
Total changes	(2,139,552)	(659,969,175)	(662,108,727)
Balance at 30 June 2018	-	9,029,015,534	9,029,015,534

* See Note

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash flow statement

	Note(s)	2018 R	2017 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		3,061,125,870	2,688,903,460
Grants		923,752,224	881,839,973
Interest income		18,060,097	13,581,187
Other receipts		808,015,244	719,653,337
		<u>4,810,953,435</u>	<u>4,303,977,957</u>
Payments			
Employee costs		(1,073,488,082)	(1,194,685,192)
Suppliers		(1,932,068,416)	(1,935,091,584)
Finance costs		(109,039,982)	(64,822,058)
Other payments		(1,354,025,772)	(986,168,428)
		<u>(4,468,622,252)</u>	<u>(4,180,767,262)</u>
Net cash flows from operating activities	29	<u>342,331,183</u>	<u>123,210,695</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(242,455,689)	(223,557,130)
Proceeds from sale of assets	7	564,446	9,574,374
Purchase of intangible assets	9	(7,142,846)	(1,311,591)
Net cash flows from investing activities		<u>(249,034,089)</u>	<u>(215,294,347)</u>
Cash flows from financing activities			
Repayment of borrowings		(3,162,631)	(2,719,829)
Movement in consumer deposits		4,337,954	2,068,927
Finance lease payments		(7,248,826)	(4,298,548)
Net cash flows from financing activities		<u>(6,073,503)</u>	<u>(4,949,450)</u>
Net increase/(decrease) in cash and cash equivalents		87,223,591	(97,033,102)
Cash and cash equivalents at the beginning of the year		(19,770,730)	77,262,372
Cash and cash equivalents at the end of the year	2	<u>67,452,861</u>	<u>(19,770,730)</u>

* See Note

Emfuleni Local Municipality

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
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	6,381,459,825	(2,770,003,806)	3,611,456,019	3,786,591,915	175,135,896	
Rental of facilities and equipment	21,474,804	-	21,474,804	16,409,849	(5,064,955)	
Trade and other licenses	224,530	-	224,530	189,299	(35,231)	Note 41
Actuarial gain	-	-	-	6,937,081	6,937,081	Note 41
Other income	82,310,526	12,416,751	94,727,277	102,142,775	7,415,498	
Interest received	52,556,244	-	52,556,244	70,014,644	17,458,400	Note 41
Total revenue from exchange transactions	6,538,025,929	(2,757,587,055)	3,780,438,874	3,982,285,563	201,846,689	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	1,987,661,264	(1,201,616,026)	786,045,238	799,015,311	12,970,073	
Donations	4,524,473	(4,763)	4,519,710	8,001,953	3,482,243	Note 41
Fines	83,970,154	-	83,970,154	347,646,120	263,675,966	
Transfer revenue						
Government grants & subsidies	989,680,593	163,406	989,843,999	921,513,185	(68,330,814)	
Total revenue from non-exchange transactions	3,065,836,484	(1,201,457,383)	1,864,379,101	2,076,176,569	211,797,468	
Total revenue	9,603,862,413	(3,959,044,438)	5,644,817,975	6,058,462,132	413,644,157	
Expenditure						
Personnel	(1,306,594,117)	154,680,482	(1,151,913,635)	(1,023,257,805)	128,655,830	
Remuneration of councillors	(71,697,590)	17,267,855	(54,429,735)	(55,234,346)	(804,611)	
Depreciation and amortisation	(465,172,389)	(8,105,347)	(473,277,736)	(374,935,261)	98,342,475	Note 41
Finance costs	(126,260,231)	91,514,184	(34,746,047)	(141,951,489)	(107,205,442)	
Debt Impairment	-	-	-	(1,161,360,330)	(1,161,360,330)	
(Loss)/gain on disposal of assets	-	-	-	(2,634,989)	(2,634,989)	Note 41
Repairs and maintenance	(85,090,185)	(43,592,061)	(128,682,246)	(63,739,600)	64,942,646	Note 41
Bulk purchases	(2,223,821,736)	(295,160,165)	(2,518,981,901)	(2,432,273,179)	86,708,722	Note 41
Contracted Sservices	(141,967,480)	31,512,081	(110,455,399)	(159,598,609)	(49,143,210)	
Imputed interest	-	-	-	8,569,855	8,569,855	Note 41
General Expenses	(1,037,517,275)	333,272,366	(704,244,909)	(1,343,997,372)	(639,752,463)	Note 41
Total expenditure	(5,458,121,003)	281,389,395	(5,176,731,608)	(6,750,413,125)	(1,573,681,517)	
Operating deficit	4,145,741,410	(3,677,655,043)	468,086,367	(691,950,993)	(1,160,037,360)	
Fair value adjustments	-	-	-	29,842,266	29,842,266	
Deficit before taxation	4,145,741,410	(3,677,655,043)	468,086,367	(662,108,727)	(1,130,195,094)	
Actual amount on comparable basis as presented in the budget and actual comparative statement	4,145,741,410	(3,677,655,043)	468,086,367	(662,108,727)	(1,130,195,094)	

Emfuleni Local Municipality

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
	R	R	R	R	R	
Statement of financial position						
Assets						
Current assets						
Inventories	58,862,552	(58,862,552)	-	23,574,489	23,574,489	
Trade and other receivables from non-exchange transactions	234,344,623	(234,344,623)	-	274,526,418	274,526,418	Note 41
VAT receivable	175,291,524	(175,291,524)	-	311,844,669	311,844,669	Note 41
Trade and other receivables from exchange transactions	310,425,026	(310,425,026)	-	308,769,124	308,769,124	
Cash and cash equivalents	63,448,553	(63,448,553)	-	67,452,861	67,452,861	Note 41
	842,372,278	(842,372,278)	-	986,167,561	986,167,561	
Non-current assets						
Investment property	1,422,643,908	(1,422,643,908)	-	962,368,300	962,368,300	
Property, plant and equipment	10,226,409,951	(9,867,644,784)	358,765,167	10,261,036,603	9,902,271,436	
Intangible assets	42,532,526	(17,838,328)	24,694,198	23,330,932	(1,363,266)	
Heritage assets	90,316	(90,316)	-	57,016	57,016	
Sanlam shares	17,469	(17,469)	-	18,919	18,919	Note 41
	11,691,694,170	11,308,234,805)	383,459,365	11,246,811,770	10,863,352,405	
Total Assets	12,534,066,448	12,150,607,083)	383,459,365	12,232,979,331	11,849,519,966	
Liabilities						
Current liabilities						
Borrowings	2,719,829	(2,719,829)	-	3,162,631	3,162,631	
Finance lease	-	-	-	7,824,681	7,824,681	
Trade and other payables from exchange transactions	2,004,413,633	(2,004,413,633)	-	2,747,606,356	2,747,606,356	Note 41
Unspent conditional grants and receipts	20,320,872	(20,320,872)	-	22,969,137	22,969,137	
Provision	15,269,952	(15,269,952)	-	13,885,861	13,885,861	Note 41
Employee benefit obligation	-	-	-	21,971,964	21,971,964	
Bank overdraft	122,108,618	(122,108,618)	-	-	-	
	2,164,832,904	(2,164,832,904)	-	2,817,420,630	2,817,420,630	
Non-current liabilities						
Borrowings	8,768,347	(8,768,347)	-	5,743,139	5,743,139	Note 41
Finance lease	17,520,073	(17,520,073)	-	3,421,511	3,421,511	
Provision	153,534,585	(153,534,585)	-	133,276,369	133,276,369	Note 41
Consumer deposits	48,071,794	(48,071,794)	-	51,309,073	51,309,073	Note 41
Employee benefit obligation	209,760,970	(209,760,970)	-	192,793,075	192,793,075	
	437,655,769	(437,655,769)	-	386,543,167	386,543,167	
Total liabilities	2,602,488,673	(2,602,488,673)	-	3,203,963,797	3,203,963,797	
Net assets	9,931,577,775	(9,548,118,410)	383,459,365	9,029,015,534	8,645,556,169	

Emfuleni Local Municipality

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
	R	R	R	R	R	
Net assets						
Reserves						
Insurance reserve	2,139,552	(2,139,552)	-	-	-	
Accumulated surplus	9,929,438,223	(9,545,978,858)	383,459,365	9,029,015,534	8,645,556,169	
Total Net Assets	9,931,577,775	(9,548,118,410)	383,459,365	9,029,015,534	8,645,556,169	

Emfuleni Local Municipality

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
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	3,509,001,000	(1,471,184,000)	2,037,817,000	2,688,903,460	651,086,460	
Grants	869,843,000	29,671,000	899,514,000	881,839,973	(17,674,027)	
Other receipts	829,828,000	772,581,000	1,602,409,000	719,653,337	(882,755,663)	
	5,208,672,000	(668,932,000)	4,539,740,000	4,290,396,770	(249,343,230)	

Payments

Employee costs and suppliers	(4,899,039,000)	(32,168,000)	(4,931,207,000)	(3,129,776,759)	1,801,430,241	
Other payments	-	-	-	(986,168,444)	(986,168,444)	
	(4,899,039,000)	(32,168,000)	(4,931,207,000)	(4,115,945,203)	815,261,797	

Net cash flows from operating activities	309,633,000	(701,100,000)	(391,467,000)	174,451,567	565,918,567	
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Cash flows from financing activities

Increase(decrease) in consumer deposit	-	1,155,000	1,155,000	-	(1,155,000)	
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Net cash flows from financing activities

	-	-	-	-	-	
Net increase/(decrease) in cash and cash equivalents	309,633,000	(701,100,000)	(391,467,000)	174,451,567	565,918,567	

Cash and cash equivalents at the end of the year	309,633,000	(701,100,000)	(391,467,000)	174,451,567	565,918,567	
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Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

	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
	R	R	R	R	R	R	R	R	R	R	R
2018											
Financial Performance											
Property rates	1,987,661,264	(1,201,616,026)	786,045,238	-	-	786,045,238	799,015,311	-	12,970,073	102 %	40 %
Service charges	6,381,459,825	(2,770,003,806)	3,611,456,019	-	-	3,611,456,019	3,786,591,915	-	175,135,896	105 %	59 %
Investment revenue	52,556,244	-	52,556,244	-	-	52,556,244	70,014,644	-	17,458,400	133 %	133 %
Transfers recognised - operational	731,688,149	24,157,803	755,845,952	-	-	755,845,952	711,112,487	-	(44,733,465)	94 %	97 %
Other own revenue	192,504,487	12,411,988	204,916,475	-	-	204,916,475	511,169,343	-	306,252,868	249 %	266 %
Total revenue (excluding capital transfers and contributions)	9,345,869,969	(3,935,050,041)	5,410,819,928	-	-	5,410,819,928	5,877,903,700	-	467,083,772	109 %	63 %
Employee costs	(1,306,594,117)	154,680,482	(1,151,913,635)	-	-	(1,151,913,635)	(1,023,257,805)	-	128,655,830	89 %	78 %
Remuneration of councillors	(71,697,590)	17,267,855	(54,429,735)	-	-	(54,429,735)	(55,234,346)	-	(804,611)	101 %	77 %
Debt impairment	-	-	-	-	-	-	(1,161,360,330)	-	(1,161,360,330)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(465,172,389)	(8,105,347)	(473,277,736)	-	-	(473,277,736)	(374,935,261)	-	98,342,475	79 %	81 %
Finance charges	(126,260,231)	91,514,184	(34,746,047)	-	-	(34,746,047)	(141,951,489)	-	(107,205,442)	409 %	112 %
Materials and bulk purchases	(2,223,821,736)	(295,160,165)	(2,518,981,901)	-	-	(2,518,981,901)	(2,432,273,179)	-	86,708,722	97 %	109 %
Transfers and grants	-	-	-	-	-	-	8,569,855	-	8,569,855	DIV/0 %	DIV/0 %
Other expenditure	(1,264,574,940)	321,192,386	(943,382,554)	-	-	(943,382,554)	(1,569,970,570)	-	(626,588,016)	166 %	124 %
Total expenditure	(5,458,121,003)	281,389,395	(5,176,731,608)	-	-	(5,176,731,608)	(6,750,413,125)	-	(1,573,681,517)	130 %	124 %
Surplus/(Deficit)	3,887,748,966	(3,653,660,646)	234,088,320	-	-	234,088,320	(872,509,425)	-	(1,106,597,745)	(373)%	(22)%

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

	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
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	257,992,444	(23,994,397)	233,998,047	-		233,998,047	210,400,698		(23,597,349)	90 %	82 %
Surplus (Deficit) after capital transfers and contributions	4,145,741,410	(3,677,655,043)	468,086,367	-		468,086,367	(662,108,727)		(1,130,195,094)	(141)%	(16)%
Surplus/(Deficit) for the year	4,145,741,410	(3,677,655,043)	468,086,367	-		468,086,367	(662,108,727)		(1,130,195,094)	(141)%	(16)%
Capital expenditure and funds sources											
Total capital expenditure	462,051,460	(78,592,095)	383,459,365	-		383,459,365	228,126,941		(155,332,424)	59 %	49 %

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting policies

1. Presentation of annual financial statements

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

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in the accounting policies are explained in the relevant policy.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation

The preparation of annual financial statements in conformity with standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. Significant judgements and underlying assumptions are reviewed on a constant basis. Significant judgements include:

The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

Trade receivables and other receivables

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

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events and changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest value for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and assumptions were made that the areas may stay the same in size for a number of years.

Emfuleni Local Municipality

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Accounting policies

1.2 Significant judgements and sources of estimation (continued)

Contingent liabilities

Contingencies disclosed in the current year required estimates and judgements. Additional disclosure of these contingent liabilities is included in the relevant note.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges for assets. These norms are based on South African Institution of Civil Engineering norms. Management will decrease the depreciation charge where useful lives are more than previously estimated useful lives.

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The discount rate was set as the nominal and zero curves as at 30 June 2017 supplied by the JSE and the CPI assumptions at each relevant time period.

Other key assumptions for pension obligations are based on current market conditions.

Effective interest rate

The municipality used the prime interest rate plus 2% to discount future cash flows as at 30 June 2017. This rate is similar to the interest rate levied on arrear consumer accounts.

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments due and an assessment of their ability to make payments based on their credit worthiness. This was performed per service identifiable category across all classes of debtors.

Allowance for doubtful debts

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

Property Plant and Equipment

The useful life of property plant and equipment are based on management's estimation. Infrastructure assets useful life are based on technical knowledge of the infrastructure types and service requirements. For other assets and buildings, management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate.

