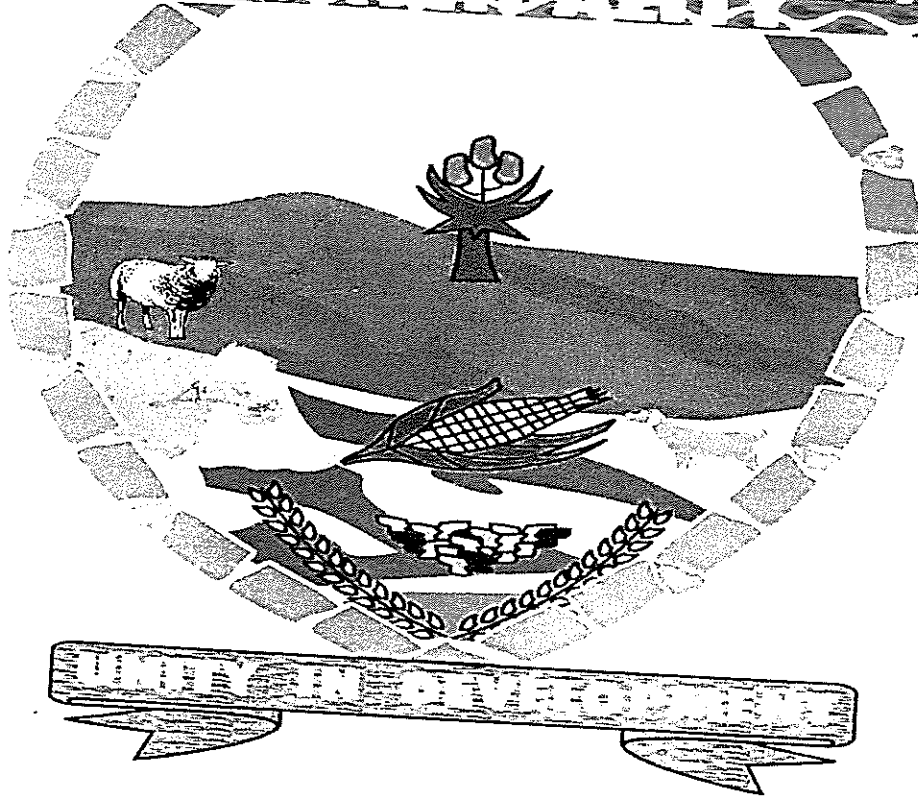


# EMALAHLENI MUNICIPALITY

# EMALAHLENI MUNICIPALITY



[These financial statements have not been audited]

## ANNUAL FINANCIAL STATEMENTS

30 JUNE 2019

AUDITOR GENERAL  
RECEIVED

31 AUG 2019

# EMALAHLENI MUNICIPALITY

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# EMALAHLENI MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### GENERAL INFORMATION

#### NATURE OF BUSINESS

Emalahleni Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

#### COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

#### JURISDICTION

The Emalahleni Municipality includes the following areas:

*Dordrecht*  
*Indwe*  
*Lady Frere*

#### MAYOR

*N Nyukwana (Resigned 2 April 2019)*  
*NF Koni (Appointed 2 April 2019)*

#### SPEAKER

*DS Kalolo*

#### CHIEF WHIP

*N Lali*

#### MEMBERS OF THE EXECUTIVE COMMITTEE

Mayor (Resigned 2 April 2019)

Mayor (Appointed 2 April 2019)

Speaker

Executive Councillor

Executive Councillor

Executive Councillor

Executive Councillor

Executive Councillor

*N Nyukwana*

*NF Koni*

*DS Kalolo*

*N Lali*

*S Liwani*

*T Kulashe (Ndyumbo)*

*M Limba*

*MX Oyiya*

#### MUNICIPAL MANAGER (ACTING)

GP De Jager

#### CHIEF FINANCIAL OFFICER (ACTING)

A Zindlu

#### REGISTERED OFFICE

Emalahleni Municipality  
37 Indwe Road;  
Lady Frere  
5410

# EMALAHLENI MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### GENERAL INFORMATION

#### AUDITORS

Office of the Auditor-General (Eastern Cape)

#### PRINCIPLE BANKERS

Standard Bank; 92 Cathcart RD; Queenstown; 5320

#### ATTORNEYS

NT Vuba Attorneys Inc  
Ntsiki Pakade Attorneys and Consultants  
Tonise Attorneys

#### RELEVANT LEGISLATION

Basic Conditions of Employment Act (Act no 75 of 1997)  
Collective Agreements  
Division of Revenue Act  
Electricity Act (Act no 41 of 1987)  
Employment Equity Act (Act no 55 of 1998)  
Housing Act (Act no 107 of 1997)  
Infrastructure Grants  
Municipal Budget and Reporting Regulations  
Municipal Finance Management Act (Act no 56 of 2003)  
Municipal Planning and Performance Management Regulations  
Municipal Property Rates Act (Act no 6 of 2004)  
Municipal Regulations on Standard Chart of Accounts  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no 32 of 2000)  
Municipal Systems Amendment Act (Act no 7 of 2011)  
SALBC Leave Regulations  
Skills Development Levies Act (Act no 9 of 1999)  
Supply Chain Management Regulations, 2005  
The Income Tax Act  
Unemployment Insurance Act (Act no 30 of 1966)  
Value Added Tax Act  
Water Services Act (Act no 108 of 1997)

# EMALAHLENI MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### GENERAL INFORMATION

#### MEMBERS OF THE EMALAHLENI MUNICIPALITY

##### WARD

Ward 01 Councillor  
Ward 02 Councillor  
Ward 03 Councillor  
Ward 04 Councillor  
Ward 05 Councillor  
Ward 06 Councillor  
Ward 07 Councillor  
Ward 08 Councillor  
Ward 09 Councillor  
Ward 10 Councillor  
Ward 11 Councillor  
Ward 12 Councillor  
Ward 13 Councillor  
Ward 14 Councillor  
Ward 15 Councillor

##### COUNCILLOR

Thozama Mrwebi  
Nolister Kama  
Xolela Hendrick Njadu  
Nomzi Mary Tyhulu  
Siyabulela Bongo  
Nontombizanele Flowerdale Koni  
Sipo Ernest Zama  
Nosibulelo Mavis Nqono  
Linda Arnold Fatyela  
Zoyisile Given Moshane  
Thembi Florence Mondile  
Tandiwe Monica Ndlela  
Nowandisile Nobantu Kraqa  
Mncedisi Sydney Qomoyi  
Lizo Nelson Paul

##### WARD

Ward 16 Councillor  
Ward 17 Councillor  
PR Mayor  
PR Mayor  
PR Speaker  
PR Chairperson of section 79 Committee  
PR Executive Committee  
PR Councillor  
PR Chairperson of section 79 Committee  
PR Executive Committee  
PR Councillor  
PR Councillor  
PR Executive Committee  
PR Executive Committee  
PR Councillor  
PR Councillor  
PR Executive Committee  
PR Councillor  
PR Councillor  
PR Councillor

##### COUNCILLOR

Makosandile Makatesi  
Cecil Hluphekile Bobotyane  
Nomveliso Nyukwana  
NF Koni  
Dumisa Shadrack Kalolo  
Patricia Lumka Mapete  
Thandeka Gloria Kulashe  
Nolitha Catherine Lali  
Primrose Badikazi Twala  
Sibha Liwani  
Thobeka Daphne Sixishe  
Nokwandisa Mildred Ziduli  
Mcebisi Stephen Limba  
Ncedisa Mtyobile  
Pieter Frederick Greyling  
Michael Fumanekile Mthandeki  
Mxolisi Peacemaker Oyiya  
Rossenberg Zolile Feni  
Zenzile Dennis Mahola  
Kwaaiman Mjezu

# EMALAHLENI MUNICIPALITY

## APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2019, which are set out on pages 1 to 105 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

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

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

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2020 and am satisfied that the Municipality can continue in operational existence for the foreseeable future.

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

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements were prepared on the going concern basis.

  
\_\_\_\_\_  
G.P. De Jager  
Acting Municipal Manager


31/08/2019  
\_\_\_\_\_  
Date

**EMALAHLENI MUNICIPALITY**

**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019**

	Notes	2019 R	2018 R
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
		<b>441,575,834</b>	<b>431,618,982</b>
Property, Plant and Equipment	2	436,842,778	426,828,597
Investment Property	3	4,149,487	4,151,887
Intangible Assets	4	401,033	455,962
Heritage Assets	5	182,536	182,536
<b>Current Assets</b>			
		<b>18,967,520</b>	<b>17,880,325</b>
Receivables from Exchange Transactions	6	6,228,636	4,014,264
Receivables from Non-exchange Transactions	7	5,368,961	5,910,505
Operating Lease Asset	8	50,939	68,449
Taxes	9	3,169,966	2,020,692
Cash and Cash Equivalents	10	4,149,017	5,866,415
<b>Total Assets</b>		<b>460,543,354</b>	<b>449,499,307</b>
<b>NET ASSETS AND LIABILITIES</b>			
<b>Non-Current Liabilities</b>			
		<b>17,749,921</b>	<b>11,598,507</b>
Long-term Borrowings	11	371,872	779,237
Non-current Provisions	12	1,836,717	1,826,946
Non-current Employee Benefits	13	10,257,581	8,992,324
Payables from Non-exchange Transactions	18	5,283,751	-
<b>Current Liabilities</b>			
		<b>42,824,290</b>	<b>30,590,913</b>
Provisions	14	10,975,263	10,380,218
Current Employee Benefits	15	10,902,034	9,981,781
Trade and Other Payables from Exchange Transactions	16	13,722,816	9,860,161
Unspent Transfers and Subsidies	17	1,533,060	-
Payables from Non-exchange Transactions	18	5,283,752	-
Current Portion of Long-term Borrowings	11	407,365	368,752
<b>Total Liabilities</b>		<b>60,574,211</b>	<b>42,189,419</b>
<b>Net Assets</b>		<b>399,969,143</b>	<b>407,309,888</b>
Accumulated Surplus/(Deficit)		399,969,143	407,309,888
<b>Total Net Assets and Liabilities</b>		<b>460,543,354</b>	<b>449,499,307</b>


MUNICIPAL MANAGER'S OFFICE  
**APPROVED**  
 2019 -08- 31  
 MUNICIPAL MANAGER  
 EMALAHLENI MUNICIPALITY  
 SIGN: 

CHIEF FINANCIAL OFFICER  
**APPROVED**  
 2019 -08- 31  
 SIGN:   
 EMALAHLENI MUNICIPALITY

**EMALAHLENI MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	2019 R	2018 R (Restated)
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>		<b>175,245,050</b>	<b>163,028,518</b>
<b>Taxation Revenue</b>		<b>4,713,469</b>	<b>5,211,974</b>
Property Rates	19	4,713,469	5,211,974
<b>Transfer Revenue</b>		<b>168,109,940</b>	<b>155,419,736</b>
Government Grants and Subsidies - Operating	20	123,284,528	121,753,786
Government Grants and Subsidies - Capital	20	44,825,412	33,665,950
<b>Other Revenue</b>		<b>2,421,642</b>	<b>2,396,808</b>
Actuarial Gains	13	853,763	846,504
Fines, Penalties and Forfeits		8,612	56,133
Interest Earned - Receivables from Non-exchange Transactions	27	1,559,267	1,494,171
<b>Revenue from Exchange Transactions</b>		<b>34,667,798</b>	<b>20,802,750</b>
Licences and Permits	21	1,744,786	1,640,120
Service Charges	22	23,950,190	13,023,060
Sales of Goods and Rendering of Services	23	304,059	129,239
Rental from Fixed Assets	24	893,643	813,070
Interest Earned - External Investments	25	708,534	1,182,620
Interest Earned - Receivables from Exchange Transactions	26	3,744,968	3,359,794
Agency Services		800,266	74,505
Operational Revenue	28	2,521,353	580,342
<b>Total Revenue</b>		<b>209,912,849</b>	<b>183,831,268</b>
<b>EXPENDITURE</b>			
Employee related cost	29	(81,555,413)	(74,700,209)
Remuneration of Councillors	30	(13,002,783)	(12,466,471)
Bad Debts Written Off		(1,509,338)	(5,260,944)
Contracted Services	31	(19,560,000)	(21,032,977)
Depreciation and Amortisation	32	(24,248,263)	(22,152,333)
Actuarial Losses	13	(90,050)	-
Finance Costs	33	(1,586,264)	(1,838,481)
Bulk Purchases	34	(9,735,750)	(13,258,882)
Inventory Consumed	35	(2,093,489)	(2,762,957)
Operating Leases		(168,944)	(322,305)
Transfers and Subsidies	36	(10,945,603)	(1,727,781)
Operational Costs	37	(27,493,809)	(26,065,767)
<b>Total Expenditure</b>		<b>(191,989,706)</b>	<b>(181,589,107)</b>
<b>Operating Surplus/(Deficit) for the Year</b>		<b>17,923,143</b>	<b>2,242,161</b>
Reversal of Impairment Loss/(Impairment Loss) on Receivables	38	(15,721,397)	(7,792,667)
Derecognition of fixed assets	2.5	(9,549,698)	-
Gains/(Loss) on Sale of Fixed Assets		7,206	(753,529)
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>(7,340,745)</b>	<b>(6,304,034)</b>

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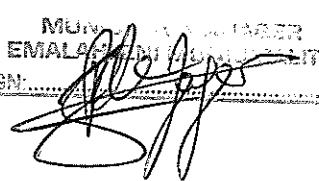
CHIEF FINANCIAL OFFICER  
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 2019 -08- 31  
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 EMALAHLENI MUNICIPALITY



**EMALAHLENI MUNICIPALITY**

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019**

	Accumulated Surplus/ (Deficit) R	Total R
Balance at 1 July 2017	414,858,273	414,858,273
Correction of Error - note 40	(1,244,352)	(1,244,352)
<b>Restated balance</b>	<b>413,613,922</b>	<b>413,613,922</b>
Net Surplus/(Deficit) for the year	(6,304,034)	(6,304,034)
<b>Balance at 30 June 2018</b>	<b>407,309,888</b>	<b>407,309,888</b>
Net Surplus/(Deficit) for the year	(7,340,745)	(7,340,745)
<b>Balance at 30 June 2019</b>	<b>399,969,143</b>	<b>399,969,143</b>


MUNICIPAL MANAGER'S OFFICE  
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 MUNICIPAL MANAGER  
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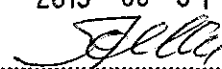
CHIEF FINANCIAL OFFICER  
**APPROVED**  
 2019 -08- 31  
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 EMALAHLENI MUNICIPALITY

**EMALAHLENI MUNICIPALITY**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019**

	Notes	2019 R	2018 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts			
Ratepayers and other		21,354,445	33,570,663
Government - Operating		123,751,289	121,753,786
Government - Capital		45,891,711	34,557,316
Interest		708,534	1,182,620
Cash payments			
Suppliers		(56,683,269)	(75,023,432)
Employees		(79,510,842)	(73,798,076)
Councillors		(13,002,783)	(12,466,471)
Finance Charges		(110,125)	(49,780)
<b>Net Cash from Operating Activities</b>	<b>41</b>	<b>42,398,961</b>	<b>29,726,625</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(43,769,702)	(36,553,618)
Proceeds on Disposal of Fixed Assets		22,095	114,912
Purchase of Intangible Assets		-	(202,050)
<b>Net Cash from Investing Activities</b>		<b>(43,747,607)</b>	<b>(36,640,756)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Repayment of Borrowing		(368,752)	(353,452)
<b>Net Cash from Financing Activities</b>		<b>(368,752)</b>	<b>(353,452)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(1,717,398)</b>	<b>(7,267,583)</b>
Cash and Cash Equivalents at the beginning of the year		5,866,415	13,133,998
Cash and Cash Equivalents at the end of the year: <b>10</b>		4,149,017	5,866,415
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(1,717,398)</b>	<b>(7,267,583)</b>

MUNICIPAL MANAGER'S OFFICE  
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2019 -08- 31  
MUNICIPAL MANAGER  
EMALAHLENI MUNICIPALITY  
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CHIEF FINANCIAL OFFICER  
**APPROVED**  
2019 -08- 31  
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EMALAHLENI MUNICIPALITY  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

Note

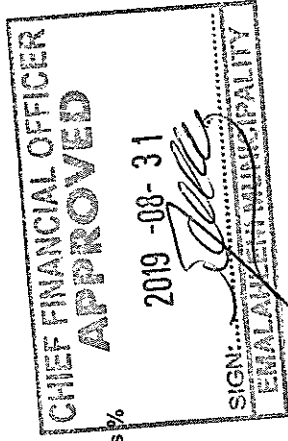
Notes	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final Adjustment Budget		Final Budget	Actual Outcome		Actual Outcome as % of Final Budget
			R	R		R	R	
<b>ASSETS</b>								
<b>Current Assets</b>								
Cash	273,204,227	(270,000,000)	3,204,227	3,204,227	3,204,227	1,416,110	-55.80%	43.2.1
Call Investment Deposits	588	2,000,000	2,000,588	2,000,588	2,000,588	2,732,907	36.61%	43.2.1
Consumer Debtors	35,401,499	(26,843,104)	8,558,395	8,558,395	8,558,395	6,228,636	-27.22%	43.2.1
Other Debtors	40,605,122	(35,000,000)	5,605,122	5,605,122	5,605,122	8,589,866	53.25%	43.2.1
Inventory	5,950,998	(5,950,998)	-	-	-	-	0.00%	
<b>Total Current Assets</b>	<b>355,162,434</b>	<b>(335,794,102)</b>	<b>19,368,332</b>	<b>19,368,332</b>	<b>19,368,332</b>	<b>18,967,520</b>	<b>-2.07%</b>	
<b>Non-Current Assets</b>								
Investment Property	390,798	-	390,798	390,798	390,798	4,149,487	961.80%	43.2.2
Property, Plant and Equipment	83,784,145	(12,961,200)	70,822,945	70,822,945	70,822,945	436,842,778	516.81%	43.2.2
Intangible Assets	100,000	-	100,000	100,000	100,000	401,033	301.03%	43.2.2
Heritage Assets	-	-	-	-	-	182,536	100.00%	43.2.2
<b>Total Non-Current Assets</b>	<b>84,274,943</b>	<b>(12,961,200)</b>	<b>71,313,743</b>	<b>71,313,743</b>	<b>71,313,743</b>	<b>441,575,834</b>	<b>519.20%</b>	
<b>TOTAL ASSETS</b>	<b>439,437,377</b>	<b>(348,755,302)</b>	<b>90,682,075</b>	<b>90,682,075</b>	<b>90,682,075</b>	<b>460,543,354</b>	<b>407.87%</b>	
<b>LIABILITIES</b>								
<b>Current Liabilities</b>								
Trade and Other Payables	281,512,708	(266,000,000)	15,512,708	15,512,708	15,512,708	13,722,816	-11.54%	43.2.3
Payables from Non-exchange Transactions	-	-	-	-	-	5,283,752	100.00%	43.2.3
Provisions	-	-	-	-	-	10,975,263	100.00%	43.2.3
Current Employee Benefits	-	-	-	-	-	10,902,034	100.00%	43.2.3
Unspent Transfers and Subsidies	-	-	-	-	-	1,533,060	100.00%	43.2.3
Current Portion of Long-term Borrowings	-	-	-	-	-	407,365	100.00%	43.2.3
<b>Total Current Liabilities</b>	<b>281,512,708</b>	<b>(266,000,000)</b>	<b>15,512,708</b>	<b>15,512,708</b>	<b>15,512,708</b>	<b>42,824,290</b>	<b>176.06%</b>	
<b>Non-Current Liabilities</b>								
Borrowing	258,640	-	258,640	258,640	258,640	371,872	43.78%	43.2.4
Payables from Non-exchange Transactions	-	-	-	-	-	5,283,751	100.00%	43.2.4
Provisions	-	-	-	-	-	1,836,717	100.00%	43.2.4
Non-current Employee Benefits	-	-	-	-	-	10,257,581	100.00%	43.2.4
<b>Total Non-Current Liabilities</b>	<b>258,640</b>	<b>-</b>	<b>258,640</b>	<b>258,640</b>	<b>258,640</b>	<b>17,749,921</b>	<b>6762.79%</b>	
<b>TOTAL LIABILITIES</b>	<b>281,771,348</b>	<b>(266,000,000)</b>	<b>15,771,348</b>	<b>15,771,348</b>	<b>15,771,348</b>	<b>60,574,211</b>	<b>284.08%</b>	
<b>NET ASSETS</b>								
Accumulated Surplus/(Deficit)	157,666,029	(82,755,302)	74,910,727	74,910,727	74,910,727	399,969,143	433.93%	43.2.5
<b>TOTAL NET ASSETS</b>	<b>157,666,029</b>	<b>(82,755,302)</b>	<b>74,910,727</b>	<b>74,910,727</b>	<b>74,910,727</b>	<b>399,969,143</b>	<b>433.93%</b>	

CHIEF FINANCIAL OFFICER  
APPROVED  
2019 -08- 31  
SIGN: [Signature]  
EMALAHLENI MUNICIPALITY

MUNICIPAL MANAGER'S OFFICE  
APPROVED  
2019 -08- 31  
MUNICIPAL MANAGER  
EMALAHLENI MUNICIPALITY  
SIGN: [Signature]

**EMALAHLENI MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**

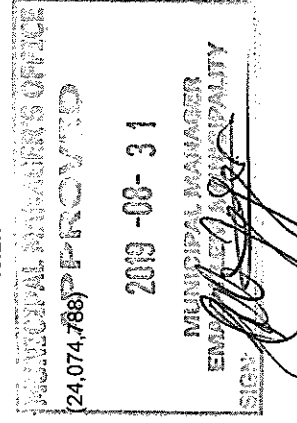
Note



REVENUE	Notes	Original Budget		Budget Adjustments (i.t.o. s28 and s31 of the MFMA)		Final Adjustment Budget		Final Budget		Actual Outcome		Actual Outcome as % of Final Budget	
		R	R	R	R	R	R	R	R	2019	%		
Property Rates		4,615,318	(65,618)	4,549,700	4,549,700	4,549,700	4,549,700	4,713,469	4,713,469	(163,769)	3.60%		
Service Charges - Electricity Revenue		10,570,235	5,375,996	15,946,231	15,946,231	15,946,231	15,946,231	15,796,475	15,796,475	149,756	-0.94%		
Service Charges - Refuse Revenue		4,628,590	1,395,497	6,024,087	6,024,087	6,024,087	6,024,087	8,153,715	8,153,715	43.2.6	35.35%		
Rental of Facilities and Equipment		885,014	(272,624)	612,390	612,390	612,390	612,390	893,643	893,643	43.2.6	45.93%		
Interest Earned - External Investments		2,045,454	(1,000,000)	1,045,454	1,045,454	1,045,454	1,045,454	708,534	708,534	43.2.6	-32.23%		
Interest Earned - Outstanding Debtors		5,205,736	389,388	5,595,124	5,595,124	5,595,124	5,595,124	5,304,235	5,304,235	43.2.6	-5.20%		
Fines		109,555	(60,155)	49,400	49,400	49,400	49,400	8,612	8,612	43.2.6	-82.57%		
Licences and Permits		1,309,265	132,846	1,442,111	1,442,111	1,442,111	1,442,111	1,744,786	1,744,786	43.2.6	20.99%		
Agency Services		1,312,897	-	1,312,897	1,312,897	1,312,897	1,312,897	800,266	800,266	43.2.6	-39.05%		
Transfers Recognised - Operational		126,351,410	534,690	126,886,100	126,886,100	126,886,100	126,886,100	123,284,528	123,284,528	43.2.6	-2.84%		
Other Revenue		833,926	3,088,333	3,922,259	3,922,259	3,922,259	3,922,259	3,679,175	3,679,175	43.2.6	-6.20%		
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>45.2.6</b>	<b>157,867,400</b>	<b>9,518,353</b>	<b>167,385,753</b>	<b>167,385,753</b>	<b>167,385,753</b>	<b>167,385,753</b>	<b>165,087,437</b>	<b>165,087,437</b>	<b>(2,298,316)</b>	<b>-1.37%</b>		

**EXPENDITURE**

Employee Related Costs		93,341,595	(5,218,384)	88,123,211	88,123,211	88,123,211	88,123,211	81,555,413	81,555,413	43.2.7	-7.45%
Remuneration of Councillors		26,092,963	(12,958,294)	13,134,669	13,134,669	13,134,669	13,134,669	13,002,783	13,002,783	43.2.7	-1.00%
Debt Impairment		6,000,000	-	6,000,000	6,000,000	6,000,000	6,000,000	15,721,397	15,721,397	43.2.7	162.02%
Depreciation and Asset Impairment		23,721,031	-	23,721,031	23,721,031	23,721,031	23,721,031	24,248,263	24,248,263	43.2.7	2.22%
Actuarial losses		-	-	-	-	-	-	90,050	90,050	43.2.7	100.00%
Finance Charges		257,212	7,438	264,650	264,650	264,650	264,650	1,586,264	1,586,264	43.2.7	499.38%
Bulk Purchases		15,070,000	(2,000,000)	13,070,000	13,070,000	13,070,000	13,070,000	9,735,750	9,735,750	43.2.7	-25.51%
Other Materials		2,985,716	689,869	3,675,585	3,675,585	3,675,585	3,675,585	2,093,489	2,093,489	43.2.7	-43.04%
Contracted Services		13,506,709	6,674,950	20,181,659	20,181,659	20,181,659	20,181,659	19,560,000	19,560,000	43.2.7	-3.08%
Transfers and Grants		390,012	(245,000)	145,012	145,012	145,012	145,012	10,945,603	10,945,603	43.2.7	7448.07%
Other Expenditure		22,624,462	4,636,843	27,161,305	27,161,305	27,161,305	27,161,305	29,172,092	29,172,092	43.2.7	7.40%
Loss on Disposal of PPE		-	-	-	-	-	-	(7,206)	(7,206)	43.2.7	100.00%
Derecognition of fixed assets		-	-	-	-	-	-	9,549,698	9,549,698	43.2.7	100.00%
<b>Total Expenditure</b>	<b>45.2.7</b>	<b>203,889,700</b>	<b>(8,412,578)</b>	<b>195,477,122</b>	<b>195,477,122</b>	<b>195,477,122</b>	<b>195,477,122</b>	<b>217,253,594</b>	<b>217,253,594</b>	<b>(24,074,788)</b>	<b>11.14%</b>
<b>Surplus/(Deficit)</b>		<b>(46,022,300)</b>	<b>17,930,931</b>	<b>(28,091,369)</b>	<b>(28,091,369)</b>	<b>(28,091,369)</b>	<b>(28,091,369)</b>	<b>(52,166,157)</b>	<b>(52,166,157)</b>	<b>43.2.7</b>	<b>85.70%</b>
Transfers Recognised - Capital		42,256,900	-	42,256,900	42,256,900	42,256,900	42,256,900	44,825,412	44,825,412	43.2.7	6.08%
<b>Surplus/(Deficit) for the year</b>		<b>(3,765,400)</b>	<b>17,930,931</b>	<b>14,165,531</b>	<b>14,165,531</b>	<b>14,165,531</b>	<b>14,165,531</b>	<b>(7,340,745)</b>	<b>(7,340,745)</b>	<b>43.2.7</b>	<b>-151.82%</b>





*EMALAHLENI MUNICIPALITY*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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**1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

**1.1. BASIS OF PREPARATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

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 accounting policies are explained in the relevant notes to the financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

**1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

**1.3. GOING CONCERN ASSUMPTION**

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

## *EMALAHLENI MUNICIPALITY*

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

#### **1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.5. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the annual financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

#### **1.6. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the annual financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

#### **1.7. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2019 to 30 June 2019. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included in the Statements of Comparison of Budget and Actual Amounts. Material differences are being defined by Management as 10% of a specific line-item with a minimum of R1 million.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

**EMALAHLENI MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

**1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

GRAP 18 Segment Reporting is effective from 1 April 2015. The implementation of GRAP 18 is delayed, in terms of Directive 5, for municipalities for the 2017/18 financial year. The implementation date of GRAP 18 is 1 April 2020

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
<b>GRAP 20 (Original – June 2011)</b>	<p><b>Related Party Disclosure</b></p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	<b>1 April 2019</b>
<b>GRAP 32 (Original – Aug 2013)</b>	<p><b>Service Concession Arrangements: Grantor</b></p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No such transactions or events are expected in the foreseeable future.</p>	<b>1 April 2019</b>
<b>GRAP 34 (Revised – April 2019)</b>	<p><b>Separate Financial Statements</b></p> <p>The objective of this Standards is to prescribe the accounting and disclosure requirements in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future</p>	<b>Unknown</b>



**EMALAHLENI MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

<p><b>GRAP 35</b> <b>(Revised – April 2019)</b></p>	<p><b>Consolidated Financial Statements</b> The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p align="center"><b>Unknown</b></p>
<p><b>GRAP 36</b> <b>(Revised – April 2019)</b></p>	<p><b>Investments in Associates and Joint Ventures</b> The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p align="center"><b>Unknown</b></p>
<p><b>GRAP 37</b> <b>(Revised – April 2019)</b></p>	<p><b>Joint Arrangements</b> The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements)</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p align="center"><b>Unknown</b></p>
<p><b>GRAP 38</b> <b>(Revised - April 2019)</b></p>	<p><b>Disclosure of Interest in Other Entities</b> The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:</p> <p>a) the nature of, and risks associated with, its interest in controlled entities unconsolidated controlled entities, joint arrangements and associates, and structure entities that are not consolidated; and</p> <p>b) the effects of those interests on its financial position, financial performance and cash flows.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p align="center"><b>Unknown</b></p>

**EMALAHLENI MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

<p><b>IGRAP 17</b></p>	<p><b>Service Concessions Arrangements Where a Grantor Controls a Significant Residual Interest in a Asset</b></p> <p>This interpretation of the Standards provides guidance to the grantor where it has entered into a service concession arrangement, but only controls a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease</p> <p>No such transactions or events are expected in the foreseeable future.</p>	<p align="center"><b>Unknown</b></p>
<p><b>GRAP 104 (Revised – April 2019)</b></p>	<p><b>Financial Instruments</b></p> <p>The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	<p align="center"><b>Unknown</b></p>
<p><b>GRAP 108 (Original – Sept 2013)</b></p>	<p><b>Statutory Receivables</b></p> <p>The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>The Municipality has resolved to adopt the principles as set out in GRAP 108 to formulate its own accounting policy</p>	<p align="center"><b>1 April 2019</b></p>
<p><b>GRAP 109</b></p>	<p><b>Accounting by Principles and Agents</b></p> <p>The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	<p align="center"><b>1 April 2019</b></p>
<p><b>GRAP 110</b></p>	<p><b>Living and non-living resources</b></p> <p>The objective of this Standard is prescribe the recognition, measurement, presentation and disclosure requirements for living resources; and disclosure requirements for non-living resources.</p>	<p align="center"><b>1 April 2020</b></p>

**EMALAHLENI MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

	No significant impact expected as no such transactions or events are expected in the foreseeable future.	
<b>IGRAP 18</b>	<p><b>Recognition and Derecognition of Land</b></p> <p>The Interpretation provide guidance on when an entity should recognise and derecognise land as an asset in its financial statements.</p> <p>The municipality needs to assess whether there are any changes to binding agreements that may impact its assessment of control.</p>	<b>1 April 2019</b>
<b>IGRAP 19</b>	<p><b>Liabilities to Pay Levies</b></p> <p>The Interpretation provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Interpretation.</p>	<b>1 April 2019</b>

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

#### 1.9. LEASES

##### 1.9.1 *Municipality as Lessee*

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

##### 1.9.2 *Municipality as Lessor*

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

## *EMALAHLENI MUNICIPALITY*

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

#### **1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

#### **1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of grant receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

#### **1.12. PROVISIONS**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

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

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

#### 1.13. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

##### 1.13.1 *Post-Retirement Medical Obligations*

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. For retired members, Council pays 70% as contribution and the remaining 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are

*EMALAHLENI MUNICIPALITY*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**1.13.2 Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically, unless circumstances change significantly in which case it is done annually, by independent qualified actuaries.

**1.13.3 Staff Leave accrued**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Unused leave is being capped at 48 days.

Accumulated leave is vesting.

**1.13.4 Staff Bonuses Accrued**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

**1.13.5 Provision for Performance Bonuses**

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrues to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

**1.13.6 Pension and retirement fund obligations**

The Municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable.

The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

#### **1.13.7 Other Short-term Employee Benefits**

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

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

#### **1.14. BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are not capitalised to the cost of that asset.

Under the benchmark treatment, borrowing costs are recognised as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

#### **1.15. PROPERTY, PLANT AND EQUIPMENT**

##### **1.15.1 Initial Recognition**

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 year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the



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manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

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

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 assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**1.15.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

**1.15.3 Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

<b>Asset Class</b>	<b>Asset Sub-grouping</b>	<b>Useful Life (Yrs)</b>
Land	None	Indefinite
Buildings	None	5 - 100
Infrastructure	Landfill Site	10 – 100
	Electricity	1 – 75
	Water	12 – 182

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

<b>Asset Class</b>	<b>Asset Sub-grouping</b>	<b>Useful Life (Yrs)</b>
	Roads	1-120
	Security Measures	1 – 50
Community Assets	Cemetries & Fencing	1 – 100
	Halls	5 -100
	Library	5- 100
	Buildings Other	5-100
	Parks and Gardens	1 - 50
	Sportfields and Stadia	1- 100
Leased Asset	None	3
Heritage	None	Indefinite
Other Assets	Computer Hardware	1 – 25
	Plant and Equipment	1 – 25
	Furniture and Other Office Equipment	1 – 40
	Markets	1 - 35
	Vehicles and Specialised Vehicles	1 – 55

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

**1.15.4 De-recognition**

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

**1.15.5 Land and buildings and Other Assets – application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2010.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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**1.16. INTANGIBLE ASSETS**

**1.16.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

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

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the Municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset 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 is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

**1.16.2 Subsequent Measurement – Cost Model**

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

**1.16.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight-line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<b>Intangible Assets</b>	<b>Years</b>
Computer Software	2 - 10
Computer Software Licenses	2 - 10

**1.16.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.16.5 Application of deemed cost (Directive 7)**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2010.

**1.17. INVESTMENT PROPERTY**

**1.17.1 Initial Recognition**

Investment property is recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and
- the cost or fair value of the investment property can be measured reliably.

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

**1.17.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

**1.17.3 Depreciation and Impairment – Cost Model**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	20 - 100

**1.17.4 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.17.5 Application of deemed cost - Directive 7**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

**1.18. HERITAGE ASSETS**

**1.18.1 Initial Recognition**

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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

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.

**1.18.2 Subsequent Measurement – Cost Model**

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

**1.18.3 Depreciation and Impairment**

Heritage assets are not depreciated

Heritage assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

**1.18.4 De-recognition**

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

**1.18.5 Application of deemed cost - Directive 7**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

**1.19. IMPAIRMENT OF NON-FINANCIAL ASSETS**

**1.19.1 Cash-generating assets**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation 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 shall only occur

when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

#### **1.19.2 Non-cash-generating assets**

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

##### (a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

##### (b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.



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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an 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.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an 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 an 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. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

**1.20. INVENTORIES**

**1.20.1 Initial Recognition**

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

**1.20.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

The basis of allocating cost to inventory items is the weighted average method.

**1.21. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

**1.21.1 Initial Recognition**

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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the municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

**1.21.2 Subsequent Measurement**

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

**1.21.2.1 Receivables**

Receivables are classified as financial assets at amortised cost and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics

and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

#### 1.21.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

#### 1.21.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

#### 1.21.2.4 Non-Current Investments

Investments which include investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

#### 1.21.3 **De-recognition of Financial Instruments**

##### 1.21.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### 1.21.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### 1.21.4 **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### 1.22 **STATUTORY RECEIVABLES**

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

#### 1.22.1 Initial Recognition

Statutory receivables are recognised when the related revenue is recognised.

#### 1.22.2 Measurement

The Municipality initially measures the statutory receivables at their transaction amount. The Municipality measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to reflect any:

- (a) interest or other charges that may have accrued on the receivable;
- (b) impairment losses; and
- (c) amounts derecognised.