Self-insurance reserve

A self-insurance reserve has been established which covers claims that may occur. Premiums are charged to the respective services, taking into account claims history and replacement value of the insured assets.

Other

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses are recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts.

1.3 Investment property

The nature OR type of properties classified as held for strategic purposes are as follows:

Emfuleni Local Municipality

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Accounting policies

1.3 Investment property (continued)

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

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

Initial measurement

Investment property is initially recognised at cost.

Subsequent measurement

Subsequently investment property is recognised at fair value and fair value of investment property reflects market conditions at the reporting date.

Where investment property is acquired through a none exchanged transaction, its cost is its fair value as at the date of acquisition. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

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

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

Derecognition

Investment property is derecognised when it is disposed or when there are no further economic benefits or service potential expected from the use of the investment property. A gain or loss arising from the disposal or retirement of an item of investment property is determined as difference between the proceeds and the carrying value and is recognised in the statement of financial performance.

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

Asset classification

The criteria used for determining significant asset components are:

- Any component with a useful life of longer than 12 months with economic or service potential;
- The value of the component itself can be fairly accurately determined;
- Its useful life can be distinguished from that of the parent asset;
- The value of the component is material in relation to its parent asset;
- It carries a significant risk profile;
- It is a maintenance significant item, and
- For which there may be specific requirements for significant statutory tests or licensing.

Initial measurement

Property, plant and equipment is initially measured at cost.

Assets acquired by grant or donation are newly identified assets.

Property, plant and equipment are measured at fair value at the date of acquisition, where assets have been acquired by donation or grant and for assets that are newly identified through formal assets verification procedures for which cost records are not available or not reliable at the date of acquisition

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Accounting policies

1.4 Property, plant and equipment (continued)

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

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

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

Subsequent measurement

After initial recognition property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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.

Enhancement to property, plant and equipment do not qualify as assets unless these extend the useful life of the enhanced property, plant and equipment. Day to day servicing cost of an assets are not recognised in the carrying amount of an item of property, plant and equipment.

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

Depreciation is calculated on the depreciable amount (Cost less residual value), using the straight line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:

Item	Depreciation method	Average useful life
Infrastructure		
• Roads and paving		20
• Electricity		50-60
• Water		15-20
• Sewerage		15-20
• Housing		30
Community assets		
• Buildings		30
• Recreational facilities		20-30
• Security		5
Other assets		
• Buildings		30
• Specialised vehicle		10
• Other vehicles		5
• Office equipment		3-7
• Furniture and fittings		7-10
• Water craft		15
• Bins and containers		5
• Specialised plant and equipment		10-15
• Other items of plant and equipment		2-5
• Landfill sites		30-55
• Computer software		3-5
• Art, paintings, sculptures and ornaments		10

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Accounting policies

1.4 Property, plant and equipment (continued)

An asset only has a residual value when the useful life of the asset (the period the asset is used or available for use) is shorter than the economic life of the asset (the period the asset is used or available for use by all users or owners of the asset). As the municipality plans to use the assets for the entire economic lives, the residual value is considered to be negligible or even zero.

Land is not depreciated as it is deemed to have an indefinite life.

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The municipality is utilizing the straight-line depreciation method.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount it is written down immediately to its recoverable amount and an impairment loss is charged to surplus and deficit.

Derecognition

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

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

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

1.5 Intangible assets

Initial measurement

Intangible assets are initially recognised at cost.

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

If an intangible asset is acquired through a non-exchange transaction, the cost shall be its fair value as at the date of its acquisition.

Subsequent measurement

After the initial recognition intangible assets with finite useful lives are carried at cost less accumulated amortisation.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

Internally generated intangible assets

Websites

Emfuleni Local Municipality

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Accounting policies

1.5 Intangible assets (continued)

Initial recognition.

Website are internally generated intangible assets that are initially recognised at the value of improvement/development costs in terms of IGRAP16.

The cost of an internally generated intangible asset (website) is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

Subsequent measurement

After initial measurement, websites will be carried at cost less any accumulated amortisation and impairment loss.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

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

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

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.

For intangible assets with a finite useful life the residual value is always deemed zero unless:

- A third party has committed to purchase the asset at the end of the useful life;
- There is an active market for the asset and
 - a) the residual value can be determined by reference to that market; and
 - b) it is probable that such market will exist at the end of the asset's useful life.

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

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

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

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

Item	Useful life
Computer software, internally generated	3-5 years
Computer software, other	3-5 years
Intangible assets under development	3-5 years
Intangible assets 1	Indefinite

Emfuleni Local Municipality

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Accounting policies

1.5 Intangible assets (continued)

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

Intangible assets are derecognised:

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

1.6 Heritage assets

Heritage assets are defined as any asset that has a cultural, environmental, historical, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset is recognised as an asset if it is probable that economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

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

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset. Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

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

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

Recognition and measurement

Initial recognition

A heritage asset that qualifies for recognition as an asset, is measured at its cost. 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.

The fair value of a heritage asset can be determined from market-based evidence determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

Subsequent measurement

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

Depreciation and Impairment

Heritage assets are not depreciated.

Heritage assets are reviewed at each reporting date for any indication of impairment.

An impairment is reversed only to the extent that the asset's carrying amount that would have been determined had no impairment been recognised.

Derecognition

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage assets. The gain or loss arising from the disposal or retirement of heritage asset is determined as a difference between the sales proceeds and the carrying value of the heritage assets and is recognised in the statement of financial performance.

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1.7 Financial instruments

Classification

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

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

<u>Class</u>	<u>Category</u>
Cash and cash equivalents	Financial asset at amortised cost
Trade and other receivables from exchange transactions	Financial asset at amortised cost
Consumer debtors	Financial asset at amortised cost
Long term receivables	Financial asset at amortised cost
Investments	Financial asset at amortised cost

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

<u>Class</u>	<u>Category</u>
Borrowings	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 and measurement

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transaction costs are included in the cost of the asset or liability.

Financial assets and financial liabilities are subsequently measured at amortised cost.

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

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1.7 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise, indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the municipality;
- economic conditions that correlate with defaults, or
- the disappearance of an active market for a security

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 or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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 or 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 surplus or deficit.

The municipality de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the municipality is recognised as a separate asset or liability.

Gains and losses

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

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is de-recognised or impaired, or through the amortisation process.

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

After the calculations for irrecoverable debt, the movement in the impairment allowance, is recognized in the Statement of Financial Performance : impairment gains or losses. If a decrease in the value, a gain is recognised and if there is an increase, a loss is recognised.

Bad debt written off, following a council resolution, is written off in the Statement of Financial Performance, as a line item: Bad debt written off.

Emfuleni Local Municipality

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Accounting policies

1.7 Financial instruments (continued)

Trade and other payables

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

Cash and cash equivalents

Cash includes cash on hand, cash held with banks, and call deposits. Cash equivalents are short-term bank deposits with a maturity of three months or less from inception, readily convertible to cash without significant change in value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

1.8 Leases

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

Finance leases - lessee

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

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

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

Operating leases - 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 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.

1.9 Inventories

Inventories include consumable stores, maintenance materials, spare parts for the plant and equipment, work in progress, water, the ash and land and property held for sale.

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

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

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

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Accounting policies

1.9 Inventories (continued)

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

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

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

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

Unsold properties for the purpose of resale are accounted for as inventory. The fair value was determined by the appointed Municipal Valuer per the Valuation Roll that came into effect on 1 July 2014. Direct costs are accumulated for each separately identifiable development. Costs also include a portion of overhead cost, if the cost occur frequently and are separately identifiable.

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

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. Assets that generate a commercial return are those that generate positive cashflows which are expected to be significantly higher than the cost of the assets. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Assets that are subject to impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

An impairment loss is recognised if the recoverable amount of an asset is less than the carrying amount. The impairment loss is recognised as an expense in the statement of financial performance immediately. The recoverable amount of the asset is the higher of asset fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable and willing parties.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the assets belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

Reversal of impairment loss

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

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Accounting policies

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets where its objective is not to use the asset to generate a commercial return but to deliver services.

Identification

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

Value in use

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

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

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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 surplus or deficit.

Any impairment loss of a revalued non-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 non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

Reversal of an impairment loss

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

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting policies

1.12 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.

Other post retirement obligations

The municipality provides post-retirement health care benefits to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations using the projected unit credit method.

Long term employee benefits

The municipality provides long service awards. Awards are accrued over the period of employment. Independent qualified actuaries carry out valuations of these awards.

1.13 Provisions and contingencies

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 expenditure expected to be required to settle the obligation.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting policies

1.15 Revenue from exchange transactions

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; and
- the proportion that costs incurred to date bear to the total estimated costs of the transaction

Revenue arising from 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 licenses and permits.

Interest and dividends

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

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

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

Prepaid electricity estimation

The electricity is made available to the vendor and the vendor only pays over to the municipality once the electricity is sold, resulting in no electricity on hand at year end.

It is not possible to provide any statistics regarding the electricity smart meters as a process of installing the CIU(Communication device) takes a long time. After the installation of the communication device as well as the correcting of the consumer account, it will be possible to measure electricity on hand at year end.

1.16 Revenue from non-exchange transactions

Measurement

Revenue is measured at the fair value of the asset recorded less any liability recognised.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting policies

1.16 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Property rates are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria of an asset.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Fines constitute both spot fines and summonses.

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

Where the amount due by a particular offender is specified on the notice, summons or equivalent document and the offender is informed of any reductions following certain processes within the municipality's discretion (i.e. it can decide on the reductions) these are estimated when measuring the asset (receivable) and the amount of revenue to be recognised. Any variations in the amount of reductions estimated are treated as a change in the estimated revenue and are accounted for as a change in accounting estimate.

Government grants

Government grants are recognised to the extent that the asset can be recognised less any liability for conditions imposed in terms of the grant.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equaling the fair value of the asset received.

Other grants and donations

Where there is conditions attached to the grant, transfer or donation that gives rise to a liability at initial recognition, that liability is transferred to revenue as and when conditions attached to the grant are met.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 Gifts and donations, including goods in kind

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

Services in kind

Services in kind are recognised where they are significant to the municipality's operations or service delivery objectives.

1.18 Borrowing costs

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

Borrowing costs are recognised as an expense in the period in which they are incurred and borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of the assets.

1.19 Self-insurance reserve

A self-insurance reserve (SIR) covers claims that may occur, subject to external insurance policy terms and conditions. Premiums are charged to the respective services taking into account claims history, the insured value of property, plant and equipment and number of fleet vehicles.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting policies

1.19 Self-insurance reserve (continued)

Repair and replacement costs not fully covered by external insurance are paid from the insurance cost centre expenditure account that is then financed or reimbursed by a transfer from the self-insurance reserve to the insurance cost centre income account.

The calculation for self-insurance contribution for the year is computed by the insurance underwriters based on the computed amount at each year end. A transfer from the accumulated surplus is made towards the self-insurance reserve and is cash backed.

1.20 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason of reclassification is disclosed. 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 the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by National Treasury or the relevant authority, is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account is created if such a person is liable in law. Immediate steps are thereafter taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register is updated accordingly.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of Generally Accepted Accounting Practices (GRAP)

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting policies

1.25 Budget information

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

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

General purpose financial reporting by the municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget. The budget information is based on the same period as the actual amount.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include:

Key management personnel, close members of the family of key management personnel and councillors.

Key management personnel include all directors or members of the municipal council of the reporting entity where that council has jurisdiction. The council, together with the Municipal Manager and Section 56 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the municipality.

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

Where transactions occurred between the municipality and any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate; only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

Events after the reporting date are defined as favourable and unfavourable events that occur between the reporting date and the date the annual financial statements are authorised for issue.

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

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)

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	15,350	15,350
Bank balances	33,934,205	4,411,108
Call accounts	33,503,306	63,433,203
Bank overdraft	-	(87,630,391)
	67,452,861	(19,770,730)
Current assets	67,452,861	67,859,661
Current liabilities	-	(87,630,391)
	67,452,861	(19,770,730)

The primary banking institution is Standard bank, the following secondary banking institutions are also applicable

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
ABSA bank - current account - 530-000-087	8,687,742	3,987,887	8,202,079	1,790,044
ABSA bank - salary account - 405-774-9059	40,375	127,008	40,375	127,008
First National Bank - traffic fines - 620-723-53396	-	944,275	-	944,275
ABSA bank - traffic fines - 407-683-0782	10,000	10,000	10,000	10,000
Standard bank - current account - 420-502-084	11,407,799	(81,513,063)	(27,601,720)	(86,817,095)
Nedbank - current account - 101-065-4888	-	201,725	-	201,725
Standard bank - current account - 021-879-370	45,960,265	(119,196)	51,872,124	(813,256)
Standard bank - current account - 080-488-129	1,411,347	318,349	1,411,347	318,349
Total	67,517,528	(76,043,015)	33,934,205	(84,238,950)

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

2. Cash and cash equivalents (continued)

Call accounts

Invested with	01 July 2017	Invested	Interest capitalised	Withdrawn	Total
ABSA-9208236189	514,134	-	20,182	-	534,316
ABSA-9286830535	152,562	-	9,884	(322)	162,124
ABSA-9289903783	427,295	-	28,378	(322)	455,351
ABSA- 9297192700	277,605	-	18,433	(294)	295,744
STD Bank- 028606817#54#58#66	15,812,870	-	1,395,486	-	17,208,356
STD Bank- 028606817#60#62	1,434,652	-	-	(1,425,337)	9,315
STD Bank- 028606817#60#68	274,961	-	7,900	(174,716)	108,145
STD Bank-028606817#70	-	1,550,000	-	(1,500,000)	50,000
Nedbank- 03/7881044284#015	930,484	-	-	(930,484)	-
Nedbank- 03/7881044284/0025	3,950,580	-	-	(3,867,720)	82,860
Nedbank- 03/7881044284/0036	3,589,414	-	64,967	(3,459,776)	194,605
Investec - 1400192509500	36,068,621	157,781,452	-	(193,558,740)	291,333
FNB-62713021252	-	15,000,000	182,017	(15,000,381)	181,636
FNB - 62716601209	-	44,115,000	113,176	(37,521,072)	6,707,104
	63,433,178	218,446,452	1,840,423	(257,439,164)	26,280,889

Unlimited cession dated 25/07/2008 of a Absa call account no 9208236189, Held to partly secure (76%) of a R587 094 financial guarantee facility.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
3. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	575,338,935	570,484,074
Water	3,290,379,186	2,759,485,008
Sewerage	927,013,874	803,045,684
Refuse	570,222,709	496,693,777
	5,362,954,704	4,629,708,543
Less: Allowance for impairment		
Electricity	(503,814,275)	(378,873,378)
Water	(3,131,853,911)	(2,620,604,643)
Sewerage	(875,873,096)	(754,430,242)
Refuse	(542,644,298)	(470,569,660)
	(5,054,185,580)	(4,224,477,923)
Net balance		
Electricity	71,524,660	191,610,696
Water	158,525,275	138,880,365
Sewerage	51,140,778	48,615,442
Refuse	27,578,411	26,124,117
	308,769,124	405,230,620
Included in above is receivables from exchange transactions		
Current (0-30 days)	224,171,351	349,924,523
31 - 60 days	128,687,006	121,282,077
61 - 90 days	109,654,226	114,635,646
91 days +	4,900,442,121	4,043,866,297
	5,362,954,704	4,629,708,543
Reconciliation of allowance for impairment		
Balance at beginning of the year	(4,224,477,923)	(4,058,949,426)
Contributions to allowance	(747,237,835)	(861,348,158)
VAT contribution	(100,743,878)	(116,415,294)
Debt impairment written off	18,274,056	812,234,955
	(5,054,185,580)	(4,224,477,923)

Credit quality of consumer debtors

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in public sector, through established practices and legislation.