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired. If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

#### 1.22.3 Derecognition

The Municipality derecognises a statutory receivable when:

- (a) the rights to the cash flows from the receivable are settled, expire or are waived;
- (b) the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- (c) the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality:
  - (i) derecognise the receivable; and
  - (ii) recognise separately any rights and obligations created or retained in the transfer.

#### 1.23. REVENUE

##### 1.23.1 *Revenue from Non-Exchange Transactions*

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

## *EMALAHLENI MUNICIPALITY*

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 12 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. Historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after 12 months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after 12 months, in which case it will be expensed.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

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

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

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

#### 1.23.2 Revenue from Exchange Transactions

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

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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity is based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

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

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



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue from the sale of goods is recognised when:

- Substantially all the risks and rewards in those goods are passed to the consumer; and
- The municipality seizes managerial involvement and control of the goods; and
- The amount of the revenue can be measured reliably; and
- It is probable that economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred can be measured reliably.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

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

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable.

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

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

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

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

*EMALAHLENI MUNICIPALITY*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

**1.24. RELATED PARTIES**

The Municipality resolved to formulate an accounting policy based on the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

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.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person’s family is related to the Municipality if that person:
- has control or joint control over the Municipality.
  - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
  - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
- the entity is a member of the same Municipality (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an Municipality of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or  
(b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an Municipality who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

#### **1.25. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.26. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure

*EMALAHLENI MUNICIPALITY*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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(measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.27. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability. A Contingent asset usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity.

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

Management judgement is required when recognising and measuring contingent liabilities and assets.

**1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

**1.29.1 *Post-retirement medical obligations and Long service awards***

The cost of post-retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 3 of the annual financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

**1.29.2 *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 already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

#### **1.29.3 Property, Plant and Equipment**

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering 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. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### **1.29.4 Intangible Assets**

The useful lives of intangible assets are based on management's estimation. 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.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

## *EMALAHLENI MUNICIPALITY*

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

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For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the asset.

#### **1.29.5 Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### **1.29.6 Investment Property**

The useful lives of investment property are based on management's estimation. 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. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### **1.29.7 Revenue Recognition**

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.29.8 Provision for Landfill Sites**

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the

## EMALAHLENI MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

#### **1.29.9 Staff leave accrued**

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated. Unused leave is being capped at 48 days.

#### **1.29.10 Provision for Performance bonuses**

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

#### **1.29.11 Pre-paid electricity estimation**

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year-end that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using 5 days' worth of unused electricity.

#### **1.29.12 Componentisation of Infrastructure assets**

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

#### **1.29.13 Impairments of assets – Capitalised Restoration Cost**

Impairment charges relating to capitalised restoration costs are linked to fluctuations in the discount rate used to unwind the provision relating to this asset. This discount rate is linked to the prime interest rate and any movement in this rate will result in the impairment/reversal of impairment of the asset.

*EMALAHLENI MUNICIPALITY*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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**1.30. TAXES – VALUE ADDED TAX**

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

**1.31. CAPITAL COMMITMENTS**

Capital commitments disclosed in the annual financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

**1.32. EVENTS AFTER REPORTING DATE**

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

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

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

**1.33. DISCONTINUED OPERATIONS**

Discontinued operation is a component of the Municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

To qualify as a discontinued operation, the disposal must occur within a single co-ordinated plan. Once the disposal plan has been approved, the Municipality reclassifies all related assets and liabilities associated with the discontinued operations as a separate line-item in the Statement of Financial Position. The Municipality subsequently measures and account for assets and liabilities associated with discontinued operations in accordance with the respective Standards of GRAP applicable to that asset or liability.

All revenue and expenditure associated with the discontinued operations is disclosed as a one line-item in the Statement of Financial Performance. Detail of the revenue and expenditure associated with the discontinued operations is disclosed in the notes.



NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

2.1 PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2019

	30 JUNE 2019										
	Opening Balance	Correction of Error	Additions	Cost Under Construction	Transfers	Disposals/ Impairment	Closing Balance	Opening Balance	Correction of Error	Accumulated Depreciation and Impairment Losses	Carrying Value
<b>Land and buildings</b>											
Land	33,695,666	-	-	-	-	-	33,695,666	-	-	-	33,695,666
Buildings	30,977,735	-	-	-	-	-	30,977,735	-	548,571	-	26,389,195
Work in progress	5,213,579	-	-	2,709,714	-	-	7,923,293	-	-	-	7,923,293
	69,886,980	-	-	2,709,714	-	-	72,596,694	4,039,979	548,571	-	68,008,144
<b>Infrastructure</b>											
Infrastructure - Electricity	25,506,318	-	167,350	-	-	-	25,673,668	12,352,749	689,442	-	12,631,477
Infrastructure - Road transport	370,462,751	-	5,974,844	-	-	-	376,437,594	211,366,831	17,206,649	-	147,864,115
Infrastructure - Drains	11,746,553	-	-	-	-	-	11,746,553	4,201,373	147,469	-	7,397,711
Infrastructure - Other	38,819,680	-	-	18,375,909	(5,974,844)	(9,548,698)	41,671,048	-	-	-	-
Work in progress	446,535,301	-	6,142,194	18,375,909	(5,974,844)	(9,549,698)	455,528,863	227,920,952	18,043,561	-	41,671,048
	1,202,204	-	7,275,277	22,204,554	(7,275,277)	-	160,504,622	23,184,200	2,416,028	-	16,131,481
<b>Community Assets</b>											
Community Facilities											
Cemeteries	10,489,877	-	-	-	-	-	10,489,877	1,269,216	482,359	-	8,738,303
Community Halls	40,566,817	-	7,275,277	-	-	-	47,862,094	4,169,583	502,418	-	43,190,093
Libraries	499,000	-	-	-	-	-	499,000	49,981	5,054	-	443,965
Parks & gardens	6,727,796	-	-	-	-	-	6,727,796	342,445	244,771	-	6,140,580
Buildings - Community	1,955,259	-	-	-	-	-	1,955,259	20,807	19,951	-	1,914,501
Other Recreational facilities	39,842,000	-	-	-	-	-	39,842,000	9,842,000	-	-	30,000,000
Sports Fields & stadia	36,997,115	-	-	-	-	-	36,997,115	7,490,169	1,161,475	-	28,345,472
Work in progress	1,202,204	-	7,275,277	22,204,554	(7,275,277)	-	16,131,481	23,184,200	2,416,028	-	16,131,481
	138,300,068	-	7,275,277	22,204,554	(7,275,277)	-	160,504,622	23,184,200	2,416,028	-	134,904,394

30 JUNE 2019 (Continued)

	30 JUNE 2019										
	Opening Balance	Correction of Error	Additions	Cost Under Construction	Transfers	Disposals/ Impairment	Closing Balance	Opening Balance	Correction of Error	Accumulated Depreciation and Impairment Losses	Carrying Value
<b>Other Assets</b>											
Computers - hardware/equipment	2,747,825	-	85,544	-	-	(26,056)	2,807,312	1,200,133	466,408	-	1,151,939
Furniture and other office equipment	7,598,137	-	43,540	-	-	-	7,641,677	2,622,762	752,362	(11,167)	4,266,554
General vehicles	21,101,484	-	-	-	-	-	21,101,484	4,729,515	1,282,265	-	15,089,703
Markets	2,556,414	-	-	-	-	-	2,556,414	309,707	67,274	-	2,179,432
Plant & equipment	1,158,313	-	20,700	-	-	-	1,179,013	459,256	188,881	-	530,876
Other	358,190	-	162,390	-	-	-	520,580	87,487	23,599	-	409,494
	35,520,363	-	312,174	-	-	(26,056)	35,806,480	9,408,861	2,780,789	(11,167)	23,627,998
<b>Leases</b>											
Furniture and Office Equipment	1,205,956	-	-	-	-	-	1,205,956	66,080	401,985	-	737,891
	1,205,956	-	-	-	-	-	1,205,956	66,080	401,985	-	737,891
<b>Total</b>	691,448,668	-	13,729,644	43,290,178	(13,250,121)	(9,575,754)	725,642,616	264,620,071	24,190,934	(11,167)	436,842,778



## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## 2.2 Asset verification

The municipality undertook a full asset verification for this financial year reporting period. This process includes a number of processes, some of which are:

- Prior identification of all locations at which assets are located.
- Allocating areas to be counted to asset verification team members.
- Following systematic approach to ensure a full physical verification (assets should not be omitted or double counted).
- Verifying assets at the same time to ensure no movement takes place to cover irregularities and avoid any double counting or omissions.

After the verification process, assets are compared to the opening balances of the FAR to ensure the assets disclosed in the prior are included in the current year.

Some 195 movable assets out of a total movable asset database of 3022 have been included in the FAR as assets under review.

The LM had obtained Council approval to write off assets as part of the year procedures, however, due to the type of assets, the LM has resolved to write off these assets.

The AMU of the LM deem it prudent to follow a more detailed process to identify the reasons these assets could not be identified during the 2018/19 asset count.

These assets are summarised per class and value as follows:

Asset class	Number of assets	Cost price
Computers - hardware/equipment	18	121,400
Furniture and other office equipment	168	161,241
General vehicles	2	1,296,966
Plant & equipment	7	159,095
<b>Grand Total</b>	<b>195</b>	<b>1,738,702</b>

	2019 R	2018 R
<b>2.3 Property, Plant and Equipment which is in the process of being constructed or developed:</b>		
Infrastructure Assets	34,395,771	38,819,680
Roads	26,921,354	21,795,565
Electricity	7,474,417	7,474,417
Solid Waste	-	9,549,698
Community Assets	23,406,752	1,202,204
Other Assets	7,923,293	5,213,579
<b>Total Property, Plant and Equipment under construction</b>	<b>65,725,816</b>	<b>45,235,463</b>

The movements for the year can be reconciled as follows:

Balance at beginning of year	45,235,463	34,730,587
Expenditure during the year	43,290,172	32,278,504
Assets unbundled during the year	(13,250,121)	(21,773,629)
Asset derecognised	(9,549,698)	-
<b>Balance at end of year</b>	<b>65,725,816</b>	<b>45,235,463</b>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>2.4 Property, Plant and Equipment that is taking a significantly longer period of time to complete than expected:</b>		
Infrastructure Assets	7,474,417	7,474,417
Electricity	7,474,417	7,474,417
<b>Total</b>	7,474,417	7,474,417
<i>Due to unforeseen and unplanned events of public protests and unsatisfactory performance by the contractor the WIP projects took longer than anticipated. The contract with the contractor has since been terminated. The project has since been halted. Refer to note 2.5</i>		
<b>2.5 Property, Plant and Equipment where construction or development has been halted:</b>		
Infrastructure Assets	17,024,115	20,772,551
Roads	-	3,748,436
Electricity	7,474,417	7,474,417
Solid Waste	9,549,698	9,549,698
<b>Total</b>	17,024,115	20,772,551
<i>The project was incomplete because the service provider appointed to supply and deliver material did not complete the delivery of materials required. The project was then taken over by the municipality as an in house project. The estimated outstanding material cost and labour according to initial quantities is R 1 160 840. The remaining work is estimated to be completed by 29 February 2019 using in-house construction team.</i>		
<i>The Lady Frere Landfill site has been put on hold indefinitely due to community protests against the development of the site. The land identified forms part of a land claim. Emalahleni Municipality will not proceed with development until a new area has been identified and agreed upon by the community.</i>		
<i>The municipality has assessed the potential to receive future economic benefits or service potential from the landfill site and has determined that the likelihood thereof is remote. As a result the municipality deemed it prudent to derecognise the landfill site.</i>		
<b>2.6 Expenditure incurred to repair and maintain Property, Plant and Equipment:</b>		
Employee related costs	-	1,197,161
Other materials	1,683,618	1,069,228
Contracted Services	3,085,557	1,816,579
Other Expenditure	-	18,981
<b>Total Repairs and Maintenance</b>	4,769,175	4,101,949
<b>2.7 Assets pledged as security:</b>		
Leased Property, Plant and Equipment of R 737 891 (2018: R 1 139 876) is secured for leases as set out in Note 11.		
<b>2.8 Third party payments received for losses incurred:</b>		
Payments received (Excluding VAT)	2,268,491	-

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>2.9 Contractual commitments for acquisition of Property, Plant and Equipment:</b>		
Approved and contracted for:	31,398,039	29,148,582
Community	1,081,588	41,524
Other	30,316,451	29,107,058
<b>Total</b>	<b>31,398,039</b>	<b>29,148,582</b>
This expenditure will be financed from:		
Government Grants	31,398,039	29,148,582
<b>Total</b>	<b>31,398,039</b>	<b>29,148,582</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>3. INVESTMENT PROPERTY</b>		
<b>3.1 Net Carrying amount at 1 July</b>	<b>4,151,887</b>	<b>4,154,287</b>
Cost/Valuation	4,226,300	4,226,300
Buildings	695,572	695,572
Land	3,530,728	3,530,728
Accumulated Depreciation	(74,413)	(72,013)
Depreciation for the year	(2,400)	(2,400)
<b>Net Carrying amount at 30 June</b>	<b>4,149,487</b>	<b>4,151,887</b>
Cost/Valuation	4,149,487	4,226,300
Buildings	695,572	695,572
Land	3,530,728	3,530,728
Accumulated Depreciation	(76,813)	(74,413)
<b>3.2 Revenue from Investment Property</b>		
Revenue derived from the rental of Investment Property	655,477	5,734
	<b>2019 R</b>	<b>2018 R</b>
<b>4. INTANGIBLE ASSETS</b>		
<b>4.1 Net Carrying amount at 1 July</b>	<b>455,962</b>	<b>308,838</b>
Cost	1,207,831	1,005,781
Accumulated Amortisation	(751,869)	(696,943)
Additions	-	202,050
Amortisation	(54,930)	(54,926)
<b>Net Carrying amount at 30 June</b>	<b>401,033</b>	<b>455,962</b>
Cost	1,207,831	1,207,831
Accumulated Amortisation	(806,798)	(751,869)

No intangible asset were assed having an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no intangible assets whose title is restricted.

There age no intangible assets pledged as security for liabilities.

There are no contractual commitments for the acquisition of intangible assets.

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>5. HERITAGE ASSETS</b>		
<b>5.1 Net Carrying amount at 1 July</b>	<b>182,536</b>	<b>182,536</b>
Cost	182,536	182,536

There are no restrictions on the realisability of Heritage Assets or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop Heritage Assets or for repairs, maintenance or enhancements.

There are no Heritage Assets pledged as security for liabilities

There are no Heritage Assets that are used by the municipality for more than one purpose.

	2019 R	2018 R
<b>6. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Electricity	9,218,550	2,620,242
Property Rentals	3,321,563	2,678,198
Waste Management	49,764,772	40,303,030
Service charges	151,406	-
Chris Hani Debtor	1,140,309	1,140,309
<b>Total: Receivables from exchange transactions (before provision)</b>	<b>63,596,600</b>	<b>46,741,780</b>
<b>Less: Provision for Debt Impairment</b>	<b>(57,367,964)</b>	<b>(42,727,516)</b>
<b>Total: Receivables from exchange transactions (after provision)</b>	<b>6,228,636</b>	<b>4,014,264</b>

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of consumer debtors are not performed in terms of GRAP 104 on initial recognition.

The fair value of receivables approximate their carrying value.

**(Electricity): Ageing**

Current (0 - 30 days)	625,221	431,184
31 - 60 Days	391,548	230,292
61 - 90 Days	400,146	89,858
+ 90 Days	7,801,635	1,868,908
<b>Total</b>	<b>9,218,550</b>	<b>2,620,242</b>

**(Property Rentals): Ageing**

Current (0 - 30 days)	75,073	59,475
31 - 60 Days	74,657	55,966
61 - 90 Days	74,218	55,871
+ 90 Days	3,097,615	2,506,886
<b>Total</b>	<b>3,321,563</b>	<b>2,678,198</b>

**(Waste Management): Ageing**

Current (0 - 30 days)	2,901,486	556,716
31 - 60 Days	751,882	538,175
61 - 90 Days	743,245	537,002
+ 90 Days	45,368,160	38,671,138
<b>Total</b>	<b>49,764,772</b>	<b>40,303,030</b>

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b><u>(Service charges)</u></b>		
Current (0 - 30 days)	1,406	-
31 - 60 Days	150,000	-
<b>Total</b>	<b>151,406</b>	<b>-</b>
<b><u>Chris Hani Debtor: Ageing</u></b>		
+ 90 Days	1,140,309	1,140,309
<b>Total</b>	<b>1,140,309</b>	<b>1,140,309</b>
<b><u>(Total): Ageing</u></b>		
Current (0 - 30 days)	3,603,186	1,047,375
31 - 60 Days	1,368,087	824,433
61 - 90 Days	1,217,609	682,731
+ 90 Days	57,407,719	44,187,241
<b>Total</b>	<b>63,596,600</b>	<b>46,741,780</b>
<b><u>Reconciliation of Provision for Debt Impairment</u></b>		
Balance at beginning of year	42,727,516	42,258,195
Contribution to provision	16,149,787	5,669,746
Write offs	(1,509,338)	(5,200,425)
Balance at end of year	<b>57,367,964</b>	<b>42,727,516</b>
The total amount of this provision is R57 367 964 (2018: R42 727 516) and consist of:		
Services	54,470,390	40,684,875
Other Debtors	2,897,574	2,042,641
<b>Total Provision for Debt Impairment on Receivables from exchange transactions</b>	<b>57,367,964</b>	<b>42,727,516</b>
<b><u>Ageing of amounts past due but not impaired:</u></b>		
1 month past due	1,368,087	824,433
2+ months past due	1,257,363	2,142,456
	<b>2,625,450</b>	<b>2,966,889</b>

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>7. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
Taxes - Rates	24,447,694	19,420,209
Eskom	(0)	3,357,740
Control, Clearing and Interface Accounts	779,284	-
Other Receivables	8,634	8,634
	<u>25,235,612</u>	<u>22,786,583</u>
<b>Less:</b> Provision for Debt Impairment	(19,866,650)	(16,876,078)
<b>Total Receivables from non-exchange transactions</b>	<u><b>5,368,961</b></u>	<u><b>5,910,505</b></u>

The fair value of other receivables approximate their carrying value.

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

**(Rates): Ageing**

Current (0 - 30 days)	167,238	185,990
31 - 60 Days	606,777	396,910
61 - 90 Days	583,868	369,655
+ 90 Days	23,089,811	18,467,655
<b>Total</b>	<u><b>24,447,694</b></u>	<u><b>19,420,209</b></u>

	2019 R	2018 R
<b><u>Reconciliation of Provision for Debt Impairment</u></b>		
Balance at beginning of year	16,876,078	13,750,525
Contribution to provision	2,990,572	3,186,073
Write offs	-	(60,519)
Balance at end of year	<u><b>19,866,650</b></u>	<u><b>16,876,078</b></u>

The total amount of this provision is R19 866 650 (2018: R 16 876 078) and consist of:

Taxes	19,866,650	16,876,078
Total Provision for Debt Impairment on Trade Receivables from non-exchange transactions	<u><b>19,866,650</b></u>	<u><b>16,876,078</b></u>

**Ageing of amounts past due but not impaired:**

1 month past due	606,777	185,990
2+ months past due	3,807,029	2,172,151
	<u><b>4,413,806</b></u>	<u><b>2,358,141</b></u>

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

The outstanding fine receivable balance at year end is reduced to its recoverable amount by recognising a provision for impairment against the receivable raised. This is considered to be a subsequent event. The provision for impairment is based on current and past collection rates applicable to fines.



## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>8. OPERATING LEASE ARRANGEMENTS</b>		
<b>8.1 The Municipality as Lessor</b>		
Operating Lease Asset	50,939	68,449
<b>Reconciliation</b>		
Balance at the beginning of the year	68,449	78,480
Movement during the year	(17,510)	(10,031)
Balance at the end of the year	50,939	68,449
At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:		
Up to 1 Year	99,885	110,327
1 to 5 Years	107,876	207,761
<b>Total Operating Lease Arrangements</b>	<b>207,761</b>	<b>318,088</b>

This operating lease income determined from contracts that have a specific condition income and does not include leases which has a undetermined conditional income.

	2019 R	2018 R
<b>9. TAXES</b>		
<b>9.1 VAT Payable</b>		
VAT Output in Suspense	(6,974,314)	(2,826,652)
<b>Less:</b> Contribution to Provision for Doubtful Debt Impairment	3,332,982	1,423,358
<b>Total VAT Payable</b>	<b>(3,641,332)</b>	<b>(1,403,294)</b>
<b>9.2 VAT Receivable</b>		
VAT Receivable	6,811,298	7,708,129
<b>Less:</b> Provision for Impairment	-	(4,284,143)
<b>Total VAT Receivable</b>	<b>6,811,298</b>	<b>3,423,986</b>
<b>9.3 Net VAT (Payable)/Receivable</b>	<b>3,169,966</b>	<b>2,020,692</b>

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

An amount of R4 284 143 was impaired during 2018 which relates to VAT transactions preceding 2013, which, in accordance with Section 16(3) and Section 55 of the VAT Act of 1991 are not considered recoverable as the 5 year period has prescribed. Management is of the opinion that an impairment loss in this regard is appropriate as the balance has prescribed and will not be recovered.

**Reconciliation of Provision for Debt Impairment**

Balance at beginning of year	4,284,143	-
Contribution to provision	-	4,284,143
Written off	(4,284,143)	-
Balance at end of year	-	4,284,143

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>10. BANK ACCOUNTS</b>		
<b>10.1 Cash and Cash Equivalents</b>		
Call Investments Deposits	2,732,907	2,602,716
Bank Accounts	1,415,640	3,263,228
Cash Floats	470	470
<b>Total Cash and Cash Equivalents - Assets</b>	<b>4,149,017</b>	<b>5,866,415</b>
The municipality has the following bank accounts:		
<b>Current Accounts</b>		
Standard Bank - Current Account - 082-665-958	24,420	2,115,668
Standard Bank - Current Account - 082-630-631	515,678	977,032
First National Bank - Current Account - 620-4898-6428	875,542	170,528
	<b>1,415,640</b>	<b>3,263,228</b>
All accounts are cleared daily to Primary Bank Account; current account 082-665-958.		
<b>Call Deposits and Investments</b>		
Investec Account Number: 451/465258	938,846	1,334,888
First National Bank Account Number: 74366334164	257,548	240,743
First National Bank Account Number: 74761667110	14,244	13,392
Standard Bank Account Number: 08 879 9697 - 012	11,105	10,879
Standard Bank Account Number: 08 879 9697 - 001	202,057	202,057
ABSA Account Number: 20-7651-7639	406,616	387,299
ABSA Account Number: 20-7702-7722	138,941	131,218
Standard Bank Account Number: 08 879 9697 - 020	302,140	282,241
Standard Bank Account Number: 061336637	457,335	-
Investec Account Number: 1100465258500	950	-
Investec Account Number: 110046558621	3,126	-
	<b>2,732,907</b>	<b>2,602,716</b>
Details of current accounts are as follow:		
<b>Standard Bank - Current Account - 082-665-958</b>		
Cash book balance at beginning of year	2,115,668	161,976
Cash book balance at end of year	24,420	2,115,668
Bank statement balance at beginning of year	2,115,668	161,976
Bank statement balance at end of year	24,420	2,115,668
<b>Standard Bank - Current Account - 082-630-631</b>		
Cash book balance at beginning of year	977,032	2,386,023
Cash book balance at end of year	515,678	977,032
Bank statement balance at beginning of year	977,032	2,386,023
Bank statement balance at end of year	515,678	977,032
<b>First National Bank - Current Account - 620-4898-6428</b>		
Cash book balance at beginning of year	170,528	325,642
Cash book balance at end of year	875,542	170,528
Bank statement balance at beginning of year	170,528	325,642
Bank statement balance at end of year	875,542	170,528

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>11. LONG-TERM BORROWINGS</b>		
Capitalised Lease Liability - At amortised cost	779,237	1,147,989
	<u>779,237</u>	<u>1,147,989</u>
<b>Less:</b> Current Portion transferred to Current Liabilities	(407,365)	(368,752)
Capitalised Lease Liability - At amortised cost	<u>(407,365)</u>	<u>(368,752)</u>
	<u>371,872</u>	<u>779,237</u>
<b>Total Long-term Borrowings</b>	<u><u>371,872</u></u>	<u><u>779,237</u></u>

11.1 The obligations under finance leases are scheduled below:

	Minimum payments	
Amounts payable under finance leases:		
Payable within one year	466,954	466,954
Payable within two to five years	389,128	856,082
	<u>856,082</u>	<u>1,323,035</u>
<b>Less:</b> Future finance obligations	(76,845)	(175,046)
<b>Present value of finance lease obligations</b>	<u><u>779,237</u></u>	<u><u>1,147,989</u></u>

The capitalised lease liability consist out of the following contracts:

Supplier	Description of leased item	Effective Interest rate	Annual Escalation	Lease Term	Maturity Date
Xerox C405	4 x copiers	6.25%	0%	3 Years	30/04/2021
Xerox C7020/5	4 x copiers	3.17%	0%	3 Years	30/04/2021
Xerox WC7225	2 x copiers	6.25%	0%	3 Years	30/04/2021
Xerox C8070	4 x copiers	5.02%	0%	3 Years	30/04/2021
Xerox D95	1 copier	5.02%	0%	3 Years	30/04/2021

Refer to Appendix A for descriptions, maturity dates and effective interest rates of structured loans and finance.

Hire Purchases and Leases are secured by property, plant and equipment - Note 2

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>12. NON-CURRENT PROVISIONS</b>		
Provision for Rehabilitation of Landfill-sites	1,836,717	1,826,946
<b>Total Non-current Provisions</b>	<b>1,836,717</b>	<b>1,826,946</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>12.1 Landfill Sites</b>		
Balance 1 July	12,207,164	11,210,331
Unwinding of discounted interest	604,816	996,833
<b>Total provision 30 June</b>	<b>12,811,980</b>	<b>12,207,164</b>
<b>Less:</b> Transfer of Current Portion to Current Provisions - Note 14	(10,975,263)	(10,380,218)
<b>Balance 30 June</b>	<b>1,836,717</b>	<b>1,826,946</b>

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows

The rate for the levelling layers are based on import requirement from commercial sources.  
CCL replaced by GCL due to lack of good quality clay from on-site or nearby sources.  
The rate for the confining and topsoil layers are based on importing from on-site or nearby sources.

Rehabilitation cost for the Indwe landfill is calculated for this report, based on assumptions described.

Further confirmation of site closure requirements is expected to be detailed by DEDEAT, but until such time the site has been evaluated with the assumption that it must still be rehabilitated.

**Detail of cost estimates:**

	Dordrecht	Indwe	Lady Frere
Area (m <sup>2</sup> )	10,287	1,005	6,698
Preliminary and general (Rand)	620,902	79,302	391,925
Site Clearance (Rand)	31,684	3,095	20,630
Storm Water Control Measure (Rand)	897,825	233,965	646,375
Capping (Rand)	2,200,637	218,786	1,885,063
Gas Management (Rand)	-	-	15,451
Leachate Management (Rand)	305,153	100,266	221,612
Fencing (Rand)	999,712	10,333	10,333
Other costs (Rand)	374,090	788,076	344,459
Contingencies (Rand)	505,591	64,575	319,139
Engineering (Rand)	417,113	53,274	263,290
Site Supervision (Rand)	257,386	285,045	246,895

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. The estimate cost and date of decommission of the sites are as follows:

		2019 R	2018 R
<b>Location</b>	<b>Estimated decommission date</b>		
Lady Frere landfill site is located approximately 2.0km west off Indwe road R 394	30/06/2018	4,365,171	4,182,363
Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route	11/09/2016	6,610,092	6,197,855
Indwe landfill site is located east off R56 approximately 260m before the town of Indwe	31/12/2021	1,836,718	1,826,946
		<b>12,811,980</b>	<b>12,207,164</b>

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>13. NON-CURRENT EMPLOYEE BENEFITS</b>		
Provision for Post Retirement Health Care Benefits	7,705,943	7,021,332
Provision for Long Service Awards	2,551,638	1,970,992
<b>Total Non-current Employee Benefits</b>	<b>10,257,581</b>	<b>8,992,324</b>
<b><u>Post Retirement Health Care Benefits</u></b>		
Balance 1 July	7,077,422	6,468,462
Contribution for the year	851,419	838,846
Interest Cost	690,456	642,537
Expenditure for the year	(28,648)	(70,872)
Actuarial Loss/(Gain)	(853,763)	(801,551)
<b>Total provision 30 June</b>	<b>7,736,886</b>	<b>7,077,422</b>
<b>Less:</b> Transfer of Current Portion to Current Employee Benefits - Note 15	(30,943)	(56,090)
<b>Balance 30 June</b>	<b>7,705,943</b>	<b>7,021,332</b>
<b><u>Long Service Awards</u></b>		
Balance 1 July	2,335,595	1,846,855
Contribution for the year	500,956	434,627
Interest Cost	180,753	148,329
Expenditure for the year	(174,029)	(49,263)
Actuarial Loss/(Gain)	90,050	(44,953)
<b>Total provision 30 June</b>	<b>2,933,325</b>	<b>2,335,595</b>
<b>Less:</b> Transfer of Current Portion to Current Employee Benefits - Note 15	(381,687)	(364,603)
<b>Balance 30 June</b>	<b>2,551,638</b>	<b>1,970,992</b>
<b>13.1 Provision for Post Retirement Health Care Benefits</b>		
The Post Retirement Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:		
In-service (employee) members	99	92
In-service (employee) non-members	124	130
Continuation members (e.g. Retirees, widows, orphans)	1	2
<b>Total Members</b>	<b>224</b>	<b>224</b>
The liability in respect of past service has been estimated to be as follows:		
In-service members	5,612,019	3,743,586
In-service non-members	1,710,892	1,210,493
Continuation members	413,975	787,231
<b>Total Liability</b>	<b>7,736,886</b>	<b>5,741,310</b>
The liability in respect of periods commencing prior to the comparative year has been estimated as follows:		
		2017 R
In-service members		4,057,804
In-service non-members		1,406,839
Continuation members		1,003,819
<b>Total Liability</b>		<b>6,468,462</b>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas;  
Hosmed  
LA Health  
Samwumed  
Key health

The Current-service Cost for the ensuing year is estimated to be R851 419, whereas the Interest Cost for the next year is estimated to be R690 456.

Key actuarial assumptions used:	2019 %	2018 %
<b>i) Rate of interest</b>		
Discount rate	9.80%	9.79%
Health Care Cost Inflation Rate	7.52%	7.51%
Net Effective Discount Rate	2.12%	2.12%

The discount rate used is a composite of all government bonds and is calculated using a technique is known as "bootstrapping".

**ii) Mortality rates**

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.

**iii) Normal retirement age**

It has been assumed that in-service members will retire at age 60 for females and 65 for males, which then implicitly allows for expected rates of early and ill-health retirement.

**iv) Expected rate of salary increases**

2018/2019 - Average CPI (Feb 2017 – Jan 2018) + 1.5 percent

	2019 R	2018 R
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>		
Present value of fund obligations	7,736,886	7,077,422
Fair value of plan assets	-	-
<b>Net liability/(asset)</b>	<b>7,736,886</b>	<b>7,077,422</b>
<b>Reconciliation of present value of fund obligation:</b>		
Present value of fund obligation at the beginning of the year	7,077,422	6,468,462
Total expenses	1,513,227	1,410,511
Current service cost	851,419	838,846
Interest Cost	690,456	642,537
Benefits Paid	(28,648)	(70,872)
Actuarial (gains)/losses	(853,763)	(801,551)
Present value of fund obligation at the end of the year	<u>7,736,886</u>	<u>7,077,422</u>

**Sensitivity Analysis on the Accrued Liability on 30 June 2019**

Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)
Central Assumptions	7.323	0.414	7.737

The effect of movements in the assumptions are as follows:

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NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Assumption	Change	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Health care inflation	1%	8.934	0.454	9.388	21.00%
Health care inflation	-1%	6.069	0.379	6.448	-17.00%
Discount rate	1%	6.106	0.380	6.486	-16.00%
Discount rate	-1%	8.907	0.454	9.361	21.00%
Post-retirement mortality	-1 year	7.541	0.429	7.971	3.00%
Average retirement age	-1 year	8.014	0.414	8.428	9.00%
Continuation of membership at retirement	-10%	5.469	0.414	5.883	-24.00%

Sensitivity Analysis on Current-Service and Interest Cost for the year ending 30 June 2019

Assumption	Current Service Cost (R)	Interest Cost (R)	Total (R)
Central Assumptions	851,400	690,500	1,541,900

The effect of movements in the assumptions are as follows:

Assumption	Change	Current Service Cost (R)	Interest Cost (R)	Total (R)	% change
Health care inflation	1%	1,083,500	837,700	1,921,200	25.00%
Health care inflation	-1%	677,100	575,600	1,252,700	-19.00%
Discount rate	1%	687,800	637,700	1,325,500	-14.00%
Discount rate	-1%	1,070,500	750,500	1,821,000	18.00%
Post-retirement mortality	-1 year	877,200	712,100	1,589,300	3.00%
Average retirement age	-1 year	895,700	749,100	1,644,800	7.00%
Withdrawal Rate	-10%	623,400	536,100	1,159,500	-25.00%

	2019 Rm	2018 Rm
Experience adjustments were calculated as follows:		
Liabilities: (Gain) / loss	0.324	0.018
Assets: Gain / (loss)		

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2017 Rm
Liabilities: (Gain) / loss	
Assets: Gain / (loss)	6,468,462

13.2 Provision for Long Service Bonuses

The Long Service Bonus plans are defined benefit plans. As at year end, 223 employees were eligible for Long Service Bonuses.

The Current-service Cost for the ensuing year is estimated to be R592 984 whereas the Interest Cost for the next year is estimated to be Rxxx xxx.