All debtors accounts are assessed for impairments, where applicable we impaired debtors over 90 days, according to the following criteria:

Bad debt

Government accounts : 0% of the total outstanding amount

Sundry accounts: 100% between 91 days and more

Business/industrial: 100% between 91 days and more

Residential: average ratio between 91 days and more

Indigent accounts: 100% of outstanding amount

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
3. Trade and other receivables from exchange transactions (continued)		
All other accounts:		
- Outstanding amounts between 181 days and more		
- Balance of amounts not collected under collectable and doubtful debt.		
4. Trade and other receivables from non-exchange transactions		
Property rates	743,018,252	620,595,843
Impairment property rates	(670,400,561)	(533,022,139)
Other debtors	499,564,834	470,882,459
Impairment other debtors	(338,133,664)	(345,753,572)
Other receivables- fines	544,053,187	244,244,464
Impairment fines	(503,575,630)	(234,518,286)
	274,526,418	222,428,769
Reconciliation for allowance for impairment		
Opening balance	(1,113,293,999)	(1,130,616,468)
Contribution to allowance	(414,122,496)	(280,052,840)
VAT contribution	(96,983)	(3,201,876)
Amounts written off as uncollectible	15,403,621	300,577,185
	(1,512,109,857)	(1,113,293,999)
Age analysis: property rates		
Current (0-30 days)	53,378,111	43,445,046
31-60 days	22,834,848	17,998,645
61-90 days	18,600,234	14,852,032
91 days +	648,205,059	544,300,120
	743,018,252	620,595,843
Debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in public sector, through established practices and legislation.		
Interest at a rate of prime plus 2% is levied on arrear debtors accounts.		
All debtors accounts are assessed for impairments, where applicable we impaired debtors over 90 days.		
5. Inventories		
Consumable stores	23,012,813	28,013,649
Water	561,676	848,903
Ash Dump	-	30,000,000
	23,574,489	58,862,552
6. Value added tax receivable		
VAT	311,844,669	187,502,172

Value added tax is payable on the receipts basis and is paid over to South African Revenue Services only once payment is received from debtors. The value added tax receivable relates to net input vat claimable from SARS. The value added tax percentage increased from 14% to 15% on 1 April 2018.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Building property	683,489,969	(291,907,945)	391,582,024	939,122,386	(524,089,931)	415,032,455
Infrastructure	12,714,250,097	(4,161,196,057)	8,553,054,040	12,499,130,508	(3,825,349,017)	8,673,781,491
Community	1,395,398,264	(165,764,029)	1,229,634,235	890,222,344	(150,736,649)	739,485,695
Other assets	323,146,008	(236,379,705)	86,766,303	347,029,171	(243,074,551)	103,954,620
Capital work in progress	1	-	1	-	-	-
Total	15,116,284,339	(4,855,247,736)	10,261,036,603	14,675,504,409	(4,743,250,148)	9,932,254,261

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals / Derecognition	Donated Assets	Provision Adjustment	Transfer	Depreciation	Impairment	Total
Building property	415,032,455	1,622,359	(63,005)	-	-	3,111,986	(28,121,771)	-	391,582,024
Infrastructure	8,673,781,491	190,286,793	(93,355)	6,311,907	(33,153,724)	27,099,278	(296,601,273)	(14,577,077)	8,553,054,040
Community	739,485,695	43,310,286	(1,289,652)	450,000	-	465,080,247	(17,402,341)	-	1,229,634,235
Other assets	103,954,620	7,236,251	(948,561)	1,647,235	-	(8,277,838)	(16,437,274)	(408,130)	86,766,303
Capital work in progress	-	1	-	-	-	-	-	-	1
	9,932,254,261	242,455,690	(2,394,573)	8,409,142	(33,153,724)	487,013,673	(358,562,659)	(14,985,207)	10,261,036,603

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Fair value adjustments	Disposals / Derecognition	Donated assets	Transfer	Depreciation	Impairment	Total
Building property	332,234,473	-	50,925	(5,050,000)	-	116,097,093	(28,300,036)	-	415,032,455
Infrastructure	8,838,895,487	175,476,568	-	(476,769)	44,909,877	-	(374,645,606)	(10,378,066)	8,673,781,491
Community	718,764,054	45,250,428	-	(88,000)	-	-	(18,777,067)	(5,663,720)	739,485,695
Other assets	83,950,135	36,678,957	1,664,564	(2,932,211)	1,555,889	-	(16,188,802)	(773,912)	103,954,620
	9,973,844,149	257,405,953	1,715,489	(8,546,980)	46,465,766	116,097,093	(437,911,511)	(16,815,698)	9,932,254,261

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018	2017
	R	R

7. Property, plant and equipment (continued)

Change in estimates, RUL and RV

During the annual review meetings, the RUL, EUL and RV definitions and GRAP requirements were explained to the municipality's technical department. Emfuleni Local Municipality technical departments reviewed the EULs, RULs and RVs on existing assets as at 1 July 2017. During the review it was decided that certain component's remaining useful life should be changed. The financial implication is that the annual depreciation will decrease by R29 371 835 in the 2017/18 financial year.

De-recognition

During the financial year certain assets were de-recognised/disposed amounting to R3 356 796. Included in this amount is building property assets at Duncanville Electrical Depot which was burnt down during the protests valued at R3 172 051 and electrical assets in various sites amounting to R121 745. The derecognitions were included in the 2017/18 asset register. The derecognitions were included in the 2016/17 asset register.

Impairments

During the year assets were identified which were impaired due to accelerated deterioration of the assets. The total value of the impairments amounted to R14 525 377.

Provision adjustment

A provision has been made for the estimated cost of rehabilitating waste landfill sites, included in solid waste infrastructure on the 2017/18 Asset Register. An amount of R33 153 723 was determined as the provision adjustment for the 2017/18 financial year which is a decrease in the valuation of the landfill site assets as described in the note for the provision for environmental rehabilitation.

Transfers

During the financial year, investment property land parcel valued R486 876 424 where transferred to community asset and housing due to not qualifying the recognition standard of Investment property and now classified to property plant and equipment.

WORK IN PROGRESS - ONGOING PROJECTS, PROJECTS TAKING SIGNIFICANTLY LONGER TO COMPLETE AND HALTED PROJECTS.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

			2018 R	2017 R
7. Property, plant and equipment (continued)				
Project UID	Project name	Comments on status	Class of asset	
EX0026	Roads and stormwater	ECD's part of this project. Moedi school old age home, Sharpville-, Boipatong - and Evaton ECD's still under construction as multi year projects. Recreational Facilities in Sharpville in Ward 12 was delayed due to stoppages done by some of community members requesting 70% subcontracting instead of 30%. Various delays with sub contractor forums from Sharpville. The material for fencing was also stolen on site which caused delays and that caused further delays. The contractor was also threatened to be attacked. The contract for the appointment of the consultant was also terminated during the early stages of construction and the project had to be done in house. On Sharpville- and Boipatong ECD's the original contractors was replced also adding to delays. Also see EX0502 & 503	Community Facilities	
EX0050	EXPANSION OF RUST TE VAAL CEMETERY PTN 4	The project started with pre-planning in the 2010/2011 financial year. The 1st professional service provider was terminated and a new service provider appointed in 2016/2017 financial year to proceed with the planning stage of the project.	Community Facilities	
EX0289	N:Investigate & Dev General Landfill Site	This is in the planning stages is the taking over of the old Yakani Brickvele borrowpits and to see if it will pass as a Waste Management Site via Department of Environmental affairs. If it is approved by the department of Environmental affairs after the required scoping report and EIA's was done then the Old Borrowpits will be transfered to ELM to establish the landfill site as per the ROD conitions laid down. The Old Borrowpit will be transfered to Emfuleni as per deed of donation is it is approved to be used as an Solid Waste Management Site.	Community Facilities	
EX0328	R:VANDERBIJLP ARK CEMETERY	Planning Stage	Community Facilities	
EX0333	N:NEIGHBOURH OOD PARTNER SHIP GRANT	Various Projects planned. Constrcution expected to start in 2018/2019	Community Facilities	
EX0377	R:FENCING OF TSHEPISO CEMETERY	Planning Stage	Community Facilities	
EX0383	R:SEDIBENG GRANT - UPGRADING OF EVATON C	Various delays due to community stoppages and non availability of site to contractor. Construction Completed, Close out report, as builds and final professional fees certificate awaited to close out the project for asset take on.	Community Facilities	
EX0376	R:UPGRADING OF NANESCOL CEMETERY	Planning Stage	Community Facilities	
EX0502	REC FAC SHARPVILLE WARD 13	Moedi School been converted in an old age home. Under constrcution. Various delays due to Sharpville's sub-contractors forum. Also see EX0026 & 503	Community Facilities	

Emfuleni Local Municipality

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Notes to the annual financial statements

			2018 R	2017 R
7. Property, plant and equipment (continued)				
EX0503	SOCIAL DEVELOPMENT GRANT	ECD's part of this project. Moedi school old age home, Sharpville-, Boipatong - and Evaton ECD's still under construction as multi year projects. Recreational Facilities in Sharpville in Ward 12 was delayed due to stoppages done by some of community members requesting 70% subcontracting instead of 30%. Various delays with sub contractor forums from Sharpville. The material for fencing was also stolen on site which caused delays and that caused further delays. The contractor was also threatened to be attacked. The contract for the appointment of the consultant was also terminated during the early stages of construction and the project had to be done in house. On Sharpville- and Boipatong ECD's the original contractors was replced also adding to delays. Also see EX0026 & 502		Community Facilities
EX0056	FIRM SUPPLY TO ARCONPARK (2 X 120MM)	Construction Completed. All take on information awaited to be capitalised during in 2018/2019. The destruction of the electricity buidling in Dunvanville affected the availability of information and alternatives way of collecting data is followed.		Electricity
EX0061	STORE ISSUES AND NEW CONNECTIONS	This was mainly affected by the burning down of the electricity offices. A lot of the work eems to be operational work executed on this vote, but we need to obtain all vouchers, which is mainly requisitions to adress this. We have already capitalised and expense portio in previous finacial years related to capital or that was operational of nature. This was also due to some staff that left the employment foi Emfuleni and we need to sit with staff at the depot level to establish the nature of the movements. We have determined already the impact of the majority of these movements in the current year as operational of nature and will be expensed. For those that we cannot obtain vouchers and determine the type of movement we will have to write a report to Council that it must be written off. This will only be done once we have excausted all methods and routes to establish the nature of thye movements. This included interaction with some of the old employees that assisted us in the current period .		Electricity
EX0059	STORE ISSUES ADDITIONAL 11KV SUPPLY INTO BEDWORTHPA RK	The project manager left the employee of Council. The destruction of the eletrctricity buidling in Dunvanville affected the availability of information and alternatives way of collecting data is followed. Take on will be in the 2018/2019 finacial year after verrification of installation with eletrctricity.		Electricity
EX0149	R:20MVA; 88/11KV TRF SWITCHGEAR @ VESCO	The project started in 2012/2013 finacial year. In construction. Variour delays was caused on this project as it is funded trough Emfuleni own capital. It take Council very long to payy the service providers causing Technical Gaurentees to expire and the contractor moving of site due to non payment.		Electricity
EX0221	N:INST.CABLE(S ONLAND PARK SUB) RANDWATER	Construction Completed. All take on information awaited to be capitalised during in 2018/2019.		Electricity

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

		2018 R	2017 R
7. Property, plant and equipment (continued)			
EX0215	R:UPGRADE LV CABLES IN VEREENIGING	<p>These movements on the General Ledger is mainly for various size of cables that was drawn from the stores. These might have been mostly maintenance as it was done in-house by the elctricity department. No detail was received on any cable networks replaced or completed and the requisitions also have no detail on them. No completion or capitalisation info was received from the elctricity department for any capital work completed on this project.</p>	Electricity
EX0247	R:Replace 11kV switchgear various subs	<p>The project manager left the employee of Council. The destruction of the elelctricity buidling in Dunvanville affected the availibility of information and alternatives way of collecting data is followed. Take on will be in the 2018/2019 finacial year after verrification of installation with elelctricity.</p>	Electricity
EX0265	N:Repl 20MVA 88/11kV trf Town subs	<p>In construction end June 2018. It was confirmed that this Transformer will go operational within the 2018/2019 financial year. The main reason was delays in payments of sometimes more than 1½ years to the service provider. Technical gaurentees expired and they had to fly in the manufacturers for testing again and issuing the reissuing the technical gaurentee. The transformer can only be tested , signed over and go into operation after this is done.</p>	Electricity
EX0278	R:Repl Enermax meters-online metering	<p>To be capitalised. Location of few of the meters to be supplied for take on in the 2018/2019 finacial year. The destruction of the elelctricity buidling in Dunvanville affected the availibility of information and alternatives way of collecting data is followed.</p>	Electricity
EX0284	N:UPGRADE MCKINON CHAIN 88/6.6KV SUBS.	<p>The project started in 2013/2014 finacial year and is a multi year project. The contractor left the site due to late payment. This lead to additional de- and re-establishment cost, interest on late payments, re-instating hardware gaurentees and extended implementation time. Practical completion stage was reached but final completion and take over is depending final payments and retesting of hardware. Also see EX0508.</p>	Electricity
EX0286	R:Replace 22kV switchgear in DS substation	<p>Ampcor work was not completed and tender was mutually terminated between parties due to the constant late payment of the service provider. Some certificates took more than 1½ years to be paid. Consolidated Power Projects portion of implementation is at 55%. Powertech System Integratedportion of implementation is at 90%. The latter to service providers work portion is also affected by late payments affecting implementation timelines. Also see EX0398</p>	Electricity