Key actuarial assumptions used:	2019 %	2018 %
i) Rate of interest		
Discount rate	8.07%	8.38%
General Salary Inflation (long-term)	5.52%	6.02%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	2.42%	2.23%

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NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	2,933,326	2,335,596
Fair value of plan assets	-	-
<b>Net liability/(asset)</b>	<b>2,933,326</b>	<b>2,335,596</b>
<b>Reconciliation of present value of fund obligation:</b>		
Present value of fund obligation at the beginning of the year	2,335,596	1,846,856
Total expenses	507,680	533,693
Current service cost	500,956	434,627
Interest Cost	180,753	148,329
Benefits Paid	(174,029)	(49,263)
Actuarial (gains)/losses	90,050	(44,953)
Present value of fund obligation at the end of the year	<b>2,933,326</b>	<b>2,335,596</b>

**Sensitivity Analysis on the Accrued Liability on 30 June 2019**

Assumption	Change	Liability (Rm)	% change
Central assumptions		2.933	
General salary inflation	1%	3.102	6.00%
General salary inflation	-1%	2.780	-5.00%
Discount rate	1%	2.774	-5.00%
Discount rate	-1%	3.111	6.00%
Average retirement age	-2 yrs	2.834	-3.00%
Average retirement age	2 yrs	3.054	4.00%
Withdrawal rates	-50%	3.373	15.00%

**Sensitivity Analysis on Current-Service and Interest Cost for the year ending 30 June 2019**

Assumption	Current Service Cost (R)	Interest Cost (R)	Total (R)
Central Assumptions	501,000	180,800	681,800

The effect of movements in the assumptions are as follows:

Assumption	Change	Current Service Cost (R)	Interest Cost (R)	Total (R)	% change
General earnings inflation rate	1%	535,100	191,300	726,400	7%
General earnings inflation rate	-1%	470,100	171,100	641,200	-6%
Discount rate	1%	473,200	191,100	664,300	-3%
Discount rate	-1%	532,000	169,000	701,000	3%
Average retirement age	-2 year	475,400	170,400	645,800	-5%
Average retirement age	-2 year	515,000	186,200	701,200	3%
Withdrawal Rate	-50%	655,400	220,700	876,100	28%

Experience adjustments were calculated as follows:

	2019 Rm	2018 Rm
Liabilities: (Gain) / loss	-98,060	67,097
Assets: Gain / (loss)		

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2017 Rm	2016 Rm	2015 Rm
Liabilities: (Gain) / loss	1,846,856	1,605,773	1,402,424
Assets: Gain / (loss)			



## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

		2019 R	2018 R
13.3	<b>Retirement funds</b>		
	<p>The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.</p> <p>As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.</p> <p>Therefore, although the Cape Joint Retirement Fund is a Multi Employer fund defined as defined benefit plan, it will be accounted for as defined contribution plan. All the required disclosure has been made as defined in GRAP 25.31.</p> <p><b><u>CAPE JOINT RETIREMENT FUND</u></b></p> <p>The contribution rate paid by the members (9,0%) and Council (18,0%). The last statutory valuation performed as at 30 June 2017 revealed that the assets of the fund amounted to R21,359,000,000 (30 June 2016: R20,075,000,000), with funding levels of 127.3% and 100% (30 June 2016 118.0% and 100%) for the Pensions Account and the Share Account respectively. The Presevation Pension Account showed a surplus of R0 and was 100% funded for both 2017 &amp; 2016. The contribution rate paid by the members (7,50%/9%) and the municipalities (19,50%/18%) is sufficient to fund the benefits accruing from the fund in the future. The actuary certified that the structure of the assets is appropriate relative to the nature of the liabilities, given normal circumstances and that the Fund is in a sound financial condition as at the valuation date.</p>		
	Contributions paid recognised in the Statement of Financial Performance	6,220,816	5,439,889
		<b>2019 R</b>	<b>2018 R</b>
	<b><u>DEFINED CONTRIBUTION FUNDS</u></b>		
	<p>Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.</p>		
	Contributions paid recognised in the Statement of Financial Performance		
	Sala Pension Fund	364,214	367,416
	Municipal Councillors Pension Fund	1,666,224	1,601,897
	SAMWU National Provident Fund	941,492	888,225
		<b>2,971,930</b>	<b>2,857,538</b>
	<p>The incorrect amount was disclosed in 2018 relating to contributions towards the Municipal Councillors Pension Fund. Above disclosure was therefore adjusted from R139 567 to R1 601 897.</p>		
14.	<b>CURRENT PROVISIONS</b>	<b>2019 R</b>	<b>2018 R</b>
	Current Portion of Rehabilitation of Landfill Sites - Note 12	10,975,263	10,380,218
	<b>Total Provisions</b>	<b>10,975,263</b>	<b>10,380,218</b>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>15. CURRENT EMPLOYEE BENEFITS</b>		
Provision for Performance Bonuses	89,111	1,186,689
Staff Bonuses accrued	1,762,210	1,716,689
Staff leave accrued	8,207,067	6,259,778
Compensation for Injuries On Duty	431,016	397,933
Current Portion of Non-Current Employee Benefits	412,630	420,693
Current Portion of Post Retirement Benefits - Note 13	30,943	56,090
Current Portion of Long-Service Provisions - Note 13	381,687	364,603
<b>Total Current Employee Benefits</b>	<b>10,902,034</b>	<b>9,981,781</b>
The movement in current provisions are reconciled as follows:		
<b>15.1 <u>Performance Bonuses</u></b>		
Balance at beginning of year	1,186,690	1,078,808
Contribution to current portion	(1,097,578)	1,186,690
Expenditure incurred	-	(1,078,808)
Balance at end of year	<b>89,112</b>	<b>1,186,690</b>
Performance bonuses are being paid to the Municipal Manager and Directors after an evaluation of performance by the council. There is no possibility of reimbursement.		
<b>15.2 <u>Staff Bonuses</u></b>		
Balance at beginning of year	1,716,688	1,429,595
Contribution to current portion	3,445,502	3,374,914
Expenditure incurred	(3,399,980)	(3,087,821)
Balance at end of year	<b>1,762,210</b>	<b>1,716,688</b>
Bonuses are being paid to all municipal staff, excluding section 57 employees. The balance at year end represent the portion of the bonus that have already vested for the current salary cycle. There is no possibility of reimbursement.		
<b>15.3 <u>Staff Leave</u></b>		
Balance at beginning of year	6,259,778	5,974,778
Contribution to current portion	2,597,348	1,166,898
Expenditure incurred	(650,059)	(881,898)
Balance at end of year	<b>8,207,067</b>	<b>6,259,778</b>
Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.		
<b>15.4 <u>Compensation for Injuries On Duty</u></b>		
Balance at beginning of year	397,933	355,652
Contribution to current portion	402,192	434,835
Expenditure incurred	(369,109)	(392,554)
Balance at end of year	<b>431,016</b>	<b>397,933</b>
The balance on the compensation for injuries on duty contribution represents the current liability of the municipality that has not yet been paid over to the relevant authorities. There is no possibility of reimbursement.		

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NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>16. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade Payables	4,464,818	3,685,149
Third party payables (Payroll)	(3,415)	30,028
Pre- paid electricity paid in advance	188,710	183,716
Advance payments debtors-billing	420,850	505,106
Sundry Deposits	63,976	46,009
Sundry Creditors	78,352	68,526
Retentions and Guarantees	8,509,526	5,341,629
<b>Total Trade Payables</b>	<b>13,722,816</b>	<b>9,860,161</b>

Payables are being recognised net of any discounts.

Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value.

All payables are unsecured.

Sundry deposits include Hall, Builders and Housing Deposits.

	2019 R	2018 R
<b>17. UNSPENT TRANSFERS AND SUBSIDIES</b>		
Unspent Transfers and Subsidies	1,533,060	-
Provincial Government	466,761	-
District Municipalities	1,066,300	-
<b>Total Unspent Transfers and Subsidies</b>	<b>1,533,060</b>	<b>-</b>

See appendix "D" for reconciliation of grants from other spheres of government. The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>18. PAYABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
Out of court settlement - Magwayi	10,567,503	-
<b>Total Payables from Non-exchange Transactions</b>	<b>10,567,503</b>	<b>-</b>
<u>Disclosed as follows:</u>		
Current liabilities	5,283,752	
Non-current liabilities	5,283,751	-
<b>Total</b>	<b>10,567,503</b>	<b>-</b>

This court case has been settled on 26 June 2019 for an amount of R10 567 503.

The repayment terms are as follows:

Payment of the sum of R5 283 752 to be paid on or before 1 September 2019.

Payment of the sum of R5 283 752 on or before 1 September 2020, interest of this amount calculated at the legal rate.

Due to the short term nature of the first payment, discounting is not deemed necessary as it is not material. The second payment accrues interest at the legal rate, and therefore discounting is also not deemed necessary in this regard.

A description of the matter is disclosed under note 49 - Contingent liabilities.

All payables are unsecured.

	2019 R	2018 R
<b>19. PROPERTY RATES</b>		
<u>Actual</u>		
<b>Rateable Land and Buildings</b>	4,713,469	5,211,974
Business and Commercial Property	1,188,357	996,364
Public Benefit Organisations	634	-
Residential Properties	1,531,414	2,380,836
Vacant Land	177,535	-
State-owned Properties	1,264,023	942,129
Agricultural Property	551,506	892,645
<b>Total Property Rates</b>	<b>4,713,469</b>	<b>5,211,974</b>
<u>Valuations - 1 July 2018</u>		
<b>Rateable Land and Buildings</b>	1,494,327,840	1,120,527,404
Business and Commercial Property	186,875,503	126,135,302
Municipal Properties	34,063,400	14,921,700
Residential Properties	369,870,236	301,403,201
State-owned Properties	189,067,000	119,269,300
Agricultural Property	688,020,000	542,663,400
Exempt properties	26,431,701	16,134,501
<b>Total Rateable Land and Buildings</b>	<b>1,494,327,840</b>	<b>1,120,527,404</b>

Assessment Rates are levied on the value of land and improvements, which valuation is performed every 4 years. The last valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions and also to accommodate growth in the rate base due mostly to private development.

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NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>Basic Rate</b>		
Residential	0.00680	0.00923
Undeveloped land/Vacant land	0.00680	0.00923
Business	0.01020	0.01385
Government	0.01020	0.01385
Agriculture/Farms	0.00170	0.00231
Public Service Infrastructure	-	-
Public Benefit Organisation	0.00170	0.00231

Rates are levied annually and monthly. Monthly rates are payable by the 25th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly instalments.

Rebates were granted on land with buildings used solely for dwellings purposes as follows:

Residential - The first R15 000 on the valuation is exempted.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

	2019 R	2018 R
<b>20. GOVERNMENT GRANTS AND SUBSIDIES</b>		
Government Grants and Subsidies - Operating	123,284,528	121,753,786
Equitable Share	115,774,000	115,992,000
Local Government Financial Management Grant	2,415,000	2,345,000
Municipal Infrastructure Grant	1,345,187	1,703,050
Libraries, Archives and Museums	900,000	900,000
Other grants	563,701	813,736
DEDEAT: Waste management grant	2,286,641	-
Government Grants and Subsidies - Capital	44,825,412	33,665,950
Municipal Infrastructure Grant	42,556,813	32,357,950
Expanded Public Works Programme Integrated Grant	2,022,000	1,308,000
DEDEAT: Waste management grant	246,599	-
<b>Total Government Grants and Subsidies</b>	<b>168,109,940</b>	<b>155,419,736</b>
Included in above are the following grants and subsidies received:		
<b>Unconditional</b>	115,774,000	115,992,000
Equitable Share	115,774,000	115,992,000
<b>Conditional</b>	52,335,940	39,427,736
Local Government Financial Management Grant	2,415,000	2,345,000
Expanded Public Works Programme Integrated Grant	2,022,000	1,308,000
Municipal Infrastructure Grant	43,902,000	34,061,000
Libraries, Archives and Museums	900,000	900,000
Other grants	563,701	813,736
DEDEAT: Waste management grant	2,533,240	-
<b>Total Government Grants and Subsidies</b>	<b>168,109,940</b>	<b>155,419,736</b>

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NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
Revenue recognised per vote as required by Section 123 (c) of the MFMA:		
Equitable share	115,774,000	115,992,000
Finance and Administration	3,756,716	2,345,000
Community & Social Services	18,100,228	900,000
Public Safety	7,078,254	-
Planning & Development	1,635,233	800,500
Road Transport	19,232,271	35,382,236
Waste Management	2,533,240	-
<b>Total Government Grants and Subsidies</b>	<b>168,109,940</b>	<b>155,419,736</b>

Based on the allocations set out in the Division of Revenue Act (DoRA), no significant changes in the level of government funding are expected over the forthcoming 3 financial years.

**20.1 Equitable Share**

Grants received	115,774,000	115,992,000
Conditions met - Operating	(115,774,000)	(115,992,000)
Conditions still to be met	-	-

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

	2019 R	2018 R
<b>20.2 <u>Local Government Financial Management Grant (FMG)</u></b>		
Grants received	2,415,000	2,345,000
Conditions met - Operating	(2,415,000)	(2,345,000)
Conditions still to be met	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

**20.3 Municipal Infrastructure Grant (MIG)**

Grants received	43,902,000	34,061,000
Conditions met - Operating	(1,345,187)	(1,703,050)
Conditions met - Capital	(42,556,813)	(32,357,950)
Conditions still to be met	-	0

The Municipal Infrastructure Grant was used to upgrade infrastructure in previously disadvantaged areas.

**20.4 DEDEAT: Waste management grant**

Grants received	3,000,000	-
Conditions met - Operating	(2,286,641)	-
Conditions met - Capital	(246,599)	-
Conditions still to be met	466,761	-

The DEDEAT Waste management grant was used for a waste management project that seeks to address these challenges within the Waste & Environment Sector and also address socio-economic dynamics of the Municipality.

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>20.5 <u>Extended Public Works Program (EPWP)</u></b>		
Grants received	2,022,000	1,308,000
Conditions met - Capital	(2,022,000)	(1,308,000)
Conditions still to be met	-	-
The grant is used for job creation projects in previous disadvantage areas.		
<b>20.6 <u>Libraries, Archives and Museums</u></b>		
Grants received	900,000	900,000
Conditions met - Operating	(900,000)	(900,000)
Conditions still to be met	-	-
The grant is used to transform urban and rural community library infrastructure, facilities and services.		
<b>20.7 <u>Other grants</u></b>		
Opening balance	-	(891,366)
Grants received	1,630,000	1,705,102
Conditions met - Operating	(563,701)	(813,736)
Conditions still to be met	1,066,300	0
<i>Included within other grants are the Chris Hani District Municipality Paving and beautification grant, Ward based plans grant, Dryland cropping programme grant, Alien plant project grant and Construction of feedlot grant.</i>		
<b>20.8 <u>Total Grants</u></b>		
Opening balance	-	(891,366)
Grants received	169,643,000	156,311,102
Conditions met - Operating	(123,284,528)	(121,753,786)
Conditions met - Capital	(44,825,412)	(33,665,950)
Conditions still to be met/(Grant expenditure to be recovered)	1,533,060	0
<u>Disclosed as follows:</u>		
Unspent Transfers and Subsidies	1,533,060	-
<b>Total</b>	<b>1,533,060</b>	<b>-</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>21. LICENCES AND PERMITS</b>		
Trading	9,181	10,861
Road and Transport	1,735,605	1,629,258
<b>Total Licences and Permits</b>	<b>1,744,786</b>	<b>1,640,120</b>

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>22. SERVICE CHARGES</b>		
Electricity	15,796,475	9,539,929
Service Charges	17,117,841	10,184,313
<u>Less:</u> Revenue Forgone	(1,321,367)	(644,384)
<b>Waste Management</b>	<b>8,153,715</b>	<b>3,483,131</b>
Service Charges	10,541,500	5,508,022
<u>Less:</u> Revenue Forgone	(2,387,785)	(2,024,892)
<b>Total Service Charges</b>	<b>23,950,190</b>	<b>13,023,060</b>
Revenue Forgone can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.		
	<b>2019 R</b>	<b>2018 R</b>
<b>23. SALES OF GOODS AND RENDERING OF SERVICES</b>		
Building Plan Approval	190,233	77,487
Camping Fees	4,867	-
Cemetery and Burial	34,779	34,984
Clearance Certificates	68,223	16,243
Grazing Fees	5,957	-
Valuation Services	-	524
<b>Total Sales of Goods and Rendering of Services</b>	<b>304,059</b>	<b>129,239</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>24. RENTAL FROM FIXED ASSETS</b>		
Investment Property	655,477	736,071
Property, Plant and Equipment	238,166	76,999
<b>Total Rental from Fixed Assets</b>	<b>893,643</b>	<b>813,070</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>25. INTEREST EARNED - EXTERNAL INVESTMENTS</b>		
Bank Accounts	686,366	1,161,547
Financial assets	22,169	21,073
<b>Total Interest Earned - External Investments</b>	<b>708,534</b>	<b>1,182,620</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>26. INTEREST EARNED - RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Waste Management	2,812,490	2,962,044
Electricity	667,120	200,945
Housing	263,952	196,805
Service charges	1,406	-
<b>Total Interest Earned - Outstanding Exchange Receivables</b>	<b>3,744,968</b>	<b>3,359,794</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>27. INTEREST EARNED - RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
Property Rates	1,559,267	1,494,171
<b>Total Interest Earned - Outstanding Non-Exchange Receivables</b>	<b>1,559,267</b>	<b>1,494,171</b>



## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>28. OPERATIONAL REVENUE</b>		
Agricultural Activities	3,510	-
Fruitless and wasteful expenditure recovered	-	1,262
Insurance Refund	2,268,491	523,944
Merchandising, Jobbing and Contracts	170,560	55,136
Transaction Handling Fees	78,793	-
<b>Total Operational Revenue</b>	<b>2,521,353</b>	<b>580,342</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>29. EMPLOYEE RELATED COST</b>		
Basic Salaries and Wages	57,844,657	52,654,221
Acting and Post Related Allowances	1,092,443	219,579
Pension and UIF Contributions	5,591,906	7,303,869
Medical Aid Contributions	3,295,175	2,295,363
Overtime	1,385,720	966,238
Bonuses	4,295,213	4,561,604
Motor Vehicle Allowance	4,408,686	3,218,837
Cellular and Telephone	673,767	338,741
Housing Allowances	942,964	161,797
Other benefits and allowances	22,448	464,497
Payments in lieu of leave	650,059	1,166,898
Post-retirement Benefit Obligations	1,352,375	633,797
Medical - Note 13.1	851,419	633,797
Current Service Cost	851,419	633,797
Long Service Awards - Note 13.2	500,956	-
	<b>81,555,413</b>	<b>73,985,440</b>
<b>Total Employee Related Costs</b>	<b>81,555,413</b>	<b>73,985,440</b>

**KEY MANAGEMENT PERSONNEL**

Key management personnel are all appointed on 5-year fixed contracts. There are no post-employment or termination benefits payable to them at the end of the contract periods.