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

			2018 R	2017 R
7. Property, plant and equipment (continued)				
EX0398	N:Powerville Rep22kv Outdoor 2 Indoor Sub	Ampcor work was not completed and tender was mutually terminated between parties due to the constant late payment of the service provider. Some certificates took more than 1½ years to be paid. Consolidated Power Projects portion of implementation is at 55%. Powertech System Integratedportion of implementation is at 90%. The latter to service providers work portion is also affected by late payments affecting implementation timelines. Also see EX0286		Electricity
EX0397	N:New connections-network reinforcement	On going. New Connections is capitalised annually against this project when they are completed.		Electricity
EX0403	R:Upgrading 11kV rural lines	The availability of voucher was mainly affected by the burning down of the electricity offices. There is a few items that more clarity will have to be obtained from the department to establish if it is capital or not. Only once these alternative routes is completed to determine the nature of the transaction will it be treated accordingly. This is expected to be completed in the 2018/2019 financial year.		Electricity
EX0419	N: LT Panels	Still in process. Small movement during the year. Project affected due to Emfuleni capital cut on platform basis for electricity projects. Project assesment and treatment will follow in 2018/2019 due to cut in Emfuleni funding of electricity projects.		Electricity
EX0408	N:NEP GRANT	Project started in the 2016/2017 financial year and is a multi year project. Late payment and the platform cut of Emfuleni funding towards electricity capital projects affected implimentation. Project assesment and treatment will foloow in 2018/2019 due to cut in Emfuleni funding of electricity projects.		Electricity
Sedibeng	INSTALL OF STREETLIGHTS ZONE 14	Not sufficient information was supplied to unbundle the assets as per the requirements and some survey needs to be done to be able to take on the assets. This is epcoected to be done and completed in 2018/2019		Electricity
EX0500	TRANSFORMER S			Electricity
EX0506	REPLACEMENT OF CABLES VARIOUS AREAS	Awaiting detail to identify cables affected to treat accordingly		Electricity
EX0508	UPGRADING MCKINNON CHAIN 88/6.6KV SUBS	The project started in 2013/2014 financial year and is a multi year project. The contractor left the site due to late payment. This lead to additional de- and re-establishment cost, interest on late payments, re-instating hardware gaurentees and extended implementation time. Practical completion stage was reached but final completion and take over is depending final payments and retesting of hardware. Also see EX0284.		Electricity
EX0510	REPLACE DOORS AT VARIOUS SUBSTATIONS	The destruction of the electricity buidling in Dunvanville affected the availability of information and alternatives way of collecting data is followed. Take on will be in the 2018/2019 financial year after verrification of installation with electricity.		Electricity

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

			2018 R	2017 R
7. Property, plant and equipment (continued)				
EX0511	INSTALLATION OF NEW STREETLIGHTS	The destruction of the electricity building in Dunvanville affected the availability of information and alternatives way of collecting data is followed. Take on will be in the 2018/2019 financial year after verification of installation with electricity.		Electricity
EX0512	MOBILE 500KVA STANDBY GENERATOR	Awaiting final payment to service provider		Electricity
EX0132	NEW TRAFFIC PRECINCT IN SEBOKENG/EV ATON	Construction Completed and practical completion done. Final completion awaited. Some challenges with the designs of the structures and geotechs. Final professional fees account, close out report and as builds awaited to take on the project.		Operational buildings
EX0016	NGUNA STREET IN SEBOKENG ZONE 7	This project is in construction and is around 60% completed. The project also had the 1st contractor and consultant terminated. Agreements had to be reached on what work will be done as the community demanded a bridge over the Rietspruit which was not in line with the class of road. A 2nd consultant was appointed and 2nd contractor to complete the project. The contractor was stopped by the community since January 2018, and there was vandalism to his plant and a claim for the delays and vandalism has been submitted to ELM for adjudication.		Roads and stormwater
EX0070	EMFULENI ROADS AND STORMWATER UPGRADING PROJECT - BEVERLY HILLS	Project completed. The small amount was for high level Project Management Fees.		Roads and stormwater
EX0095	UPGRADING OF ROADS AND STORMWATER BOPHELONG X 11/ 14	Planning Stage		Roads and stormwater
EX0274.1	UPGRADING OF ROADS AND STORMWATER SYSTEM IN SEBOKENG ZONE 6 EXT 3 (ROAD 48 AND 52)	The project is in construction stage and is 74% complete.		Roads and stormwater
EX0276	MBATHA STREET / N:HULWANA MBHATHA ST IN SHARPVILLE	Construction Completed. An amount is in dispute with the contractor and the outcome is awaited on this matter. Final professional fees account and contractors account, as builds and close out report is awaited to take on the assets.		Roads and stormwater
EX0348	N:TARRING OF DHLAMINI STREET FROM UMZIMV	Planning Stage started in the 2016/2017 financial year.		Roads and stormwater
EX0349	N:TARRING OF PITSENG AND URANIUM STREETS	Planning Stage started in the 2016/2017 financial year.		Roads and stormwater

Emfuleni Local Municipality

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Notes to the annual financial statements

		2018 R	2017 R
7. Property, plant and equipment (continued)			
EX0350	N:CONSTRUCTI ON OF KHATEKA STREET	The project is in construction stage. Practical completion was on 15 May 2018, with a huge snag list of issues that the contractor had to address within 14 days before the completion certificate can be issued. This was not completed by end June 2018.	Roads and stormwater
EX0351	N:TARRING OF CETSHWAYO STREET	In Construction: Completion expected in the 2017/2018 financial year.	Roads and stormwater
EX0352	N:TARRING OF ROAD IN LAKESIDE PROPER BLO	Planning Stage started in the 2016/2017 financial year.	Roads and stormwater
EX0413	N:CONSTRUCTI ON OF EVATON MULTIPLE ROADS	In Construction. The project entail the construction of Lind-, Kent-, King-, West-and Milner Roads. Lind-, Kent- and King Roads in Construction. West- and Milner Road in planning stage.	Roads and stormwater
EX0374	N:TARRING OF BIKITSHA STREET ZONE 12	In Construction: Completion expected in 2018/2019. Also see EX0530	Roads and stormwater
EX0373	N:TARRING OF RAMAGWASE STREET	In Construction: Completion expected in 2018/2019.	Roads and stormwater
EX0399	N:TARRING OF SWINEFLUE ROAD ZONE 14	In Construction: Completion expected in 2018/2019.	Roads and stormwater
EX0388	N:CONSTRUCTI ON OF NKOMO DRIVE IN SHARPVILLE	Construction Completed. Final Professional Fees account, close out report and as builds awaited for take on of assets. Take on expected in 2018/2019	Roads and stormwater
EX0372	N:UPGRADING OF GLASCO AND DONA ROAD	Dona in Construction. Completion expected early in 2018/2019. Take on expected in 2018/2019	Roads and stormwater
sedibeng	Constr of comm sidewalks zone 14	Not sufficient information was supplied to unbundle the assets as per the requirements and some survey needs to be done to be able to take on the assets. This is epoected to be done and completed in 2018/2019	Roads and stormwater
EX0527	BISHOP TUTU STREET R&S BOITUMELO	Project completed. The small amount was for high level Project Management Fees.	Roads and stormwater
EX0528	BLACKTOP ROAD AND SW CHRIS HANI STR	Planning Stage	Roads and stormwater
EX0529	CONSTRUCTIO N OF THOMAS NKOBI	This is the planning of Phase 2 to construct a tar road after Phase which entailed the installation of a surface and subsurface stormwater system.	Roads and stormwater
EX0530	TARRING BIKITSHA STREET ZONE 12 PLANNING	In Construction: Completion expected in 208/2019. Also see EX0374	Roads and stormwater
EX0531	NPDG	Various Projects planned. Constrcution expected to start in 2018/2019	Roads and stormwater
EX0534	ROADS INFRA - IU C: ACQUISITION	Zone 10 SW Channel Phase 2 in Planning Stage	Roads and stormwater

Emfuleni Local Municipality

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Notes to the annual financial statements

		2018 R	2017 R
7. Property, plant and equipment (continued)			
EX0536	STORM WA INFRA - IU C: ACQUISITION	Roads & SW in Sebokeng Zone 6 Ext 5(Rd 48 & 52) & (ROAD 47 & 53). In Construction. See also EX0274.1	Roads and stormwater
EX0259	Upgrading sewer infrastructure: Boitumelo - Upgrading of Outfall Sewers	Planning Stages of project. Will be implimented when funding is available.	Sanitation
EX0261	Upgrading sewer infrastructure: River Pump Station - Short to Medium Term	Planning Stages of project. Will be implimented when funding is available.	Sanitation
EX0262	Upgrading sewer infrastructure: Three Rivers East - Mariboe Street	Planning Stages of project. Will be implimented when funding is available.	Sanitation
EX0343	Sonlandpark N:improve Flow In Outfall Sewer N1&R28	Project started in 2016/2017 and is in construction. Project expected to be completed in 2018/2019.	Sanitation
EX0411	N:WASTE MANAG. TREATMENT PUMPSTATION	Project started in 2016/2017 and is in construction.	Sanitation
EX0417	STAND 15070 WESTSIDE PARK	Will be taken on when the land portion is registered into Emfuleni's name.	Sanitation
EX0418	STANLEY RD RISING MAIN AND UNION GRAVITY MAIN	Project started in 2016/2017 and is in construction. Project expected to be completed in 2018/2019.	Sanitation
EX0501	SEWER PIPES REPLACMENT	Capex on Opex. Take on information awaited to identify the existing or new asset detail to enable take on	Sanitation
EX0537	REPLACEMENT OF SEWER PIPES	Capex on Opex. Take on information awaited to identify the existing or new asset detail to enable take on	Sanitation
EX0538	REPLACEMENT OF SEWER PUMPS	Capex on Opex. Take on information awaited to identify the existing or new asset detail to enable take on	Sanitation
EX0296	R:Upgrade Rust- Ter-Vaal Sport Stadium	Phase 2 in process to complete the project. Completion expected in the 2018/2019 finacial year.	Sports and recreational facilities
EX0297	N:Const. Recreation Facility Palmsprings	Contractor for fencing started in 2017/2018. Implementation of the rest of the project to follow in stages	Sports and recreational facilities
EX0139	UPGRADING OF WATER INFRASTRUCTU RE	Planning Stage. Awaiting funding for implementation	Water
EX0270	BULK WATER SUPPLY FROM QUAGGASFONT EIN RESERVOIR TO JOHANDEO	Multi year project. In Construction. expected to be completed in the 2018/2019 finacial year.	Water

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

			2018 R	2017 R
7. Property, plant and equipment (continued)				
EX0298	R:WATER SUP FRM EVATON RES TO DADEVILLE	Planning Stage		Water
EX0299	N:CONSTR WATER PIPE LETHABONG TO HOUTKOP	Planning Stage		Water
EX0300	N:CONSTR BULK WATER SUP HOUTKOP UNITAS	Planning Stage		Water
EX0301	N:WATER SUP WESTERN AREAS & VAALOEWER	Planning Stage		Water
EX0314	N:BULK WATER SUPPLY TSHEPISO TO SHARPEVILLE	Planning Stage		Water
EX0412	N:BOTHLE KE BOTHO	Still in process abd some skip bins still need to be procured for Waste Trucks		Water
EX0357	N:BULK WATER SUPPLY FROM UNITAS RESERVIOR	Planning Stage		Water
EX0213	N:BASIC SERVICES PROFESSIONAL FEES PLANNING	Planning Stage		Water
EX0539	REFUSBISHME NT VANDERBIJL PARK RESERV OIR	In Construction		Water
EX0540	REFURBISH VAALOEWER WATER TREATMENT WORK	In Construction		Water

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018			2017		
	R			R		
8. Investment property						
	2018			2017		
	Valuation	Accumulated depreciation	Carrying value	Valuation	Accumulated depreciation	Carrying value
Investment property	962,368,300	-	962,368,300	1,420,103,946	-	1,420,103,946

Reconciliation of investment property - 2018

	Opening balance	Disposals / Derecognition	Transfers	Fair value adjustments	Total
Investment property	1,420,103,946	(700,000)	(486,876,462)	29,840,816	962,368,300

Reconciliation of investment property - 2017

	Opening balance	Disposals / Derecognition	Transfers	Fair value adjustments	Total
Investment property	1,402,568,509	(5,602,371)	(116,097,054)	139,234,862	1,420,103,946

Details of valuation

Fair value adjustments - Investment property

Investment property is measured using the fair value model.

For the determination of the annual review of the fair value in 2017-2018 financial year, a value of R29 840 816 was determined as the fair value adjustment based on the average increase in the value of property in Emfuleni Local Municipality that escalated by 3.2% during the period from 1 July 2017-30 June 2018

De-recognitions

During the current period property transfers to the value of R700 000 where affected.

Transfers

During the financial year, investment property land parcel valued R486 876 424 where transferred to community assets and housing assets due to not qualifying the recognition standard of Investment property and now reclassified as property plant and equipment.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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Figures in Rand

9. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	35,843,373	(26,361,957)	9,481,416	32,186,144	(28,218,107)	3,968,037
Servitudes	13,849,516	-	13,849,516	13,849,516	-	13,849,516
Total	49,692,889	(26,361,957)	23,330,932	46,035,660	(28,218,107)	17,817,553

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals/Derecognition	Transfers	Amortisation	Total
Computer software	3,968,037	7,142,846	(104,862)	(137,212)	(1,387,393)	9,481,416
Servitudes	13,849,516	-	-	-	-	13,849,516
	17,817,553	7,142,846	(104,862)	(137,212)	(1,387,393)	23,330,932

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals/Derecognition	Amortisation	Total
Computer software	4,199,933	1,311,591	(20,776)	(1,522,711)	3,968,037
Servitudes	13,849,516	-	-	-	13,849,516
	18,049,449	1,311,591	(20,776)	(1,522,711)	17,817,553

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
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10. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	57,016	-	57,016	57,016	-	57,016

Reconciliation of heritage assets 2018

Heritage assets	Opening balance 57,016	Total 57,016
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Reconciliation of heritage assets 2017

Heritage assets	Opening balance 57,016	Total 57,016
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Age and/or condition of heritage assets

Assets previously recognised as heritage assets were assessed for significance aligned with Section 3 (3) of the National Heritage Resources Act. The chief criteria for classifying an asset as heritage asset are:

- Social and cultural significance
- Historical significance
- Archaeological significance
- Architectural significance
- Aesthetic significance
- Scientific and technological significance
- Group and relationship significance
- Landmark significance

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
11. Trade and other payables from exchange transactions		
Trade payables	2,174,638,377	1,509,587,367
Payments received in advance	217,618,355	192,304,177
Retentions	48,085,277	39,254,388
Accrued interest	352,360	456,214
Accrual for annual leave	69,052,457	64,364,551
Accrual for 13th cheque	25,668,851	24,530,331
Year-end salary creditors	197,941,348	245,155,537
Unclaimed wages	1,543,868	1,366,564
Other payables	11,449,789	(19,355,832)
Imputed interest on creditors	1,255,674	1,688,148
	2,747,606,356	2,059,351,445

12. Consumer deposits

Electricity and water	51,309,073	46,971,119
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The amounts reflected represent a cost value. Management believes that the cost value approximates the fair value.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Social development grant	-	6,911,235
EPWP grant	-	20,363
Bontle ke botho	-	582,266
Neighbourhood development grant	1,419,856	1,084,345
National electrification grant	-	787,745
Library grant	5,850,722	6,036,035
Projects funded ex Sedibeng district municipality	1,160,599	1,160,599
Sedibeng maintenance grant	1,048,533	702,423
Financial management grant	1,922	-
Performance management grant	505,804	-
Water services infrastructure grant(WSIG)	9,536,614	-
Cogta Grant (Pumpstation)	2,551,363	2,551,363
Cogta grant	893,724	893,724
	22,969,137	20,730,098

Refer to note 22 for detailed movements on grants

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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	2018 R	2017 R
14. Borrowings		
At amortised cost		
Borrowings	<u>8,905,770</u>	<u>11,625,599</u>
Non-current liabilities		
At amortised cost	<u>5,743,139</u>	<u>8,905,770</u>
Current liabilities		
At amortised cost	<u>3,162,631</u>	<u>2,719,829</u>
15. Finance lease		
Minimum lease payments due		
- within one year	7,824,681	6,849,736
- in second to fifth year inclusive	<u>3,421,511</u>	<u>10,670,337</u>
Present value of minimum lease payments	<u>11,246,192</u>	<u>17,520,073</u>
within one year	7,824,681	6,849,736
in second to fifth year	<u>3,421,511</u>	<u>10,670,337</u>
	<u>11,246,192</u>	<u>17,520,073</u>

The average lease term is 3years and the average effective borrowing rate or escalation was 10.5% interest rates are fixed at a contract date. All leases have variable or fixed repayments and in certain instances contingent rent is payable as per stipulation in the lease agreements.

The municipality's obligation under finance leases are secured by the leases charge over the leased assets. The municipality did not default on any of the interest or capital repayments of the leases. No terms and conditions of finance leases were re-negotiated. There is no restriction imposed on the lease agreements

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

					2018	2017
					R	R
16. Provision						
Reconciliation of provision - 2018						
	Opening balance	Utilised during the year	Change in discount factor	Increase due to re-measurement or settlement without cost to entity		Total
Environmental rehabilitation	153,534,585	-	12,895,507	(33,153,723)		133,276,369
Legal proceedings	13,885,862	(1)	-	-		13,885,861
Reconciliation of provision - 2017						
	Opening Balance	Additions	Reversed during the year	Increase due to re-measurement or settlement without cost to entity		Total
Environmental rehabilitation	135,119,545	-	-	18,415,040		153,534,585
Legal proceedings	9,439,218	5,830,734	(1,384,090)	-		13,885,862
	144,558,763	5,830,734	(1,384,090)	18,415,040		167,420,447
Non-current liabilities					133,276,369	153,534,585
Current liabilities					13,885,861	13,885,862

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
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16. Provision (continued)

Environmental rehabilitation provision

The discount rate of 13.63% utilised to account for the finance cost is based on the weighted average cost of capital rate to the municipality. Using the methodology of the calculation of first escalating the proposed costs, then discounting the costs by the relevant dates allows for a full life cycle analysis as well as appropriate cost value which takes into consideration the time value of money.

The financial provision calculated represents the expenditure required for rehabilitation of the cell areas currently used (not the entire site), including areas that have been used but not rehabilitated. The expected rehabilitation costs have been determined by escalating the current rehabilitation costs over the remaining useful life up to the expected date of rehabilitation of the respective landfill cell areas by using percentage increase year on year from 30 June 2017 to 30 June 2018, should the design have remained the same, is calculated as 6,2% due to the typical contractor price increases noticed in similar project rates being undertaken in SA.

The difference between the 2017 and 2018 rehabilitation assessment years is due to the change of capping materials from synthetic to a more natural materials selection as per similar projects recently approved for a general waste sites under the Norms & Standards, Gazetted R636 thus the cost has reduced. The Engineering fees has been reduced from 5% to 4% as we believe the market is more competitive and is thus a more accurate estimation

The municipality has three landfill sites:

Boitshepi

The landfill site was licensed in 2011 as a G:L:B+ landfill site and is situated in the outskirts of the Tshepiso residential area near Vanderbijlpark. The extent of the property is 34,4195Ha and the footprint of the current waste disposal area is 26,843Ha. As no progressive rehabilitation has taken place, the entire site will need to be rehabilitated as part of the final closure. The areas to be closed off as at 30th of June 2018 is 24.37Ha. The cost estimated (Rehabilitation provision) to close the entire site, based on value determined at 30th of June 2018 is R125 101 810.37 excluding VAT of 15%.

Waldrift

The landfill site was licensed in 2011 as a G:L:B- site and is situated in the mining farm areas near Vereeniging. The extent of the property is 31.8842Ha. The proposed waste disposal area is 18.7946Ha and the surface area to be rehabilitated as at 30th of June 2018 is 15.00Ha. Disposal is licensed to be filled to 32m above NGL at closure.

The estimated cost (rehabilitation provision) for the entire site, as at 30th June 2018 is R72 761 640.88 excluding VAT of 15%.

Palm Springs

The landfill site was licensed in 2007 as a G:M:B- landfill site and is situated near Orange Farm. The disposal cells of the site have recently been upgraded to include to formal disposal phases, both of which are still operational. The site will grow to include 6 disposal phases over the life of the site.

The extent of the property is 66,6384Ha and the waste disposal area is 25,0597Ha. t

The cost estimated (rehabilitation provision) to close the entire site, based on a value determined at 30 June 2018 is R43 225 731.71 excluding VAT of 15%.

On this base the provisions at 30 June 2018 can be summarised as follows:

- i) Waldrift landfill site : R 43 642 959.30
- ii) Boitshepi landfill site : R 81 654 423.09
- iii) Palm springs landfill site: R 7 978 986.26

Total provision for rehabilitation as at 30 June 2018 for all three sites at the respective closure dates is estimated at R 133 276 368.66

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
17. Service charges		
Sewerage and sanitation charges	406,673,620	345,466,996
Sale of electricity	1,688,686,180	1,943,898,182
Sale of water	1,468,179,306	1,239,570,580
Refuse removal	223,052,809	213,743,618
	3,786,591,915	3,742,679,376
18. Rental of facilities and equipment		
Premises		
Rental of facilities	16,409,493	11,971,470
Facilities and equipment		
Rental of equipment	356	3,697
	16,409,849	11,975,167
19. Finance income		
Interest revenue		
Interest on arrears	66,453,778	47,110,767
Bank	3,560,866	6,015,053
	70,014,644	53,125,820
20. Other income		
Industrial effluent	25,768,863	30,018,431
Access to information	161,357	179,114
Capital contribution	945,012	4,008,806
Dishonoured cheques	-	45,427
Refunds (SETA)	1,943,096	1,645,266
Sundries/unallocated income	9,036,164	12,323,809
Warning services	264,571	1,056,527
Advertising	418,101	459,068
Informal trading revenue	-	112,680
Alienation of stand	-	157,723
Deed searches	1,015	938
Reconnection fees	4,989,040	5,599,264
Sale of Ash	31,973,684	-
Planning fees	289,685	98,057
Sale of tender documents	1,183,700	1,561,350
Zoning certificates	-	469,563
Activity room/auditorium	-	52,236
Building plans	1,458,515	1,895,148
Cemeteries	11,235,949	10,030,185
Entrance fees	1,089,789	1,154,126
General service fees	6,839,495	11,634,996
Fire rescue services	475,842	177,609
Flammable liquid	-	188,722
Refuse dumping landfill site	4,068,897	15,549,590
Lost and damaged library material	-	939
Sale of right to collect	-	42,641,326
	102,142,775	141,060,900

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
21. Property rates		
Rates		
Rates levied	799,015,311	659,290,922
The valuations are utilised to levy property rates on a monthly basis.		
Rebates on property rates levied can be defined as any income that the municipality is entitled by law to levy, but which has subsequently been foregone by way of rebate or remission.		
Valuations		
Residential	68,794,842,203	58,788,074,355
Business	10,968,586,002	9,013,047,750
Industrial	5,751,787,000	4,931,311,000
State owned properties	2,581,537,001	1,865,043,000
Municipal	1,191,907,000	964,140,000
Agricultural	1,386,040,000	1,193,190,002
Other	1,257,673,073	1,155,347,056
	91,932,372,279	77,910,153,163
22. Government grants and subsidies		
Operating grants		
Equitable share	633,240,454	608,581,000
Financial management grant	1,548,078	1,474,950
Cogta grant	-	3,755,209
Social development grant	20,011,234	16,661,996
Expanded public works programme grant	2,847,000	2,507,637
Cogta Grant (Pumpstation)	-	11,448,637
Bontle ke botho	582,266	188,893
Project Funded ex Sedibeng District	-	1,543,529
Health and environmental subsidies	44,271,999	43,215,740
Neighbourhood development grant	8,054,144	8,051,155
Sedibeng maintenance grant	63,116	91,896
Department of water affairs	-	930,484
Performance grant	494,196	-
	710,618,291	698,451,126
Capital grants		
Municipal infrastructure grant	176,145,000	160,763,000
National electrification programme	-	2,097,255
Library grant	13,292,312	8,048,526
Water services infrastructure grant(WSIG)	20,463,386	-
Asset management	500,000	-
	210,400,698	170,908,781
	921,513,185	869,359,907

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income. An amount of R 633 240 000 was gazetted for the 2017/18 financial year. An amount of R 1 939 809.76 was therefore not received from the National Treasury.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
22. Government grants and subsidies (continued)		
Financial management grant		
Balance unspent at beginning of year	-	(50)
Current-year receipts	1,550,000	1,475,000
Conditions met - transferred to revenue	(1,548,078)	(1,474,950)
	<u>1,922</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

This grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA.

Social development grant

Balance unspent at beginning of year	6,911,235	-
Current-year receipts	11,736,161	23,573,231
Conditions met - transferred to revenue	(20,011,234)	(16,661,996)
Amount Spent but not received	1,363,838	-
	<u>-</u>	<u>6,911,235</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is for the construction of 20 Priority township project (Early Childhood Development Centres). An amount of R 13 100 000 was gazetted for the 2017/18 financial year. An amount of R 1 363 837.91 was not received from the transfereing authority.

Expanded public works programme

Balance unspent at beginning of year	20,363	-
Current-year receipts	2,847,000	2,528,000
Returned to National Treasury	(20,363)	-
Conditions met - transferred to revenue	(2,847,000)	(2,507,637)
	<u>-</u>	<u>20,363</u>

Conditions still to be met - remain liabilities (see note 13).

To provide expanded public works programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

Bontle ke botho

Balance unspent at beginning of year	582,266	771,160
Conditions met - transferred to revenue	(582,266)	(188,894)
	<u>-</u>	<u>582,266</u>

Conditions still to be met - remain liabilities (see note 13).

The MEC agriculture conservation and environment, initiated a clean and green programme based on the Johannesburg plan of implementation, whereby the municipalities, wards and schools are encouraged to keep the nearest places clean. This is done through a campaign named Bontle ke botho which rewards the best municipality.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
22. Government grants and subsidies (continued)		
Health and environment subsidies		
Current-year receipts	44,271,999	43,215,740
Conditions met - transferred to revenue	(44,271,999)	(43,215,740)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The amounts are re-imbursed to the municipality for the Public Health Services which are delivered by the municipality on behalf of the Gauteng Department of Health and the Sedibeng District Municipality.

Neighbourhood development Partnership grant

Balance unspent at beginning of year	1,084,345	500
Current-year receipts	9,474,000	9,135,000
Conditions met - transferred to revenue	(8,054,144)	(8,051,155)
Returned to National Treasury	(1,084,345)	-
	<u>1,419,856</u>	<u>1,084,345</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to support and facilitate the development of urban network plans that consist of primary and secondary networks that interconnect at strategic nodes, which in townships are referred to as urban hubs. The amount of R30 000 000 was gazetted for the 2017/18 financial year. An amount of R 20 526 000 was therefore not received from the transferring authority.

Infrastructure asset management grant

Current-year receipts	500,000	-
Conditions met - transferred to revenue	(500,000)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to support identified municipalities to update and maintain the infrastructure (Service delivery) asset registers in compliance with GRAP 17.

Municipal Infrastructure grant

Current-year receipts	176,145,000	160,763,000
Conditions met - transferred to revenue	(176,145,000)	(160,763,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

To provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities. An amount of R 181 645 000 was gazetted for the 2017/18 financial year. An amount of R 5 500 000 was therefore not received from the transferring authority.

Emfuleni Local Municipality

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	2018 R	2017 R
22. Government grants and subsidies (continued)		
National electrification programme		
Balance unspent at beginning of year	787,745	-
Current-year receipts	-	2,885,000
Returned to National Treasury	(787,745)	-
Conditions met - transferred to revenue	-	(2,097,255)
	<u>-</u>	<u>787,745</u>

Conditions still to be met - remain liabilities (see note 13).

To implement the integrated national electrification programme (INEP) by providing capital subsidies to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure in order to improve quality of supply.

Library grant

Balance unspent at beginning of year	6,036,035	1,784,560
Current-year receipts	13,107,000	12,300,000
Conditions met - transferred to revenue	(13,292,313)	(8,048,525)
	<u>5,850,722</u>	<u>6,036,035</u>

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to financially support municipal library services in the administration of libraries, in order to render efficient, effective and economic library and information services to communities.