**REMUNERATION OF KEY MANAGEMENT PERSONNEL****Remuneration of the Municipal Manager (MM Dr VS Vatala)**

Annual Remuneration	1,152,342	1,771,561
Leave encashment	194,875	-
Telephone, assistance and other allowances	25,555	34,848
Contributions to UIF, SDL, Bargaining council	12,867	1,785
Performance Bonus	-	225,471
<b>Total</b>	<b>1,385,638</b>	<b>2,033,665</b>

*Dr Vatala performed the duties of Municipal manager until February 2019.*

**Remuneration of the Acting Municipal Manager (N Mntuydwa)**

Annual Remuneration	974,823	-
Acting Allowance	194,593	-
Telephone, assistance and other allowances	21,974	-
Contributions to UIF, SDL, Bargaining council	10,560	-
<b>Total</b>	<b>1,201,950</b>	<b>-</b>

*Mr Mntuydwa acted as Municipal manager from October 2018 until 22 May 2019. Above remuneration relates to his services rendered during this period.*

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>Remuneration of the Acting Municipal Manager (G De Jager)</b>		
Annual Remuneration	127,194	-
Acting Allowance	27,202	-
Telephone, assistance and other allowances	2,747	-
Contributions to UIF, SDL, Bargaining council	1,412	-
<b>Total</b>	<b>158,555</b>	<b>-</b>
<i>Mr De Jager acted as Municipal manager from 23 May for 30 June 2019. Above remuneration relates to his services rendered during this period.</i>		
<b>Remuneration of the Manager Corporate Services (Manager Corporate Services - P Sohe)</b>		
Annual Remuneration	192,040	1,329,305
Leave encashment	-	254,306
Telephone, assistance and other allowances	5,493	29,964
Contributions to UIF, SDL, Bargaining council	1,828	1,785
Performance Bonus	-	169,184
<b>Total</b>	<b>199,361</b>	<b>1,784,544</b>
<i>Ms Sohe's services ended in the month of August 2018.</i>		
<b>Remuneration of the Chief Financial Officer (GP de Jager)</b>		
Annual Remuneration	1,399,139	1,387,576
Leave encashment	-	26,641
Telephone, assistance and other allowances	30,214	29,964
Contributions to UIF, SDL, Bargaining council	12,538	1,785
Performance Bonus	-	176,601
<b>Total</b>	<b>1,441,891</b>	<b>1,622,566</b>
<i>Mr De Jager performed the duties of Chief Financial Officer from June 2018 until May 2019. Above remuneration relates to his services rendered during this period.</i>		
<b>Remuneration of the Chief Financial Officer (A Zindlu)</b>		
Annual Remuneration	51,900	-
Acting allowance	31,449	-
Telephone, assistance and other allowances	23,202	-
Contributions to UIF, SDL, Bargaining council	1,069	-
<b>Total</b>	<b>107,619</b>	<b>-</b>
<i>Mr Zindlu acted as Chief Financial Officer for June 2019. Above remuneration relates to his services rendered during this period.</i>		
<b>Remuneration of the Manager Corporate Services (Acting Manager Corporate Services - M Swayena)</b>		
Annual Remuneration	493,744	-
Telephone, assistance and other allowances	225,600	-
Acting allowance	249,157	-
Contributions to UIF, SDL, Bargaining council	9,991	-
Long service award	11,600	-
Annual Bonus	48,335	-
<b>Total</b>	<b>1,038,427</b>	<b>-</b>
<i>Mrs Swayena acted as Manager: Corporate services from August 2018 until June 2019.</i>		

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>Remuneration of the Manager PEDTA Services (N Mntuydwa)</b>		
Annual Remuneration	487,412	1,329,305
Telephone, assistance and other allowances	10,987	29,964
Leave encashment	-	102,664
Contributions to UIF, SDL, Bargaining council	4,307	1,785
Performance Bonus	-	169,184
<b>Total</b>	<b>502,706</b>	<b>1,632,902</b>
<i>Mr Mntuydwa performed the duties of Manager: PEDTA Services from July 2018 until September 2018. Thereafter he acted as municipal manager until May 2019 and resumed his duties as Manager: PEDTA Services for the month of June 2019. Above remuneration relates to the services he performed as Manager: PEDTA services.</i>		
<b>Remuneration of the Director Infrastructure and Human Settlements (D Njilo)</b>		
Annual Remuneration	1,146,617	1,329,305
Telephone, assistance and other allowances	348,579	29,964
Contributions to UIF, SDL, Bargaining council	13,778	1,785
Performance Bonus	-	169,184
<b>Total</b>	<b>1,508,973</b>	<b>1,530,238</b>
<b>Remuneration of the Director Community Services (N Nyezi)</b>		
Annual Remuneration	1,462,235	1,329,305
Telephone, assistance and other allowances	32,960	37,129
Leave encashment	-	25,666
Contributions to UIF, SDL, Bargaining council	14,072	1,785
Performance Bonus	-	169,184
Acting allowance	-	22,113
<b>Total</b>	<b>1,509,268</b>	<b>1,585,182</b>

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

30. REMUNERATION OF COUNCILLORS	2019 R	2018 R
Mayor - N Nyukwana	651,412	836,713
Mayor - NF Koni	218,037	-
Speaker - Kalolo DS	703,000	677,531
Executive Committee Member - Lali N	661,613	637,736
Executive Committees - Cllrs S Liwani (full time exco)	661,613	637,736
Executive Committees - T Kulashe (Ndyumbo) (full time exco)	661,613	637,736
Executive Committees - Limba M (full time exco)	661,613	637,736
Other Councillors - Mapete L (Sec 79 chair person)	376,971	364,042
Ordinary Councillor- Ziduli NM [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Bobotyane CH [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Koni NF [ Part-time Councillor]	-	219,508
Ordinary Councillor- Ndelela TM [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Mjezu K [ Part-time Councillor]	302,750	292,677
Ordinary Councillor- Kraqa NN [ Part-time Councillor]	302,752	292,677
Ordinary Councillor-Greyling PF [ Part-time Councillor]	302,752	292,677
Ordinary Councillor-Sixishe TD [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Zama SE [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Fatyela LA [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Bongo S [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Feni RZ [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Moshane ZG [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Mondile TF [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Mahola ZD [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Qomoyi MS [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Makatesi M [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Mrwebi T [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Mthandeki FM [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Tyulu NM [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Kama N [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Oyiya MP [Part-time exco member]	387,139	348,302
Ordinary Councillor- Paul LN [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Njadu XH [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- Nqono N [ Part-time Councillor]	302,752	292,677
Ordinary Councillor- James N [ Part-time Councillor]	292,369	-
Executive Committees - N Mtyobile (Part time exco member)	387,139	373,818
Other Councillors - B Twala (Part time - Sec 79 chair person)	376,971	364,042
<b>Total Councillors' Remuneration</b>	<b>13,002,783</b>	<b>12,466,471</b>

Remuneration paid to Councillors can be summarised as follow:

	Salary	Travel Allowance	Other Allowances	Total
Mayor	737,413	-	132,036	869,449
Speaker	565,099	-	137,901	703,000
Executive Committee Members	2,040,121	79,000	527,331	2,646,452
Councillors	6,166,803	361,500	2,255,580	8,783,883
<b>Total Councillors' Remuneration</b>	<b>9,509,435</b>	<b>440,500</b>	<b>3,052,848</b>	<b>13,002,784</b>

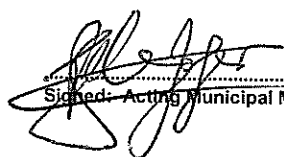
***In-kind Benefits***

The Mayor, Speaker, and Executive Committee Members are full-time Councillors. Each is provided with an office and shared secretarial support at the cost of the Municipality. The Executive Mayor may utilise official Council transportation when engaged in official duties.

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

**Certification by the Municipal Manager**

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Signed: Acting Municipal Manager

	2019 R	2018 R
<b>31. CONTRACTED SERVICES</b>		
<i>Outsourced Services</i>		
Accounting and Auditing	5,598,025	4,629,551
Burial Services	9,000	63,350
Medical Services [Medical Health Services & Support]	86,506	154,161
Refuse Removal	494,784	-
Security Services	3,825,955	3,912,295
Transport Services	778,066	949,143
Valuer	32,293	787,326
<i>Consultants and Professional Services</i>		
Audit Committee	329,994	381,741
Business and Financial Management	1,645,381	4,816,257
Legal Advice and Litigation	2,598,692	840,429
Research and Advisory	487,826	-
Town Planner	-	297,192
<i>Contractors</i>		
Catering Services	407,853	1,720,945
Employee Wellness	17,939	356,698
Event Promoters	47,300	77,940
Maintenance of Buildings and Facilities	1,507,128	235,831
Maintenance of Equipment	359,112	29,940
Maintenance of Unspecified Assets	1,219,317	1,576,894
Plants, Flowers and Other Decorations	43,373	-
Stage and Sound Crew	71,454	191,210
Traffic and Street Lights	-	12,075
<b>Total Contracted Services</b>	<b>19,560,000</b>	<b>21,032,977</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>32. DEPRECIATION AND AMORTISATION</b>		
Property, Plant and Equipment	24,190,934	22,095,006
Intangible Assets	54,930	54,926
Investment Property carried at cost	2,400	2,400
<b>Total Depreciation and Amortisation</b>	<b>24,248,263</b>	<b>22,152,331</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>33. FINANCE COSTS</b>		
Finance leases	98,202	49,780
Non-current Provisions	604,816	996,833
Non-current Employee Benefits	871,209	790,866
Payables	11,923	1,002
Overdraft Facilities	114	-
<b>Total Finance Costs</b>	<b>1,586,264</b>	<b>1,838,481</b>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>34. BULK PURCHASES</b>		
Electricity	9,735,750	13,258,882
<b>Total Bulk Purchases</b>	<u>9,735,750</u>	<u>13,258,882</u>
	<b>2019 R</b>	<b>2018 R</b>
<b>35. INVENTORY CONSUMED</b>		
Consumables	409,871	1,115,648
Materials and Supplies	1,683,618	1,647,309
<b>Total Inventory consumed</b>	<u>2,093,489</u>	<u>2,762,957</u>
	<b>2019 R</b>	<b>2018 R</b>
<b>36. TRANSFERS AND SUBSIDIES</b>		
Capital	-	66,680
Monetary Allocations	-	66,680
Private Enterprises		66,680
Operational	10,945,603	1,661,101
Monetary Allocations	10,945,603	1,661,101
Households	311,245	995,868
Settlement of court case	10,567,503	-
Non-profit Institutions	66,855	665,233
<b>Total Transfers and Subsidies</b>	<u>10,945,603</u>	<u>1,727,781</u>

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>37. OPERATIONAL COSTS</b>		
Advertising, Publicity and Marketing	616,057	872,929
Assets less than the Capitalisation Threshold	-	5,380
Bank Charges, Facility and Card Fees	184,188	188,081
Bargaining Council	721,030	804,260
Bursaries (Employees)	-	329,252
Commission	321,945	224,136
Courier and Delivery Services	-	1,323
Communication	1,786,659	1,333,044
Deeds	8,967	96,748
Entertainment	62,665	46,679
External Audit Fees	5,182,182	3,619,146
External Computer Service	1,236,440	1,264,144
Hire Charges	730,382	50,956
Indigent Relief	1,700,215	1,563,535
Insurance Underwriting	2,326,841	2,010,533
Licences	337,740	340,542
Office Decorations	-	28,500
Printing, Publications and Books	1,215,253	584,318
Professional Bodies, Membership and Subscription	68,670	52,588
Registration Fees	944,203	745,017
Remuneration to Ward Committees	3,033,035	2,045,703
Seating Allowance for Traditional Leaders	234,000	237,000
Signage	-	91,931
Skills Development Fund Levy	593,832	544,607
Storage of Assets and Goods	33,941	-
Travel Agency and Visa's	-	235,105
Travel and Subsistence	4,166,510	5,797,820
Uniform and Protective Clothing	137,958	923,867
Wet Fuel	1,448,907	1,593,788
Workmen's Compensation Fund	402,192	434,835
<b>Total Operational Costs</b>	<b>27,493,809</b>	<b>26,065,767</b>
	<b>2019</b>	<b>2018</b>
	<b>R</b>	<b>R</b>
<b>38. REVERSAL OF IMPAIRMENT LOSS/(IMPAIRMENT LOSS) ON RECEIVABLES</b>		
Receivables from Exchange Transactions - Note 6	(2,990,572)	(322,451)
Receivables from Non-exchange Revenue - Note 7	(12,730,825)	(3,186,073)
Taxes - Note 9	-	(4,284,143)
<b>Total Reversal of Impairment Loss/ (Impairment Loss) on Receivables</b>	<b>(15,721,397)</b>	<b>(7,792,667)</b>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R		2018 R
<b>39. RECLASSIFICATION OF ITEMS IN THE FINANCIAL STATEMENTS AS A RESULT OF THE IMPLEMENTATION OF mSCOA</b>			
<p>The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017. The municipality implemented MSCOA during the 2019 financial year and has realigned items in the financial statements with the Item Segment of mSCOA. The result of this process was a reclassification and naming of items in the financial statements. The reclassification of 2018 audited amounts can be summarised as follows:</p>			
	<b>Balance previously reported</b>	<b>Adjustments</b>	<b>Restated Balance</b>
<b>Statement of Financial Performance</b>			
<u>Revenue from Non-exchange Transactions</u>			
<u>Taxation Revenue</u>			
Property Rates	5,211,974	-	5,211,974
<u>Transfer Revenue</u>			
Government Grants and Subsidies - Operating	121,753,786	-	121,753,786
Government Grants and Subsidies - Capital	33,665,950	-	33,665,950
<u>Other Revenue</u>			
Actuarial Gains	609,208	237,296	846,504
Fines, Penalties and Forfeits	9,131	47,002	56,133
Interest Earned - Non-exchange Transactions	-	1,494,171	1,494,171
<u>Revenue from Exchange Transactions</u>			
Service Charges	13,596,504	(573,443)	13,023,060
Sales of Goods and Rendering of Services	-	129,239	129,239
Rental of Facilities and Equipment	813,070	(813,070)	-
Rental from Fixed Assets	-	813,070	813,070
Interest Earned - external investments	1,182,620	-	1,182,620
Interest Earned - Exchange Transactions	-	3,359,794	3,359,794
Interest Earned - outstanding receivables	4,853,965	(4,853,965)	-
Licences and Permits	1,637,834	2,286	1,640,120
Agency Services	74,505	-	74,505
Gains on Sale of Fixed Assets	33,412	(33,412)	-
Operational Revenue	-	580,342	580,342
Other Income	829,809	(829,809)	-
<u>Expenditure</u>			
Employee related costs	(74,155,289)	(544,920)	(74,700,209)
Remuneration of Councillors	(12,466,471)	-	(12,466,471)
Bad debts written-off	(5,260,944)	-	(5,260,944)
Debt Impairment	(7,792,665)	7,792,665	-
Contracted Services	(6,500,662)	(14,532,314)	(21,032,977)
Depreciation and Amortisation	(22,152,333)	-	(22,152,333)
Finance Costs	(1,713,472)	(125,009)	(1,838,481)
Bulk Purchases	(12,931,660)	(327,222)	(13,258,882)
Inventory Consumed	-	(2,762,957)	(2,762,957)
Operating Leases	-	(322,305)	(322,305)
Transfers and Subsidies	-	(1,727,781)	(1,727,781)
Other Operating Grant Expenditure	(4,301,475)	4,301,475	-
General Expenses	(43,448,754)	43,448,754	-
Operational Costs	-	(26,065,767)	(26,065,767)
<b>Operating Surplus/(Deficit) for the Year</b>	<b>(6,451,959)</b>	<b>8,694,120</b>	<b>2,242,161</b>
Reversal of Impairment Loss/(Impairment Loss) on Receivables	-	(7,792,667)	(7,792,667)
Gains/(Loss) on Sale of Fixed Assets	-	(753,529)	(753,529)
<b>Net Surplus/(Deficit) for the year</b>	<b>(6,451,959)</b>	<b>147,925</b>	<b>(6,304,034)</b>



## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

		2018
		R
<b>40.01</b>	<b>Fines, Penalties and Forfeits</b>	
	Balance previously reported	9,131
	Transferred from Other income	47,002
	<b>Restated balance 30/06/2018</b>	<u><u>56,133</u></u>
<b>40.02</b>	<b>Interest Earned - Non-exchange Transactions</b>	
	Balance previously reported	-
	Transferred from Interest Earned - outstanding receivables	1,494,171
	<b>Restated balance 30/06/2018</b>	<u><u>1,494,171</u></u>
<b>40.03</b>	<b>Service Charges</b>	
	Balance previously reported	13,596,504
	Transferred from Other income	70,940
	Transferred from Other Operating Grant Expenditure	(644,384)
	<b>Restated balance 30/06/2018</b>	<u><u>13,023,060</u></u>
	<b>Previously reported</b>	
	<u>Electricity</u>	10,113,373
	Service Charges	10,113,373
	Less: Revenue Forgone	-
	<u>Waste Management</u>	3,483,131
	Service Charges	5,508,022
	Less: Revenue Forgone	(2,024,892)
	<b>Total Service Charges</b>	<u><u>13,596,504</u></u>
	<b>Now reported</b>	
	<u>Electricity</u>	9,539,929
	Service Charges	10,184,313
	Less: Revenue Forgone	(644,384)
	<u>Waste Management</u>	3,483,131
	Service Charges	5,508,022
	Less: Revenue Forgone	(2,024,892)
	<b>Total Service Charges</b>	<u><u>13,023,060</u></u>
<b>40.04</b>	<b>Sales of Goods and Rendering of Services</b>	
	Balance previously reported	-
	Transferred from Other income	129,239
	<b>Restated balance 30/06/2018</b>	<u><u>129,239</u></u>
<b>40.05</b>	<b>Rental of Facilities and Equipment</b>	
	Balance previously reported	813,070
	Transferred to Rental from Fixed Assets	(813,070)
	<b>Restated balance 30/06/2018</b>	<u><u>-</u></u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2018 R
<b>40.06 Rental from Fixed Assets</b>	
Balance previously reported	-
Transferred from Rental of Facilities and Equipment	813,070
Restated balance 30/06/2018	<u>813,070</u>
<b>40.07 Interest Earned - Exchange Transactions</b>	
Balance previously reported	-
Transferred from Interest Earned - outstanding receivables	3,359,794
Restated balance 30/06/2018	<u>3,359,794</u>
<b>40.08 Interest Earned - outstanding receivables</b>	
Balance previously reported	4,853,965
Transferred to Interest Earned - Exchange Transactions	(3,359,794)
Transferred to Interest Earned - Non-exchange Transactions	(1,494,171)
Restated balance 30/06/2018	<u>-</u>
<b>40.09 Licences and Permits</b>	
Balance previously reported	1,637,834
Transferred from Other income	2,286
Restated balance 30/06/2018	<u>1,640,120</u>
<b>40.10 Gains on Sale of Fixed Assets</b>	
Balance previously reported	33,412
Transfer to Gains/(Loss) on Sale of Fixed Assets	(33,412)
Restated balance 30/06/2018	<u>-</u>
<b>40.11 Operational Revenue</b>	
Balance previously reported	-
Transferred from Other income	580,342
Restated balance 30/06/2018	<u>580,342</u>
<b>40.12 Other Income</b>	
Balance previously reported	829,809
Transferred to Fines, Penalties and Forfeits	(47,002)
Transferred to Licences and permits	(2,286)
Transferred to Operational revenue	(580,342)
Transferred to Sales of Goods and Rendering of Services	(129,239)
Transferred to Service Charges	(70,940)
Restated balance 30/06/2018	<u>(0)</u>
<b>40.13 Employee related costs</b>	
Balance previously reported	(74,155,289)
Transferred from General expenses	(936,917)
Transferred from Other Operating Grant Expenditure	(382,395)
Transferred to Operational costs	979,442
Correction of error - Refer to note 41	(205,049)
Restated balance 30/06/2018	<u>(74,700,209)</u>
<b>40.14 Debt Impairment</b>	
Balance previously reported	(7,792,665)
Reversal of Impairment Loss/(Impairment Loss) on Receivables	7,792,666
Restated balance 30/06/2018	<u>0</u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2018 R
<b>40.15 Contracted Services</b>	
Balance previously reported	(6,500,662)
Transferred from General expenses	(13,401,190)
Transferred from Other Operating Grant Expenditure	(1,370,810)
Correction of error - Refer to note 41	239,685
Restated balance 30/06/2018	<u>(21,032,977)</u>
<b>40.16 Finance Costs</b>	
Balance previously reported	(1,713,472)
Transferred from General expenses	(1,002)
Correction of error - Refer to note 41	(124,007)
Restated balance 30/06/2018	<u>(1,838,481)</u>
<b>40.17 Bulk Purchases</b>	
Balance previously reported	(12,931,660)
Transferred from General expenses	(327,222)
Restated balance 30/06/2018	<u>(13,258,882)</u>
<b>40.18 Inventory Consumed</b>	
Balance previously reported	-
Transferred from General expenses	(2,762,957)
Restated balance 30/06/2018	<u>(2,762,957)</u>
<b>40.19 Operating Leases</b>	
Balance previously reported	-
Transferred from General expenses	(322,305)
Restated balance 30/06/2018	<u>(322,305)</u>
<b>40.20 Transfers and Subsidies</b>	
Balance previously reported	-
Transferred from General expenses	(1,727,781)
Restated balance 30/06/2018	<u>(1,727,781)</u>
<b>40.21 Other Operating Grant Expenditure</b>	
Balance previously reported	(4,301,475)
Transferred to Contracted services	1,370,810
Transferred to Employee related costs	382,395
Transferred to Service Charges	644,384
Transferred to Operational costs	1,903,887
Restated balance 30/06/2018	<u>0</u>
<b>40.22 General Expenses</b>	
Balance previously reported	(43,448,751)
Transferred to Bulk purchases	327,222
Transferred to Contracted services	13,401,190
Transferred to Employee related costs	936,917
Transferred to Gains/(Loss) on Sale of Fixed Assets	786,941
Transferred to Finance costs	1,002
Transferred to Inventory Consumed	2,762,957
Transferred to Operating leases	322,305
Transferred to Operational Costs	23,182,438
Transferred to Transfers and Subsidies	1,727,781
Restated balance 30/06/2018	<u>1</u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