Department of water affairs and forestry

Balance unspent at beginning of year	-	930,484
Conditions met - transferred to revenue	-	(930,484)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 13).

This grant is used for water demands management.

Projects funded ex Sedibeng district municipality

Balance unspent at beginning of year	1,160,599	2,704,127
Conditions met - transferred to revenue	-	(1,543,528)
	<u>1,160,599</u>	<u>1,160,599</u>

Conditions still to be met - remain liabilities (see note 13).

Funds are used for upgrading of cemeteries. No funds have been withheld by the grantor.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
22. Government grants and subsidies (continued)		
Sedibeng maintenance grant		
Balance unspent at beginning of year	702,423	385,092
Correction of error - Receipts 2016/17	-	409,226
Current-year receipts	409,226	(91,895)
Conditions met - transferred to revenue	(63,116)	-
	1,048,533	702,423

Conditions still to be met - remain liabilities (see note 13).

The purpose of this grant is the maintenance of farming equipment and implements donated by GDARD to Sedibeng Municipality as part of GDARD's mechanisation programme.

Performance Management Grant

Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(494,196)	-
	505,804	-

To support the municipality with the Cascading of the Performance Management System (PMS) to employee levels below senior management.

Water Services Infrastructure Grant (WSIG)

Current-year receipts	30,000,000	-
Conditions met - transferred to revenue	(20,463,386)	-
	9,536,614	-

Conditions still to be met - remain liabilities (see note 13).

Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially rural municipalities.

Provide interim, immediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes. Provide on-site sanitation solutions. Support the existing bucket eradication programme intervention in formal residential areas. Support drought relief projects in affected municipalities.

COGTA Grant(Pumpstation)

Balance unspent at beginning of year	2,551,363	-
Current-year receipts	-	14,000,000
Conditions met - transferred to revenue	-	(11,448,637)
	2,551,363	2,551,363

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to provide financial assistance to ELM for the construction of a new waste water treatment plant to bypass the existing one that is declared not financially viable to repair. An amount of R 39 350 was not approved for roll-over in the 2017/18 financial year and must be paid back to the National Revenue Fund.

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
22. Government grants and subsidies (continued)		
Cogta grant		
Balance unspent at beginning of year	893,724	1,264,933
Current-year receipts	-	3,384,000
Conditions met - transferred to revenue	-	(3,755,209)
	893,724	893,724

Conditions still to be met - remain liabilities (see note 13).

The purpose of the grant is to assist Emfuleni to finance the 90 days service delivery plan.

23. Fines

Traffic fines	347,217,750	165,115,436
Other fines	428,370	10,719
	347,646,120	165,126,155

In terms of IGRAP 1 the impact on the initial measurement of fines was assessed and appropriate adjustments based on assumptions were made from reliable information. The monetary value of fines as disclosed for 2017/18 was calculated from the value of fines issued less the fines withdrawn and, as granting of reductions are within the discretion of the entity issuing fines, these were deducted from the fines issued.

The debtor as disclosed in note 4 was calculated using the above assumption and the existing debtor as 30 June 2018.

Subsequent measurement was done by utilising reliable information from 7 years. The percentage payment of fines versus fines issued of the 7 years, was utilised to calculate the estimated recoverable fines for the period. The recoverable amount was deducted from the calculated outstanding as at 30 June 2018 resulting in the calculated impairment of fines(R269 057 343.89)

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
24. Employee related costs		
Basic salaries	586,635,778	579,176,301
13th cheque	44,900,372	42,961,064
Medical aid - company contributions	63,258,634	50,895,936
Unemployment insurance fund (UIF)	4,329,675	4,433,850
Redemption of leave	15,107,972	9,600,825
Leave pay and 13th cheque contribution	-	4,194,733
Long service awards and medical aid	4,724,100	25,707,678
Salary disparities	-	123,033,364
Pension fund contribution	111,639,504	107,133,024
Overtime payments	76,260,983	76,800,922
Acting allowances	19,773,366	17,565,787
Car allowance	34,725,666	38,029,523
Housing benefits and allowances	3,924,519	7,070,950
Other allowance	12,162,910	19,213,646
Group insurance	36,737,367	34,869,099
Skills development and casualty contributions	9,076,959	15,845,205
	1,023,257,805	1,156,531,907

Municipal Manager

Annual Remuneration	326,210	414,608
Car Allowance	-	30,000
	326,210	444,608

The position of the Municipal Manager has been vacant for the full financial year however an incumbent has been seconded from CoGTA to act in the position.

Chief Financial Officer

The position of CFO was vacant for the full financial year and an incumbent was appointed to act and then another incumbent was seconded from Provincial Treasury.

Executive Director: Shared Services

Annual remuneration	1,113,416	1,410,089
Travel, motor car, accommodation, subsistence and other allowances	193,500	258,000
Annual Leave	229,014	-
	1,535,930	1,668,089

The position of the Executive Director: Shared Services was vacant for the last 3 months of the 2017/18 financial year, and an incumbent was appointed to act in the position.

Executive Director: Public Works

Annual remuneration	-	-
Travel, motor car, accommodation, subsistence and other allowances	-	-
	-	-

The position of Executive Director: Public works was vacant for the full financial year.

Emfuleni Local Municipality

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	2018 R	2017 R
24. Employee related costs (continued)		
Chief Audit Executive		
Annual remuneration	1,164,729	1,573,392
Travel, motor car, accommodation, subsistence and other allowances	147,150	196,200
Annual Leave	273,301	-
	<u>1,585,180</u>	<u>1,769,592</u>
The position of the Chief Audit Executive was vacant for the last 3 months of the financial year.		
Executive Director: Economic Planning & Human Settlements		
Annual remuneration	1,379,379	1,751,592
Travel, motor car, accommodation, subsistence and other allowances	13,500	18,000
Annual Leave	163,024	-
	<u>1,555,903</u>	<u>1,769,592</u>
The position of the Executive Director: Economic Planning & Human Settlements was vacant for the last 3 months of the 2017/18 financial and an incumbent was appointed to act in the position.		
Executive Director: Community Services		
Annual remuneration	1,194,594	1,510,501
Travel, motor car, accommodation, subsistence and other allowances	103,500	138,000
Other	50,908	-
	<u>1,349,002</u>	<u>1,648,501</u>
The position of Executive Director: Community Services was vacant for the last 3 months of the 2017/18 financial year, and an incumbent was appointed to act in the position.		
Executive Director: Infrastructure Development		
Annual remuneration	-	-
Travel, motor car, accommodation, subsistence and other allowances	-	-
	<u>-</u>	<u>-</u>
The position of the Executive Director: Infrastructure Development is vacant for the full financial year, and an incumbent was appointed to act in the position.		
Chief Operating Officer		
Annual remuneration	1,506,682	1,863,507
Travel, motor car, accommodation, subsistence and other allowances	103,500	138,000
Annual Leave	333,565	-
	<u>1,943,747</u>	<u>2,001,507</u>
The position of Chief Operating Officer was phased out on 31 March 2018 when the extended contract of the previous incumbent expired.		
Chief Risk Officer		
Annual remuneration	1,419,785	1,036,068
Travel, motor car, accommodation, subsistence and other allowances	138,000	138,000
	<u>1,557,785</u>	<u>1,174,068</u>

Emfuleni Local Municipality

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	2018 R	2017 R
24. Employee related costs (continued)		
Chief Information Officer		
Annual remuneration	965,337	999,256
Travel, motor car, accommodation, subsistence and other allowances	195,000	214,500
Annual Leave	179,106	-
	1,339,443	1,213,756

The position of the Chief Information Officer was phased on 31 March 2018 when the extended contract of the incumbent was expired.

Head of Revenue

The position for Head of Revenue is vacant and an incumbent was appointed to act in the position.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
24. Employee related costs (continued)		
Head Strategic Manager: Support		
Annual remuneration	652,435	1,080,648
Travel, motor car, accommodation, subsistence and other allowances	78,932	138,000
Annual Leave	109,547	-
	840,914	1,218,648
<p>The position for Head Strategic Manager: Support was phased out on 31st January 2018 when the incumbent resigned from the position.</p>		
25. Remuneration of councillors		
Mayoral Committee members	10,663,173	7,269,060
Councillors	44,571,173	42,072,660
	55,234,346	49,341,720
Mayor		
Annual remuneration	815,158	721,704
Travel, motor, accommodation, subsistence and other allowances	368,979	350,758
	1,184,137	1,072,462
Speaker		
Annual remuneration	633,345	600,561
Travel, motor, accommodation, subsistence and other allowances	306,537	292,189
	939,882	892,750
In-kind benefits		
<p>The Office of the Executive Mayor, Speaker and Mayoral committee members are full time positions. Each is provided with an office and secretariat support at the cost of the municipality.</p>		
<p>The Mayor and Speaker make use of municipal owned vehicles for official duties.</p>		
26. Finance costs		
Interest: external borrowings and creditors	109,012,771	42,367,470
Interest landfill site rehabilitation	12,895,507	18,415,041
interest post employee benefits: health care	12,329,000	11,825,000
Interest long service awards	7,687,000	7,805,000
	141,924,278	80,412,511
27. Bulk purchases		
Electricity	1,645,978,985	1,435,153,469
Water	786,294,194	713,410,578
	2,432,273,179	2,148,564,047

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
28. General expenses		
Advertising	3,689,657	6,432,426
Audit fees	8,031,796	6,133,972
Bank charges	1,912,375	3,143,253
Commission paid	160,440,120	28,094,149
Consulting and professional fees	25,600,598	52,029,288
Consumables	-	3,429,752
Bad debts written off	-	-
Hire	88,955,620	847,614
Insurance	60,722,986	65,657,430
Conferences and seminars	2,288,773	4,340,300
Magazines, books and periodicals	-	461,396
Medical expenses	-	290,495
Rezoning costs	-	26,316
Postage and courier	7,950,506	6,539,877
Printing and stationery	1,161,856	8,966,815
Bursary fund	-	1,489,306
Royalties and license fees	-	2,573,431
Security (guarding of municipal property)	90,157,129	82,735,995
Software licensing	1,279,009	2,291,265
Subscriptions and membership fees	-	114,113
Telephone and fax	13,302,658	15,987,388
Training	-	7,426,254
Uniforms	1,898,450	5,509,830
Special programmes	-	15,391,127
Indigent support	741,717,322	371,562,451
Departmental charges	225,952	70,840
Valuation roll expense	-	7,352,962
Public expenditure	-	1,270,606
Lease rentals	54,087,361	72,584,848
Disaster relief	-	25,965
Other expenses	80,575,204	256,190,899
	<u>1,343,997,372</u>	<u>1,028,970,363</u>
"Other expenses" consist of various minor expenses.		
29. Cash generated from operations		
Deficit for the year	(662,108,727)	(768,870,050)
Adjustments for:		
Depreciation and amortisation	374,935,261	479,227,086
Fair value adjustments	(29,842,266)	(140,951,550)
Debt impairment	1,161,360,330	1,141,400,998
Employee benefit obligation	5,004,069	924,000
Contribution to provisions	12,895,507	24,245,774
Donations	(8,409,142)	(17,790,144)
Loss on sale of asset	2,634,989	4,197,325
Changes in working capital:		
Inventories	35,288,063	(71,007)
Trade and other receivables from exchange transactions	(650,775,954)	(930,021,883)
Other receivables from non-exchange transactions	(466,220,145)	(272,431,898)
Trade and other payables from exchange transactions	688,254,909	660,751,160
VAT	(124,342,497)	(68,193,283)
Unspent conditional grants and receipts	2,239,039	12,480,066
Decrease/Increase in current borrowings	442,802	(1,685,899)
Finance lease	974,945	-
	<u>342,331,183</u>	<u>123,210,695</u>

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
30. Correction of error		
During the 2017/18 financial year the following adjustments were made to transactions whereby amounts were erroneously stated in the previous financial periods. The comparative amounts have been restated as follows:		
Balance previously reported 2015/16		10,193,182,628
Adjustments for 2015/16 and before		106,774,674
Restated balance for 2015/16		10,299,957,302
Surplus/(deficit) for the financial year ended 2016/17		(768,870,050)
Adjustments: 2016/17		135,816,154
Withdrawal		22,080,918
		9,688,984,324
2015/16		
Statement of performance		
Service Charges		(7,534,474)
Incidental cash Surpluses		1,531,440
Property Rates		(4)
Developer Created Assets		(48,566,345)
Sundry Revenue		(3,310,640)
Expenditure		
Loss/Gain on sale of Assets		426,800
Loan Liability		137,423
Licence Fees		1,812
Sanitation Loss		13,385
Catering		441
Interest on overdue accounts		6,006,854
Legal Fees		13,072
Depreciation		(52,355,060)
Insurance Claim		(11,589)
Repairs & Maintenance		(4,056,182)
Operating leases transport assets		928,393
Restatement for 2014/2015		(106,774,674)
2016/2017		
Statement of performance		
Service Charges		(77,332,673)
Interest Income		23,606
Other Income		11,226,260
Developer Created Assets		(28,675,621)
Rental of facilities		68,203
Property Rates		1,241,603
Expenditure		
Contracted Services		3,260,189
Depreciation & Amortisation		(22,993,753)
Employee related costs		23,554
Bulk Purchases		(67,442,073)
Finance Costs		8,978,070
Repairs & Maintenance		532,301
Third party claims		37,767
Registration Fees Salga		11,765,086
Registration Fees		30,526
Printing & Publications		(5,179)
(Loss)/Gain on sale of assets		414,976
Collection Charges		22,863,119
Audit cost		14
Lisence Fees GIS		167,439

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
Catering		433
		(135,816,153)
2015/16		
Statement of financial position		
Current assets		
Cash & cash equivalents		11,589
Trade & Other receivables from Exchange		7,454,212
Trade & Other receivables from non Exchange		(4,762,235)
Vat		29,175,865
Non-Current assets		
Property Plant & Equipment		124,694,527
Accumulated Depreciation		52,356,663
Investment Property		(2,540,000)
Heritage Assets		(33,300)
Work in Progress		(96,135,277)
Current liabilities		
Trade & Other payables		(7,244,917)
Advance Payments		4,298,881
Retention		(363,909)
Non-Current liabilities		
Loan Liability		(137,423)
		106,774,676

Statement of financial position 2016/17

Current assets		
Cash & Cash Equivalents		1,008,117
Trade & Other Receivable from non exchange transactions		(8,210,898)
Trade & Other receivables from exchange		87,340,620
VAT		(16,965,210)
Non-Current assets		
Property Plant & Equipment		63,962,137
Accumulated Depreciation		23,332,657
Work in Progress		(25,009,097)
Intangible Assets		(49,200)
Accumulated Depreciation		28,423
Current liabilities		
Trade & Other Payables		15,437,540
Advance Payments		(8,710)
Deposits		(17,556)
Sundry Receipts		(6,007,533)
Unspent Grants		(409,226)
Provision Legal fees		1,384,090
		135,816,154

Statement of financial position	Balance 2016/17	Adjustments 2015/16	Adjustments 2016/17	Restated balance 2016/17
Cash and cash equivalent	66,839,955	11,589	1,008,117	67,859,661
Trade and other receivables from non-exchange transactions	235,412,664	(4,762,235)	(8,210,898)	222,439,531
Trade and other receivables from exchange transactions	310,425,026	7,454,212	87,340,620	405,219,858
Inventory	58,862,552	-	-	58,862,552
Value Added Tax receivable	175,291,517	29,175,865	(16,965,210)	187,502,172
Property, plant and equipment	9,789,052,652	80,915,913	62,285,696	9,932,254,261
Investment property	1,422,643,946	(2,540,000)	-	1,420,103,946
Intangible assets	17,838,329	-	(20,776)	17,817,553

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

			2018 R	2017 R
Heritage Assets	90,316	(33,300)	-	57,016
Trade and other payables	(2,065,462,797)	(3,309,945)	9,421,296	(2,059,351,446)
Provision legal fees	(15,269,952)	-	1,384,090	(13,885,862)
Unspent Conditional Grants	(20,320,872)	-	(409,226)	(20,730,098)
Consumer Deposits	(46,953,563)	-	(17,556)	(46,971,119)
Loan Liability	(10,670,337)	-	-	(10,670,337)
Provisions	(153,534,585)	-	-	(153,534,585)
Sanlam Shares	17,470	-	-	17,470
Finance Lease	(6,849,736)	-	-	(6,849,736)
Bank Overdraft	(87,630,391)	-	-	(87,630,391)
Borrowings	(2,719,829)	-	-	(2,719,829)
Employee Benefit Obligation	(209,760,970)	-	-	(209,760,970)
Borrowings	(8,768,347)	(137,423)	-	(8,905,770)
	9,448,533,048	106,774,676	135,816,153	9,691,123,877

Cash & Cash Equivalents

Various cheques that were not cashed in previous financial year and were cancelled in the year under review.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
Trade and other receivables from exchange transactions		
Billing corrections resulting from levies for previous years in respect of services now corrected.		
Trade and other receivable from non-exchange transactions		
Various Developer created assets completed in and accounted for in year under review.		
Various receipts allocated to sundry revenue instead of sundry debtors - now corrected		
Billing corrections resulting from property rates and sundry levies not done in previous years now corrected		
VAT		
Correction of VAT where various cheques were cancelled.		
VAT that were not included in the accruals now corrected.		
VAT input allowed for the previous years where claims were submitted - 2012/2013 to 2015/2016 and that resulted in expenditure for the previous financial years overstated - corrected in year under review		
Investment property		
Accounting for stands sold		
Heritage assets		
Duplications of heritage assets duplicated in previous year are corrected in year under review.		
Property plant and equipment		
Projects that were under W.I.P are now completed and accounted for as PPE		
Certain infrastructure assets that were capitalised in previous years were de-recognised		
Work in Progress		
Various transfers from WIP expenses to opex (previous years) accounted for		
Projects that were under WIP were completed and removed from WIP		
Trade and other payables		
Creditors that were not accrued, now accrued		
Unspent Grants		
Funds received in connection with Sedibeng Grant now correctly accounted for.		
Collection Charges		
Reversal of prior year journal passed on control account.		
Consumer deposits and curb deposits		
Curb deposits correctly accounted for.		
Retention		
Retention previous years not provided for - now corrected		

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018	2017
	R	R

Loan liability

Outstanding loan liability was understated in prior year - now corrected

Provisions

The provision for anticipated legal fees in previous year, are corrected in the year under review due to the revision of the claim value.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
31. Unauthorised, irregular, fruitless and wasteful expenditure		
Unauthorised expenditure		
Opening balance	787,683,850	192,819,928
Unauthorised expenditure	209,455,131	594,863,922
	997,138,981	787,683,850
Details of unauthorised expenditure		
Political office	71,760	-
Financial services	-	257,661,832
Corporate services	-	217,077,414
Basic services	209,383,371	68,535,981
Agriculture, economic development planning and human settlement	-	724,088
Public safety and community development	-	50,864,607
	209,455,131	594,863,922
Irregular		
Opening balance	309,592,144	148,503,808
Irregular-current	367,634,122	161,088,336
Irregular - prior year	400,540,880	-
Less: approved/condoned by Council	-	-
	1,077,767,146	309,592,144
<p>An amount of R400 540 880 relating to the previous financial year was discovered as irregular in the current financial year as a result of non-compliance with SCM regulations.</p>		
Fruitless & wasteful expenditure		
Opening balance	79,679,029	19,796,026
Fruitless and wasteful expenditure	128,529,684	58,243,259
Fruitless and wasteful expenditure - prior	-	1,639,744
	208,208,713	79,679,029
32. Additional disclosure in terms of Municipal Finance Management Act		
PAYE and UIF		
Opening balance	14,787,248	12,501,442
Current year subscription / fee	192,257,470	191,375,146
Amount paid - current period	(177,707,965)	(176,587,898)
Amount paid - previous years	(14,787,248)	(12,501,442)
	14,549,505	14,787,248

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
32. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Councillors' arrear consumer accounts		
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:		
30 June 2018		Total R
Ndlovu MP		89,973
Mokoena ER		77,050
Nthebe MM		63,602
Nxongo NPG		55,187
Mzongwane SL		53,301
Mkhwanazi OA		51,054
Msolo NJ		30,579
Khawe J		26,723
Shabalala HH		26,243
Motsei LA		25,375
Maseko BP		22,495
Mooi NJ		16,255
Mollo DS		8,834
Mcasa AT		8,012
Mashabela MS		7,243
Moshoaluba MJ		6,797
Von Bodenstein EK		4,768
Hlophe NC		4,765
Monyembane TT		2,661
Skosana MLM		95
Jantjie MB		62
		581,074
30 June 2017		Total R
Mahommed YJ		133,296
Ndlovu MP		88,748
Nthebe MM		63,602
Nxongo NPG		58,117
Molefe HT		49,263
Motsei LA		39,890
Moshoaluba MM & MJ		38,054
Mzongwane SL & LM		37,928
Shabalala HH		37,817
Msolo NJ		34,994
Mkhwanazi OA		31,407
Maseko BP		20,882
Mashabela MS		18,920
Mooi NJ		16,255
Tihokwe TG		8,750
Monyembane TT		7,907
Von Bodenstein EK		7,314
Matsie-Skosana ML		3,809
Baloyi HH		2,577
Mollo DS		1,128
		700,658

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
33. Electricity and water distribution losses		
Distribution losses relate to unaccounted for electricity and water losses. These losses arise mainly from illegal connections from both electricity and water networks, physical losses due to network operations and economical losses due to faulty meters. The total distribution losses are as follows:		
Electricity		
Kilowats	872 285 812	319 449 836
Amount	785 057 231	262 364 150
Percentage	43.72%	17.99%
Water		
Kilolitres	37 308 401	28 940 511
Amount	308 447 312	220 549 675
Percentage	40%	30.69%

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

34. Contingencies

Contingent assets

A contingent asset is a possible asset that arises from past events, whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events beyond the control of the municipality.

Contingent liability (civil matters)

Claim number	Description	Amount
1	Megazone - claim for damages	154,000,000
2	Buzaphi	98,848,870
3	Vaal show society	80,000,000
4	Old apostolic church	5,500,651
5	SALA Pension Fund	5,000,000
6	Lichery/Mariri Joint Venture	4,377,050
7	Inhlavuka Consultation CC	3,187,345
8	L Mnyandeni - Delictual claim	2,000,000
9	Ndaramawe	2,725,594
10	Nurcha Development Finance	2,419,156
11	Seriti Maluleke Attorneys	1,787,495
12	Primat Joint Venture	1,264,143
13	M Phale Defamation Claim	1,000,000
14	Du Preez	807,433
15	E Malashe	700,000
16	Radius Industrial - Compensation	670,750
17	Tsoneva Asphalt Pty (Ltd)	628,897
18	Ramatshila Mugeru	512,508
19	PJ Scheepers	400,000
20	LS Hanyane	300,000
21	MT Teleko	230,000
22	Continental Outdoor Media (Pty) Ltd	100,000
23	K Rampororo	100,000
24	J Wilczynski - Delictual Claim	70,000
25	Bernard Fred Pieterse	60,000
26	I Macleod	52,866
27	EP Radebe	52,850
28	B Hanyane	46,444
29	MP Skosana - Delictual Claim	40,000
30	EP Smith	36,934
31	FR Kruger	33,016
32	N Williams	32,201
33	C Viljoen	31,414
34	E Coetzee	28,924
35	E Potgieter	26,997
36	MJ Makume	26,991
37	M Moeti	22,157
38	M Mclean	21,727
39	Bokana Construction	18,476
40	R Skamagas	17,294
41	WH Lambrecht	16,796
42	Q Jones	16,128
43	G Bekker	15,605
44	VA Wates	15,160
45	V Du Preez	14,112
46	SJ Botha	11,906
47	I Beukes	10,097
48	HM Bezuidenhout	9,311
		367,287,298

Contingent liabilities (insurance)

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

34. Contingencies (continued)

During the 2017/18 financial year, the Municipality encountered insurance claims amounting to R 1 373 628.11.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

34. Contingencies (continued)

Contingent liability (labour)

There are a number of labour related cases that are still under conciliation, arbitration and review at labour court. Quantum and the outcomes are not yet known.

35. Related parties

Section 56 managers
Councillors

Section 56 managers

Section 56 managers (management) received compensation as set out in note 24.

No remuneration was paid to families of Section 56 managers

Members of council

Members of council received compensation as set out in note 25.

No remuneration was paid to family members of council.

All councillors and employees have disclosed their financial interests.

36. Standards, Amendments to Standards and Interpretations issued but not yet Effective

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
37. Employee benefit obligations		
Post retirement benefit plan		
Post-employment health care benefits		
Opening accrued liability	125,657,000	123,626,000
Current-service cost	965,000	828,000
Interest cost	12,329,000	11,825,000
Contributions (benefit paid)	(9,831,559)	(10,248,119)
Total annual expense	-	-
Actuarial loss/(gain)	3,311,014	(373,881)
	<u>132,430,455</u>	<u>125,657,000</u>

The projected unit credit funding method has been used to determine the past service liabilities at the valuation date and the projected annual expense in the year following the valuation date. The valuation was performed by ARCH Actuarial Consulting.

The projected Unit Credit Method has been used to value the liabilities.

The main reasons for the actuarial gain can be attributed to the following factors:

These unexpected movements (otherwise termed Actuarial Gains and Losses) are separated into four main components: the effect of the change in the basis (assumptions), unexpected increases in the subsidies, unpredicted movements in the membership profile, and the effect of actual benefits vested being different from what was expected.

Key assumptions used

Discount rates used	9.12 %	8.85 %
Health care cost inflation rate	7.10 %	6.68 %
Net of health care cost inflation rate	1.89 %	2.03 %
Maximum subsidy inflation rate	4.95 %	2.84 %
Net of Maximum Subsidy inflation discount rate	3.97 %	5.84 %

Key Demographic assumption

Average retirement age	63	63
Pre retirement mortality	SA 85-90	SA 85-90
Post retirement mortality	PA(90)	PA(90)
Withdrawal rate	table A4.2	table A4.2
Proportion with a spouse dependant at retirement	95%	100% of married; 90% of single
Continuation of membership at retirement	100%	100%

Withdrawal from service (sample annual rates)

Age	Females	Males
20	24%	16%
30	15%	10%
40	6%	6%
50	2%	2%
55	1%	1%

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
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37. Employee benefit obligations (continued)

Discount rate

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

Medical aid inflation

A health care cost inflation rate of 7.10% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.60%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.89% which derives from $((1+9.12\%)/(1+7.10\%))-1$.

Average retirement age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill health and early retirements.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

On the basis of the information supplied and the actuarial assumptions used, the value of the Municipality's liability for future subsidies of medical aid contributions has been calculated as at the valuation date, and is summarised below.

Comparison with the preceding valuation

The section below compares the figures between the valuation dates and summarises the primary reasons for the changes in the liabilities since the last valuation

In-Service membership

Current (inservice) membership as at the valuation dates:

	Female	Male	Total
Number of in-service members	21	60	81
Average Age	53	55.2	54.9
Average past service	27.5	28.9	28.5

Continuation membership (pensioners' membership) as at the valuation dates:

	Female	Male	Total
Number of principal members	149	97	246
Average Age	75.4	74.2	74.9
Average number of spouse dependents	0.1	0.8	0.4
Average number of spouse dependents	0.1	0.8	0.4
Average employer contribution	R 3 296	R3 835	R 3 508

The projections assume that the municipality's health care arrangements and subsidy policy will remain as outlined and that no contributions are made by the municipality towards prefunding its liability via an off-balance sheet vehicle.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
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37. Employee benefit obligations (continued)

Valuation of assets

As at the valuation date, the medical aid liability of the municipality was unfunded, i.e no dedicated assets have been set aside to meet the liability. The municipality therefore did not consider any assets as part of valuation.

Long service awards

The projected unit credit method has been used in the actuarial valuation of the liabilities. The valuation was performed by ARCH Actuarial Consulting.

Reconciling and projecting the unfunded accrued liability:

Unfunded Accrued Liability

Opening accrued liability	84,104,000	85,211,000
Current service costs	6,104,000	6,805,000
Interest costs	7,687,000	7,805,000
Benefit vestings	(5,312,321)	(5,850,000)
Actuarial loss(gain)	(10,248,095)	(9,867,000)
	82,334,584	84,104,000

Net Liability to reflect on the Statement of Financial Position:

	30 June 2018	30 June 2019
Net Liability		
Opening balance	84,104,000	82,334,584
Current Service costs	6,104,000	5,678,886
Interest cost	7,687,000	6,537,860
Actuarial (gain)/loss	(10,248,095)	-
Employer benefits vesting	(5,312,321)	(11,247,556)
	82,334,584	83,303,774

The benefits paid figure above has been estimated based on the data provided by the municipality.

The Current-Service Cost reflects the additional liability that is expected to accrue in respect of in-service members' service over the corresponding year. The Interest Cost represents the accrual of interest on the Accrued Liability, allowing for benefits vesting, over the corresponding year. This arises because all future LSA benefits are one year closer to payment.

Assumptions

The most relevant actuarial assumptions used in this valuation are discussed below:

Key Financial Assumptions

Assumption	30/06/2018 (Current Valuation)
Discount rate	8.51%
General earnings inflation rate (long term)	6.13%
Net effective discount rate	2.24%

Discount rate

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018	2017
	R	R

37. Employee benefit obligations (continued)

“The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

Consequently, a discount rate of 8.51% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.51% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.74%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the JSE after the market close on 29 June 2018.

Normal salary inflation rate

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the longterm, earnings inflation is between 1.0% and 1.5% above CPI inflation. The expected inflation assumption of 5.13% was obtained from the differential between market yields on index-linked bonds (2.74%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.51%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1+8.51\%-0.50\%)/(1+2.74\%)-1)$. Thus, a general earnings inflation rate of 6.13% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.24%.

Average retirement age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill health and early retirements.

Normal retirement age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables.

Key Demographic Assumptions

Assumption	Value
Average Retirement age	63
Mortality during employment	SA 85-90

	Age	Female	Male
Withdrawal from service (sample annual rates)	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	1%	1%
	195	48	35

Withdrawal rates

A table setting out the assumed rates of withdrawal from service is set out below:

Age band

	Withdrawal rate (males)	Withdrawal rate (females)
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Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
37. Employee benefit obligations (continued)		
20	16%	24%
25	12%	18%
30	10%	15%
35	8%	10%
40	6%	6%
45	4%	4%
50	2%	2%
55	1%	1%
60+	0%	0%

Past and future change in the accrued liability

	Year ending 30 June 2018	Year ending 30 June 2019	Year ending 30 June 2020
Opening accrued liability	84,104,000	82,334,584	83,303,774
Current Service costs	6,104,000	5,678,886	6,162,159
Interest Cost	7,687,000	6,537,860	6,608,590
Benefits Vested	(5,312,321)	(11,247,556)	(11,529,421)
Actuarial Loss/ (gain)	(10,248,095)	-	-
	82,334,584	83,303,774	84,545,102

The average liability has increased by 1% since the last valuation due to an increase in the average earnings and an increase in the average past service, mostly offset by an increase in the net discount rate. The total liability has decreased by 2% (or R 1,769,416) due to the above being more than offset by the fact that there are 79 fewer eligible employees than at the last valuation.

	-1% Normal salary inflation	Valuation assumption	+1 Normal salary inflation
Total accrued liability	78,574,000	84,104,000	90,239,000
Current service cost	5,611,000	6,104,000	6,661,000
Interest cost	7,160,000	7,687,000	8,272,000

Changes in the value obligation:

	Current valuation date 30-06-2017	1 year following the valuation date	2 years following the valuation date	3 years following the valuation date
PV of the obligation as at the previous valuation date	85,211,000	84,104,000	92,248,000	101,021,868
Current service cost	6,805,000	6,104,000	6,416,810	6,770,532
Interest cost	7,805,000	7,687,000	8,434,058	9,229,775
Benefits paid	(5,850,000)	(5,647,000)	(6,077,000)	(6,540,000)
Actuarial loss/ (gain)	(9,867,000)	-	-	-
	84,104,000	92,248,000	101,021,868	110,482,175

Amounts recognised in statement of financial position and statement of financial performance

	Current valuation date 30-06-2017	1 year following the valuation date	2 years following the valuation date	3 years following the valuation date
Liability recognised in statement of financial position	84,104,000	92,248,000	101,021,868	110,482,176
Current service cost in statement of financial performance	6,805,000	6,104,000	6,416,810	6,770,532
Interest cost in statement of financial performance	7,805,000	7,687,000	8,434,058	9,229,775
Actuarial loss/(gain) in OCI	(9,867,000)	-	-	-
	88,847,000	106,039,000	115,872,736	126,482,483

Emfuleni Local Municipality

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Notes to the annual financial statements

	2018 R	2017 R
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37. Employee benefit obligations (continued)

Analysis of the Unexpected Movement in the Liability:

These unexpected movements (otherwise termed Actuarial Gains and Losses) are separated into four main components: the effect of the change in the basis (assumptions), changes to earnings, and to the employee profile and actual benefits vested being different from what was expected as at the previous valuation.

Long service awards for levels of past service

Completed years of service

	Total long service benefit award(% of annual salary)	Description
10	4%	(10/250)*annual salary
15	8%	(20/250)*annual salary
20 and every five years thereafter	12%	(30/250)*annual salary

Monetary gifts for levels of past service

	Rand amount	
20	8,667	
25	8,667	
30	12,159	
35	15,115	
40 and every five years thereafter	21,025	-

The amounts stated in the previous report have been inflated by 7.0% in order to obtain the current levels.

Retirement gifts per level of service of retirement

	Rand amount
15	3,33
20	4,207
25	6,080
30	12,159
35 and every five years thereafter	21,025

Valuation of assets

At the valuation date the long service leave award liability of the municipality was unfunded, i.e no dedicated assets have been set aside to meet this liability. The municipality therefore did not value any assets as part of this valuation.

The projections assume that the LSA arrangements will remain as outlined and that all the actuarial assumptions made are borne out of practice. In addition, it is assumed that no contributions are made by the employer towards prefunding its liability via an off-balance sheet vehicle. There are no past service costs, curtailments or settlements to reflect.

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	2018	2017
	R	R
38. 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 above services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.		
Description		
Deviations	<u>52,691,201</u>	<u>69,627,430</u>

Emfuleni Local Municipality

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2018	2017
R	R

39. Budget differences

Material differences between budget and actual amounts

(a) Finance income

The revenue includes interest on debtors which were high due to the high debtors book.

(b) Trade and other licenses

There were more trade licences purchased than the previous financial year. This is driven by demand.

(c) Actuarial gain

Actuarial gains and losses cannot be determined at the time of budgeting thus the variance.

(d) Depreciation and amortisation

This is due to the increase in assets leading to higher depreciation charges.

(e) Imputed interest

The interest calculated on creditors was less than the previous financial year.

(f) Loss on disposal of assets

This is uncontrollable. Council made a loss on the sale of assets for the year.

(g) General expenses

Indigent support expenditure was exceeded. Assumed indigent support is assumed to be 30kl which increased the subsidy costs and exceeded budget.

(h) Fair value adjustment

This is uncontrollable. The value of assets were assessed at higher value..

Emfuleni Local Municipality

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2018	2017
R	R

39. Budget differences (continued)

(i) Cash and cash equivalents

This includes call deposits on grants which were not fully spent at year end. It was anticipated that all will be spent at the time of budgeting.

(j) Other receivables from non-exchange transactions

Receivables are less than budgeted due to the provision for bad / doubtful debts. Please refer to the relevant note for the movement thereof and the movement in the provision for bad debts.

(k) Value added tax receivable

The value added tax receivable / payable is not known at the time of budgeting.

(l) Sanlam shares

Provision was not made for the Sanlam investment in the budgeted Statement of Financial Position.

(m) Trade and other payables from exchange transactions

More expenditure was incurred which was accrued at year-end due to cash flow constraints. The liability was anticipated to be less at the time of budgeting.

(n) Unspent conditional grants and receipts

It was planned that all conditional grants would be spent by the end of the financial year which did not realise.

(o) Borrowings

It was anticipated that the short-term borrowings would decrease from the 2014/2015 financial year after payments are made in the 2015/2016 financial year.

(p) Provisions

Short-term provisions increased. The budget amount is based on the performance as at mid-term.

(q) Bank overdraft

It was anticipated that the bank overdraft would be settled at year-end as required by law.

(r) Consumer deposits

Less consumer deposits were provided for in the budgeted statement of position.

(s) Employee benefit obligations

The budgeted provisions amount includes employee benefit obligations below which when factored in results in a variance of -4% which is not material

(t) Donations

This is due to developer-created assets which were donated to the municipality.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
40. Risk management		
Capital risk management		
The capital structure of the municipality consists of debt, which includes the borrowings, cash and cash equivalents, and equity.		
There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.		
Financial risk management		
The municipality's activities expose it to a variety of financial risks, credit risk and liquidity risk.		
Risk management is carried out under policies approved by the accounting officer. 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 and investment of excess liquidity.		
Credit risk		
The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.		
Consumer debtors comprise of a large of rate payers, dispersed across different industries and geographical areas. Consumer debtors are presented net of provision impairment. In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by levying of penalty charges, demand for payment and as a last resort handed over for collection, whichever procedure is applicable in terms of Council's credit control and debt collection policy.		
Trade and other receivables from non exchange transactions	274,526,418	235,412,664
Trade and trade receivables from exchange transactions	313,475,252	310,425,026
Short term investment deposits	33,503,306	63,433,178
Cash and cash equivalents	33,949,555	66,839,955
	655,454,531	676,110,823

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the municipality maintains flexibility in funding by maintaining availability under committed credit lines.

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

Management plans to maintain adequate cash flows by alternative means such:

- disposal of assets
- Investigating other revenue enhancement possibilities and
- improving debt collection

to ensure that funds will be available to finance future operations and that realisation of assets and settlements of liabilities, contingents and commitments will occur in the ordinary course of business.

41. Going concern

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

We draw attention to the fact that at 30 June 2018, the municipality had a deficit of R 662 108 727, however the municipality's total assets still exceed the total liabilities by R 9,029,015,534

Background and mitigating factors.

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the annual financial statements

	2018 R	2017 R
41. Going concern (continued)		
<p>The Emfuleni Local Municipality has undeniable challenges in relation to the identified key areas of support, namely financial, institutional, infrastructure and service delivery.</p> <p>In assessing whether the the going concern basis is appropriate, management considered a wide range of factors surrounding current and expected performance, expected short and medium term economic environment in which the municipality operates, potential estimates of revenue, the power to levy rates and taxes.</p> <p>Huge challenges with respect to cash flow status, largely due to the poor revenue collections, attributable to the high unemployment (61%) and poverty levels in the region were experienced during the past financial years. More worrying is that 63% of Emfuleni's population earns less than R3, 300 per month The municipality's average monthly revenue from billing amounts to R 417 million with the bulk of the revenue being utilized to settle average monthly current account bills of R 69 million for Randwater and R 162 million for Eskom. The average collection rate of the municipality is standing at 64%.</p> <p>For all intents and purposes the Emfuleni Local Municipality has structural economic challenges and resultant financial distress but it is not a dysfunctional municipality and to management's opinion the following mitigating factors have be implemented and are present to reduce the risk of the going concern assumption not being valid:</p> <p>The municipality has adopted the four(4) pillars turnaround strategy in addressing going concern issues experienced by the municipality. These pillars are: a) Improve collection, b) Reduce distribution losses, c) Saving on expenditure and d) Credible indigent register.</p> <p>Provincial Treasury has established the Emfuleni Support Team(EST) in collaboration with Sedibeng District Municipality(SDM) and Emfuleni Local Municipality to address amongst others cash flow and service delivery challenges.</p> <ul style="list-style-type: none">• the municipality managed to comply with all capital, statutory and regulatory requirements;• no whole or substantial part of the operations been discontinued;• no significant problems been experienced with bad debts resulting and considering the collectability of debtors in the region, the municipality can reasonably expect to survive in the future as a going concern due to the following key deliverables: <p>Enhanced revenue capabilities of the municipality</p> <ul style="list-style-type: none">• Revision of the Revenue Protection and Enhancement Strategy;• Enhanced revenue value chain• Enhanced comprehensive Credit Control and Debt Management Policy• the municipality's fixed costs (e.g. salaries, rent and leave payments) can be reasonably covered by the income received• the income received does not exceed the operating cost of the services;• the municipality is able to comply with loan agreements and finance lease agreements• The municipality has entered into payment agreements with both Randwater and Eskom, and various undertakings made with respect to reducing the bulk supply needs of the municipality from the current levels to more reasonable and affordable levels that the municipality can manage		
42. Commitments		
Council had the following Commitments as at 30 June 2018		
Capital Expenditure		
• Approved and contracted for Property, Plant & Equipment	396,228,437	569,109,437
Operational Expenditure		
• Approved & Contracted		92,070,000

Emfuleni Local Municipality

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Notes to the annual financial statements

43. Public private partnerships

Biological assets that form part of an agricultural activity - -

Background

On the 2nd of December 2013, the municipality entered into an agreement with Beijing Fuxing Xiaocheng Electronic Tecnology Stoc Co. Ltd. (FXXC) for the supply and installation of 66 000 electricity single phase meters, 5 100 three phase meters and 83 123 water meters. The cost per meter and financial benefit to be derived from the installation of these meters are uncertain and is dependent on:

- Increasing user payment collections; and
- Reducing the bulk purchase costs incurred by the municipality for both water and electricity, where this performance must have a positive impact on the benchmarked operating losses incurred by the municipality for both water and electricity operating cycles.

Even though the installed items will take on the inherent attributes of an asset, the control and risk associated with the meters vest with the supplier for the duration of the contract, while the mandated responsibility of water and electricity supply cannot be ceded to the third party.

44. Operating lease

Operating leases - municipality as a lessor - property

Within one year	582,803	109,170
In second to fifth year inclusive	2,539,935	39,268
	3,122,738	148,438

Operating leases - municipality as a lessee - fleet

Within one year	-	15,223,077
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Operating leases - municipality as a lessee - property

Within one year	8,024,851	7,535,072
In second to fifth year inclusive	23,973,814	31,998,665
	31,998,665	39,533,737

Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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44. Operating lease (continued)

Operating leases - municipality as a lessee - office equipment

Within one year	-	42,853
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Operating leases - Municipality as Lessor - Property

These leases are in respect of municipal property that is leased to third parties. These leases are payable by lessees, either monthly or annually. Leases escalate at annual fixed rates that vary between 0% and 8.5%

No contingent rent was recognised as revenue because rentals increases are escalated at a fixed percentage. Increases are not based on indices that result in a fluctuating interest rate.

Operating leases - Municipality as lessee - Property

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.

Operating Leases - Municipality as lessee - Fleet

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.

Operating leases - Municipality as lessee - Office equipment

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.

45. Self - insurance reserve

Opening balance	2,139,552	24,220,470
Expenditure	(2,139,552)	(22,080,918)
	<u>-</u>	<u>2,139,552</u>

Emfuleni Local Municipality

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