		2018	
		R	
<b>40.23</b>	<b>Operational Costs</b>		
	Balance previously reported		-
	Transferred from Employee related costs		(979,442)
	Transferred from General expenses		(23,182,438)
	Transferred from Other operating grant expenditure		(1,903,887)
	<b>Restated balance 30/06/2018</b>		<u><u>(26,065,767)</u></u>
<b>40.24</b>	<b>Reversal of Impairment Loss/(Impairment Loss) on Receivables</b>		
	Balance previously reported		-
	Transferred from Debt Impairment		(7,792,666)
	<b>Restated balance 30/06/2018</b>		<u><u>(7,792,666)</u></u>
<b>40.25</b>	<b>Gains/(Loss) on Sale of Fixed Assets</b>		
	Balance previously reported		-
	Transferred from General expenses		(786,941)
	Transferred from Gains on Sale of Fixed Assets		33,412
	<b>Restated balance 30/06/2018</b>		<u><u>(753,528)</u></u>
		<b>2018</b>	<b>2017</b>
		<b>R</b>	<b>R</b>
<b>40.</b>	<b>CORRECTION OF ERROR IN TERMS OF GRAP 3</b>		
	The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GRAP:		
<b>40.1</b>	<b>Property, Plant and Equipment</b>		
	Balance previously reported	426,588,911	412,033,834
	Correction of Work in progress incorrectly recognised as expenditure	239,686	-
	<b>Restated Balance</b>	<u><u>426,828,597</u></u>	<u><u>412,033,834</u></u>
	<i>Construction work on the Indwe Feedlot was incorrectly recorded under Contracted services (General expenses before implementation of MSCOA) during the 2017/18 financial year. This error was identified during 2018/19 and retrospectively adjusted by allocating the expenditure to Property, plant and equipment.</i>		
<b>40.2</b>	<b>Contracted services</b>		
	Balance previously reported	(21,032,977)	(6,282,007)
	Correction of Work in progress incorrectly recognised as expenditure	239,686	-
	<b>Restated Balance</b>	<u><u>(20,793,291)</u></u>	<u><u>(6,282,007)</u></u>
	<i>Construction work on the Indwe Feedlot was incorrectly recorded under Contracted services (General expenses before implementation of MSCOA) during the 2017/18 financial year. This error was identified during 2018/19 and retrospectively adjusted by allocating the expenditure to Property, plant and equipment.</i>		

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2018 R	2017 R
<b>40.3 NON-CURRENT EMPLOYEE BENEFITS</b>		
Balance previously reported	(5,741,310)	(5,224,110)
Correction of incorrect policy used by actuaries for valuation	(1,336,112)	(1,244,352)
<b>Restated Balance</b>	<b><u>(7,077,422)</u></b>	<b><u>(6,468,462)</u></b>

*At the last actuarial valuation, it was understood that the post-employment medical aid subsidy rate in respect of all eligible individuals was 60%. It was established at this valuation that the rate is 70% in respect of all individuals. Consequently the opening balance of Post Retirement Health Care Benefits was restated.*

<b>40.4 Accumulated Surplus/(Deficit) - 1 July 2017</b>		
Balance previously reported	408,406,314	414,858,273
Correction to Non-current Employee Benefits - Note 40.3	(1,244,352)	(1,244,352)
Correction to Contracted services - Note 40.1 and 40.2	239,686	
<b>Total</b>	<b><u>407,401,648</u></b>	<b><u>413,613,922</u></b>

<b>40.5 Employee related cost</b>		
Balance previously reported	(74,155,289)	(66,175,192)
Correction to Non-current Employee Benefits - Note 40.3	(205,049)	-
<b>Total</b>	<b><u>(74,360,338)</u></b>	<b><u>(66,175,192)</u></b>

*At the last actuarial valuation, it was understood that the post-employment medical aid subsidy rate in respect of all eligible individuals was 60%. It was established at this valuation that the rate is 70% in respect of all individuals. The R205 049 represents the increase in current service cost for the 2018 financial year.*

<b>40.6 Finance costs</b>		
Balance previously reported	(1,713,472)	(1,363,144)
Correction to Non-current Employee Benefits - Note 40.3	(124,007)	-
<b>Total</b>	<b><u>(1,837,479)</u></b>	<b><u>(1,363,144)</u></b>

*At the last actuarial valuation, it was understood that the post-employment medical aid subsidy rate in respect of all eligible individuals was 60%. It was established at this valuation that the rate is 70% in respect of all individuals. The R124 007 represents the increase in finance costs for the year.*

<b>40.7 Actuarial gain</b>		
Balance previously reported	609,208	1,278,548
Correction to Non-current Employee Benefits - Note 40.3	237,296	-
<b>Total</b>	<b><u>846,504</u></b>	<b><u>1,278,548</u></b>

*At the last actuarial valuation, it was understood that the post-employment medical aid subsidy rate in respect of all eligible individuals was 60%. It was established at this valuation that the rate is 70% in respect of all individuals. The R237 296 represents the increase in actuarial gains for the year.*

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>41. RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS</b>		
Surplus/(Deficit) for the year	(7,340,745)	(6,304,034)
<b>Adjustments for:</b>		
Depreciation and Amortisation	24,248,263	22,152,333
Loss/(Gain) on Sale of Fixed Assets	(7,206)	(33,412)
Assets written off	9,549,698	786,941
Contribution to provisions – Non-Current Provisions	604,816	996,833
Movement in employee benefits	2,185,510	1,819,953
Debt Impairment	15,721,397	7,792,665
Bad Debts written off	1,509,338	5,260,944
Operating lease income accrued	17,511	10,030
Operating Surplus/(Deficit) before changes in working capital	46,488,581	32,482,253
Changes in working capital	(4,089,620)	(2,755,627)
Increase/(Decrease) in Trade and Other Payables	3,862,655	(10,180,835)
Increase/(Decrease) in Payables from Non-exchange transactions	10,567,503	
Increase/(Decrease) in Taxes	(1,149,275)	7,659,358
Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	1,533,060	(800,500)
Increase/(Decrease) in Unpaid Conditional Government Grants and Receipts	-	1,691,866
(Increase)/Decrease in Receivables from exchange and non-exchange transactions	(18,903,563)	(1,125,517)
<b>Cash generated/(absorbed) by operations</b>	<b>42,398,961</b>	<b>29,726,625</b>
	<b>2019 R</b>	<b>2018 R</b>
<b>42. RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES</b>		
Cash and Cash Equivalents - Note 10	4,149,017	5,866,415
<b>Less:</b>	(1,533,060)	-
Unspent Transfers and Subsidies - Note 17	(1,533,060)	-
<b>Resources available for working capital requirements</b>	<b>2,615,957</b>	<b>5,866,415</b>
Allocated to:		
Employee Benefits Reserve	(10,902,034)	(9,981,781)
Non-Current Provisions Reserve	(12,811,980)	(12,207,164)
<b>Resources available for working capital requirements</b>	<b>(21,098,057)</b>	<b>(16,322,530)</b>
Long-term Liabilities - Note 11	779,237	1,147,989
Used to finance property, plant and equipment - at cost	(779,237)	(1,147,989)
Cash set aside for the repayment of long-term liabilities	-	-
Cash invested for repayment of long-term liabilities	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

**43. BUDGET INFORMATION****43.1 Explanation of variances between approved and final budget amounts**

The reasons for the variances between the approved and final budgets are mainly due to virements, and the negative effect of the abnormal high electricity and solid waste tariff increases on consumer debtors, the decrease in the capital expenditure, and the reprioritising of capital projects, with the corresponding changes to funding sources.

**Explanation of variances greater than 5%: Final Budget and Actual Amounts****43.2 Statement of Financial Position****43.2.1 Current Assets****Cash**

*Balance Sheet budgeting was done incorrectly on the system. Amounts as contained in the original budget were incorrect due to incorrect use of signs on the system.*

**Call Investment Deposits**

*Balance Sheet budgeting was done incorrectly on the system. In the original budget the investment deposits were all captured under Cash and not split between the 2 categories.*

**Consumer Debtors**

*Balance Sheet budgeting was done incorrectly on the system. The original budget did not factor in the provision for bad debts and showed the gross amount*

**Other Debtors**

*Balance Sheet budgeting was done incorrectly on the system. The original budget did not factor in the provision for bad debts and showed the gross amount.*

**43.2.2 Non-Current Assets****Investment Property**

*The amount budgeted only related to movements and did not take the opening balance into consideration as the Asset module was on active on the mSCOA system.*

**Property, Plant and Equipment**

*The amount budgeted only related to movements and did not take the opening balance into consideration as the Asset module was on active on the mSCOA system.*

**Intangible Assets**

*The amount budgeted only related to movements and did not take the opening balance into consideration as the Asset module was on active on the mSCOA system.*

**Heritage Assets**

*The amount budgeted only related to movements and did not take the opening balance into consideration as the Asset module was on active on the mSCOA system.*

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

**43.2.3 Current Liabilities**

## Trade and Other Payables

*Balance Sheet budgeting was done incorrectly on the system. The actual amount was lower due to more suppliers submitting their invoices on time prior to year-end.*

## Payables from Non-exchange Transactions

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

## Provisions

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

## Current Employee Benefits

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

## Unspent Transfers and Subsidies

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

## Current Portion of Long-term Borrowings

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

**43.2.4 Non-Current Liabilities**

## Borrowing

*This was a result under budgeting for the line item.*

## Payables from Non-exchange Transactions

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

## Provisions

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

## Non-current Employee Benefits

*Balance Sheet budgeting was done incorrectly on the system. Line item not provided for.*

**43.2.5 Net Assets**

## Accumulated Surplus/(Deficit)

*Refer to reasons for variances under Statement of Financial Performance.*



## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## Statement of Financial Performance

## 43.2.6 Revenue

## Property Rates

*The estimated incremental amount for budgeting purposes was lesser than actual improved incremental amount.*

## Service Charges - Electricity Revenue

*Difference considered reasonable.*

## Service Charges - Refuse Revenue

*The estimated demand in the second half of the year was not as high as in the first half, hence the under billing.*

## Rental of Facilities and Equipment

*Slightly underbudgeted for Rentals based on low revenue for the first half of the year.*

## Interest Earned - External Investments

*Lesser funds were invested due to lower funds available for investment due to quicker spending on existing projects.*

## Interest Earned - Outstanding Debtors

*Difference considered reasonable.*

## Fines

*Underperformance by the Traffic Department due to limited resources to perform law enforcement activities as they also perform daily tests at the station.*

## Licences and Permits

*Improvement due to the Traffic Station being fully operational and increased number of people utilising it.*

## Agency Services

*Difference considered reasonable.*

## Transfers Recognised - Operational

*Difference considered reasonable.*

## Other Revenue

*Underperformance was due to lower amounts recovered from the Insurance for claims made in the current year.*

## Transfers Recognised - Capital

*Difference considered reasonable.*

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

**43.2.7 Expenditure**

## Employee Related Costs

*Difference due to savings from unfilled and vacated posts.*

## Remuneration of Councillors

*Difference considered reasonable.*

## Debt Impairment

*Budget was based on prior years as it is difficult to accurately estimate this expenditure.*

## Depreciation and Asset Impairment

*Budget was based on prior years as it is difficult to accurately estimate this expenditure.*

## Finance Charges

*Finance Charges budgeted only related to the finance lease.*

## Bulk Purchases

*Difference considered reasonable.*

## Other Materials

*Savings as a result of stricter expenditure controls and cost containment measures.*

## Contracted Services

*Savings as a result of stricter expenditure controls and cost containment measures.*

## Transfers and Grants

*A court case was settled before year-end which was not budgeted for.*

## Other Expenditure

*Savings as a result of stricter expenditure controls and cost containment measures.*

## Derecognition of assets

*It was not anticipated that the landfill site will be derecognised.*

**Cash Flow Statement****43.2.8 Net Cash from Operating Activities**

## Taxation

*Improved payment rate for Taxes as the statements were more accurate in the second half of the*

## Service Charges

*Low collection rate experienced through the year.*

## Interest

*This is the actual amount received from the bank, the budget also provided for collection from*

## Other Revenue

*Various unexpected funds received including Insurance payouts.*

## Suppliers and Employees

*Considered in line with the budgeted amounts.*

## Finance costs

*Over provided based on prior years.*

## Transfers and Grants

*Amount recorded under suppliers and employees as the amount was spent on goods and not*

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## 43.2.9 Net Cash from Investing Activities

Proceeds on disposal of PPE

*Non expected proceeds*

Capital Assets

*Incorrectly budgeted for in the budget.*

## 43.2.10 Net Cash from Financing Activities

Repayment of Borrowing

*Amount budgeted was based on prior year figures.*

	2019 R	2018 R
<b>44. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</b>		
<b>44.1 <u>Unauthorised expenditure</u></b>		
Reconciliation of unauthorised expenditure:		
Opening balance	5,819,238	-
Unauthorised expenditure current year - operational	(26,830,290)	5,819,238
Unauthorised expenditure current year - capital	-	-
Approved by Council or condoned	(5,819,238)	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	(26,830,290)	5,819,238
	2019 R	2018 R

Unauthorised expenditure can be summarised as follow:

Incident	Disciplinary steps/criminal proceedings		
	<i>Approved with a special adjustment budget in line with the guidance provided in Circular 68 of the MFMA - Resolution no: SCM 480/12/2018</i>	5,819,238	-
<i>Over expenditure of approved budget</i>		5,819,238	-

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 Actual R	2019 Final Budget R	2019 Variance R	2019 Unauthorised R
<b><u>Unauthorised expenditure current year - operating</u></b>				
Budget and Treasury Office	36,650,349	31,767,072	(4,883,277)	(4,883,277)
Community and Social Services	40,997,222	41,858,125	660,903	
Corporate Services	43,420,167	21,473,154	(21,947,013)	(21,947,013)
Executive and Council	31,020,806	34,763,604	3,742,798	
Infrastructure Development and Human Settlements	56,885,888	57,083,872	197,984	
Planning, Economic Development, Tourism and Agriculture	8,279,162	8,731,295	452,133	
	<u>217,253,594</u>	<u>195,477,122</u>	<u>(21,776,472)</u>	<u>(26,830,290)</u>

	2019 Actual R	2019 Final Budget R	2019 Variance R	2019 Unauthorised R
<b><u>Unauthorised expenditure current year - capital</u></b>				
Community and Social Services	28,613,796	28,749,174	135,378	
Corporate Services	43,304	870,000	826,696	
Executive and Council	2,725,054	3,000,001	274,947	
Infrastructure Development and Human Settlements	11,578,332	13,282,727	1,704,395	
Planning, Economic Development, Tourism and Agriculture	1,048,901	1,200,000	151,099	
	<u>44,009,387</u>	<u>47,101,902</u>	<u>3,092,515</u>	<u>-</u>

44.2 **Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure:

Opening balance		10,484	1,262
Fruitless and wasteful expenditure current year		5,124	13,848
Condoned or written off by Council		(10,136)	-
Fruitless and wasteful expenditure recovered		(4,676)	(4,626)
Fruitless and wasteful expenditure awaiting condonement		<u>796</u>	<u>10,484</u>

Fruitless and wasteful expenditure can be summarised as follow:

Incident	Disciplinary steps/criminal proceedings	2019 R	2018 R
<b><u>Interest incurred on late payment of suppliers</u></b>			
Department of Transport	<i>Written off by council through resolution no: SCM</i>	-	9,388
Eskom	<i>Investigated and recovered after year-end</i>	-	348
SA Post Office	<i>Written off by council through resolution no: SCM</i>	-	120
Vox	<i>Written off by council through resolution no: SCM</i>	-	628
Eskom	<i>Under investigation</i>	132	-
Vox Telecommunications	<i>Under investigation</i>	485	-
Shepstone Wylie Attorneys	<i>Under investigation</i>	180	-
		<u>796</u>	<u>10,484</u>

44.3 **Irregular expenditure**

Reconciliation of irregular expenditure:

Opening balance		15,468,449	1,850,629
Irregular expenditure current year		334,675	15,468,449
Expenditure authorised i.t.o. Section 32 of MFMA			
Written off		(15,468,449)	(1,850,629)
Transfer to receivables for recovery - not condoned			
Irregular expenditure awaiting further action		<u>334,675</u>	<u>15,468,449</u>

## EMALAHLENI MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
Irregular expenditure can be summarised as follow:		
<b>Incident</b>	<b>Disciplinary steps/criminal proceedings</b>	
<i>Service provider was contracted to advertise the municipality on their website without following SCM processes.</i>	None	
	334,675	-
<i>An award was made to a supplier in service of the state who did not declare their interest. This was identified via Computer Assisted Auditing Techniques by the Auditor-General.</i>	<i>Written off by council during the Fifth Ordinary Council meeting on 30 May 2019, via resolution OCM 576/05/2019.</i>	11,390
	-	-
<i>A contract was awarded to a supplier that did not comply with the minimum grading in terms of the Construction Industry Development Board</i>	<i>Written off by council during the Fifth Ordinary Council meeting on 30 May 2019, via resolution OCM 576/05/2019.</i>	9,956,195
	-	-
<i>Awards were made to suppliers where the Bid adjudication committee did not compose of the required number (4) of senior managers as required by Supply Chain regulation 29(2).</i>	<i>Written off by council during the Fifth Ordinary Council meeting on 30 May 2019, via resolution OCM 576/05/2019.</i>	5,320,664
	-	-
<i>Award for Bid number: ELM/2/9/2017Q (Appointment of an accredited service provider to train ward committees on displaying understanding of core municipal processes &amp; committee participation) was evaluated without considering functionality according to the predetermined specification.</i>	<i>Written off by council during the Fifth Ordinary Council meeting on 30 May 2019, via resolution OCM 576/05/2019.</i>	180,200
	-	-
	<u>334,675</u>	<u>15,468,449</u>

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

#### 44.4 Awards to suppliers in service of the state

The following awards were made to a supplier in service of the state during the year:

Name of person	State organ	Capacity	2019 R	2018 R
Chuma Mbande	Coega Development Corporation	Executive manager	230,147	245,011

#### 45. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

##### 45.1 Contributions to organised local government - [MFMA 125 (1)(b)] - (SALGA CONTRIBUTIONS)

Opening balance	-	-
Council subscriptions	853,110	789,260
Amount paid - current year	(853,110)	(789,260)
<b>Balance unpaid (included in creditors)</b>	<u>-</u>	<u>-</u>

##### 45.2 Audit fees - [MFMA 125 (1)(c)]

Opening balance	-	(161,898)
Current year audit fee	5,289,670	3,619,146
External Audit - Auditor-General	<u>5,289,670</u>	<u>3,619,146</u>
Amount paid - current year	(5,285,806)	(3,457,248)
<b>Balance unpaid (included in creditors)</b>	<u>3,864</u>	<u>-</u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b>45.3 VAT - [MFMA 125 (1)(c)]</b>		
Opening balance	(105,550)	(2,855,849)
Amounts received - previous year	105,550	2,855,849
Amounts received - current year	5,063,821	6,108,244
Returns issued	(7,392,105)	(6,213,794)
<b>Closing balance receivable</b>	<b>(2,328,283)</b>	<b>(105,550)</b>

VAT is payable on the receipt basis. Only once payment is received from the debtors is VAT paid over to SARS.

<b>45.4 PAYE and UIF - [MFMA 125 (1)(c)]</b>		
Opening balance	-	1,211,446
Current year payroll deductions and Council Contributions	12,473,517	11,250,818
Amount paid - previous year	-	(1,211,446)
Amount paid - current year	(12,473,517)	(11,250,818)
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>

<b>45.5 Pension and Medical Aid Deductions - [MFMA 125 (1)(c)]</b>		
Opening balance	-	-
Current year payroll deductions and Council Contributions	16,962,690	15,578,814
Amount paid - current year	(16,962,690)	(15,578,814)
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>

	2019 R	2018 R
<b>45.6 Councillor's arrear consumer accounts - [MFMA 124 (1)(b)]</b>		
The following Councillors had arrear accounts for more than 90 days as at 30 June 2019:		
	<b>Outstanding more than 90 days</b>	
<i>M Limba</i>	1,156	-

**45.7 Disclosures in terms of the Municipal Supply Chain Management Regulations - Promulgated by Government Gazette 27636 dated 30 May 2005**

Regulation 36(2) - Details of deviations approved by the Accounting Officer in terms of Regulation 36(1)(a) and (b)

2019:	Amount	Type of Deviation		
		Single Supplier	Impractical	Emergency
July	59,675	-	59,675	-
August	100,250	74,776	25,475	-
September	30,862	5,453	25,409	-
October	227,905	160,234	67,671	-
November	171,592	145,880	25,713	-
December	111,632	50,066	61,566	-
January	136,844	79,408	57,437	-
February	376,303	116,246	67,605	192,453
March	21,572	-	21,572	-
April	104,295	53,512	50,783	-
May	131,296	16,718	67,929	46,648
June	252,874	53,150	112,535	87,189
	<b>1,725,101</b>	<b>755,442</b>	<b>643,369</b>	<b>326,290</b>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2018:	Amount	Type of Deviation		
		Single Supplier	Impractical	Emergency
July	-	-	-	-
August	-	-	-	-
September	23,356	23,356	-	-
October	44,166	44,166	-	-
November	35,541	35,541	-	-
December	-	-	-	-
January	72,382	59,762	12,620	-
February	74,748	59,695	15,053	-
March	157,955	139,688	18,268	-
April	77,244	58,939	18,304	-
May	130,252	111,154	19,098	-
June	403,134	381,851	21,282	-
	<u>1,018,777</u>	<u>914,152</u>	<u>104,625</u>	<u>-</u>

45.8 Material lossesElectricity distribution losses

Units purchased (Kwh)		10,767,745	10,803,747
Units lost during distribution (Kwh)		2,811,128	2,986,982
Percentage lost during distribution		26.11%	27.65%
Distribution loss (Rand Value)			

The reason for the increase in electricity losses is due to electricity theft on pre-paid meters. Fines were issued for first time offenders.

46. FINANCIAL RISK MANAGEMENT

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transactions.

(b) Price Risk

The municipality is not exposed to price risk.

(c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
The potential impact on the entity's surplus/(deficit) for the year due to changes in interest rates were as follow:		
1% (2018: 1%) Increase in interest rates	33,693	(46,466)
0.5% (2018: 0.5%) Decrease in interest rates	(16,847)	23,233

**(d) Credit Risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk arises mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other receivables are disclosed net after provisions are made for impairment and bad debts. Trade receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other receivables is considered to be moderate due the diversified nature of receivables and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The credit quality of receivables are further assessed by grouping individual debtors into different categories with similar risk profiles. The categories include the following: Bad Debt, Deceased, Good payers, Slow Payers, Government Departments, Debtors with Arrangements, Indigents, Municipal Workers, Handed over to Attorneys and Untraceable account. These categories are then impaired on a group basis based on the risk profile/credit quality associated with the group.

All rates and services are payable within 30 days from invoice date. Refer to note 6 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

The provision for bad debts could be allocated between the different classes of receivables as follow:

	2019 %	2019 R	2018 %	2018 R
<u>Non-exchange Receivables</u>				
Rates	25.72%	19,866,650	28.31%	16,876,078
<u>Exchange Receivables</u>				
Services	74.28%	57,367,964	71.69%	42,727,516
	100.00%	77,234,614	100.00%	59,603,594

No receivables are pledged as security for financial liabilities.

Due to short term nature of trade and other receivables the carrying value disclosed in note 6 and 7 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.



## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

<u>Ageing of amounts past due but not impaired are as follow:</u>	Exchange Receivables	Non-exchange Receivables
<b>2019</b>		
1 month past due	1,368,087	606,777
2+ months past due	1,257,363	3,807,029
	<u>2,625,450</u>	<u>4,413,806</u>
<b>2018</b>		
1 month past due	824,433	185,990
2+ months past due	2,142,456	2,172,151
	<u>2,966,889</u>	<u>2,358,141</u>

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank and Standard Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

	2019 R	2018 R
Financial assets exposed to credit risk at year end are as follows:		
Receivables from exchange transactions	63,596,600	4,014,264
Receivables from non-exchange transactions	25,235,612	5,910,505
Cash and Cash Equivalents	4,148,547	5,866,415
	<u>92,980,759</u>	<u>15,791,184</u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## (e) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

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

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
<b>2019</b>				
Long-term Liabilities	466,954	389,128	-	-
Trade and Other Payables	13,113,256	-	-	-
Unspent Transfers and Subsidies	1,533,060	-	-	-
	<u>15,113,270</u>	<u>389,128</u>	<u>-</u>	<u>-</u>
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
<b>2018</b>				
Long-term Liabilities	466,954	856,082	-	-
Trade and Other Payables	9,171,340	-	-	-
Unspent Transfers and Subsidies	-	-	-	-
	<u>9,638,293</u>	<u>856,082</u>	<u>-</u>	<u>-</u>

## 47. FINANCIAL INSTRUMENTS

In accordance with GRAP104.45 the financial liabilities and assets of the municipality are classified as follows:

47.1	<u>Financial Assets</u>	<u>Classification</u>	2019 R	2018 R
	<b>Receivables from Exchange Transactions</b>			
	Electricity	Financial Instruments at amortised cost	9,218,550	2,620,242
	Property Rentals	Financial Instruments at amortised cost	3,321,563	2,678,198
	Waste Management	Financial Instruments at amortised cost	49,764,772	40,303,030
	Service charges	Financial Instruments at amortised cost	151,406	-
	Chris Hani Debtor	Financial Instruments at amortised cost	1,140,309	1,140,309
	<b>Receivables from Non-Exchange Transactions</b>			
	Eskom		(0)	3,357,740
	Other Receivables		787,917	8,634
	<b>Cash and Cash Equivalents</b>			
	Bank Balances	Financial Instruments at amortised cost	2,732,907	2,602,716
	Call Deposits	Financial Instruments at amortised cost	1,415,640	3,263,228
	Cash Floats	Financial Instruments at amortised cost	470	470
	<b>Total Financial Assets</b>		<u>68,533,534</u>	<u>55,974,568</u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

		2019 R	2018 R
<b>Financial Instruments at amortised cost:</b>			
Receivables from Exchange Transactions	Electricity	9,218,550	2,620,242
Receivables from Exchange Transactions	Property Rentals	3,321,563	2,678,198
Receivables from Exchange Transactions	Waste Management	49,764,772	40,303,030
Receivables from Exchange Transactions	Service charges	151,406	-
Receivables from Exchange Transactions	Chris Hanu Debtor	1,140,309	1,140,309
Receivables from Non-exchange Transactions	Eskom	(0)	3,357,740
Receivables from Non-exchange Transactions	Other Receivables	787,917	8,634
Cash and Cash Equivalents	Bank Balances	2,732,907	2,602,716
Cash and Cash Equivalents	Call Deposits	1,415,640	3,263,228
Cash and Cash Equivalents	Cash Floats	470	470
		<b>68,533,534</b>	<b>55,974,568</b>
<b>47.2</b>	<b><u>Financial Liabilities</u></b>		
	<b><u>Classification</u></b>		
<b>Long-term Liabilities</b>			
Capitalised Lease Liability	Financial Instruments at amortised cost	779,237	1,147,989
<b>Trade and Other Payables</b>			
Trade Payables	Financial Instruments at amortised cost	4,464,818	3,685,149
Third party payables (Payroll)	Financial Instruments at amortised cost	(3,415)	30,028
Sundry Deposits	Financial Instruments at amortised cost	63,976	46,009
Sundry Creditors	Financial Instruments at amortised cost	78,352	68,526
Retentions and Guarantees	Financial Instruments at amortised cost	8,509,526	5,341,629
<b>Other payables</b>			
Unspent transfers and subsidies	Financial Instruments at amortised cost	1,533,060	-
		<b>15,425,553</b>	<b>10,319,328</b>
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial instruments at amortised cost:</b>			
Long-term Liabilities	Capitalised Lease Liability	779,237	1,147,989
Trade and Other Payables	Trade Payables	4,464,818	3,685,149
Trade and Other Payables	Third party payables (Payroll)	(3,415)	30,028
Trade and Other Payables	Sundry Deposits	63,976	46,009
Trade and Other Payables	Sundry Creditors	78,352	68,526
Trade and Other Payables	Retentions and Guarantees	8,509,526	5,341,629
Other payables	Unspent transfers and subsidies	1,533,060	-
		<b>15,425,553</b>	<b>10,319,328</b>
<b>48.</b>	<b>STATUTORY RECEIVABLES</b>	<b>2019 R</b>	<b>2018 R</b>
In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:			
<b>Taxes</b>			
VAT Receivable		6,811,298	3,423,986
<b>Receivables from Non-Exchange Transactions</b>			
Rates		24,447,694	19,420,209
		<b>24,447,694</b>	<b>19,420,209</b>
<b>Total Statutory Receivables (before provision)</b>		<b>31,258,993</b>	<b>22,844,195</b>
<b>Less:</b> Provision for Debt Impairment		<b>(19,866,650)</b>	<b>(16,876,078)</b>
<b>Total Statutory Receivables (after provision)</b>		<b>11,392,342</b>	<b>5,968,117</b>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
<b><u>Reconciliation of Provision for Debt Impairment</u></b>		
Balance at beginning of year	16,876,078	13,750,525
Contribution to provision	2,990,572	3,186,073
Reversal of provision	-	(60,519)
Balance at end of year	<u>19,866,650</u>	<u>16,876,078</u>
<b><u>Ageing of amounts past due and impaired:</u></b>		
1 month past due	(439,539)	-
2+ months past due	20,473,427	17,062,069
	<u>20,033,889</u>	<u>17,062,069</u>
<b><u>Ageing of amounts past due but not impaired:</u></b>		
1 month past due	606,777	185,990
2+ months past due	3,807,029	2,172,151
	<u>4,413,806</u>	<u>2,358,141</u>
<b><u>Interest Received from Statutory Receivables</u></b>		
Taxes		-
Receivables from Non-Exchange Transactions	1,559,267	1,494,171
	<u>1,559,267</u>	<u>1,494,171</u>

EMALAHLENI MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

49. CONTINGENT LIABILITY	2019 R	2018 R
<p>The municipality is currently engaged in litigation which could result in damages/costs being awarded against Council if claimants are successful in their actions. The following are the estimates:</p> <p><i>Description of event</i></p>		
Summons was issued against Emalahleni Municipality by W.Kuyane. The Plaintiff, Mr Mkuyana, has sued the Municipality for damages based on non compliance with the contract of employment by the employer. The matter was set down for trial in the Mthatha High Court in June 2016. The matter was postponed sine die during the June 2016 hearing. A cost order was granted against the Plaintiff. During December 2017 certain properties of the Plaintiff were attached and subsequently sold on auction. An amount of R40 000.00 was realised from the auction. The matter was handled by BLC Attorneys because it was a pending matter before their contract with the Municipality expired.	-	3,191,000
Magwayi vs Emalahleni Local Municipality: The Plaintiff is suing on behalf of the minor child, who was electrocuted at the Dodrecht sub -station. The Plaintiff is suing for damages based on the negligence of the Municipality to properly secure the substation. The Plaintiff is suing for an amount of R3,500 000.00 in damages. All papers have been exchanged between parties. The matter is set down for trial in August, pending negotiations between the parties. This matter has been settled for an amount of R10 567 503. A payable has been recognised for this amount and therefore no contingent liability exists at 30 June 2019. Refer to note 18.	-	4,000,000
Vatala vs Emalahleni Local Municipality: The Municipal Manager and Director: Corporate services took the Municipality to court after council recent their appointment. Council had rescinded that decision. Matter is still in court.	400,000	300,000
N Ngqola vs Emalahleni Local Municipality. Reclaiming attached vehicle that has been sold.	250,000	-
Ngqola vs Emalahleni Local Municipality. Spoliation order application on electricity supply disconnection.	150,000	-
Mlungwana vs Emalahleni Local Municipality. Spoliation order application on electricity supply disconnection.	150,000	-
Njuze vs Emalahleni Local Municipality. Labour court claim for compensation for work allegedly done while acting in another post.	1,500,000	-
Martinus Grobler vs Emalahleni Local Municipality. Claim for payment for services allegedly rendered to the municipality.	70,000	-
<b>Claims against Council</b>	<b><u>2,520,000</u></b>	<b><u>7,491,000</u></b>
<b>CONTINGENT ASSETS</b>		
A fraud case against employees amounted to R332 186.94 is in the process of investigation and mitigation.	322,187	322,187
<b>Claims by Council</b>	<b><u>5,362,187</u></b>	<b><u>322,187</u></b>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
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## 50. RELATED PARTIES

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

## 50.1 Related Party Transactions

	Rates	Service Charges	Other	Outstanding Balance
<b>Year ended 30 June 2019</b>				
Councillors				
MS LIMBA	-	1,292	76	1,562
LCN NYUKWANA	98,207	9,586	644	19,633
	<u>98,207</u>	<u>10,878</u>	<u>721</u>	<u>21,195</u>
<b>Year ended 30 June 2018</b>				
Councillors				
MS LIMBA	-	1,089	9	0
LCN NYUKWANA	1	-	-	1
PF GREYLING	13,474	2,177	41	(1,421)
PF GREYLING	-	1,089	3	(1)
PF GREYLING	1,321	2,177	10	1
PF GREYLING	2,298	-	6	(211)
PF GREYLING	811	-	9	(148)
PF GREYLING	113	-	0	(10)
PF GREYLING	583	-	2	(53)
PF GREYLING	5,235	-	15	(480)
PF GREYLING	10,049	-	25	(922)
	<u>33,885</u>	<u>6,533</u>	<u>119</u>	<u>(3,245)</u>

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

## 50.2 Related Party Loans

None

## 50.3 Compensation of key management personnel

The compensation of key management personnel is set out in note 29 to the Annual Financial Statements.

## 50.4 Other related party transactions

The following purchases were made during the year where Councillors or staff have an interest:

Company Name	Related Party	Service Capacity		
Universal Garage	P.Greyling	Councillor	259,214	297,034
Khazimla Holdings (Pty) Ltd	NM. Ziduli	Councillor	37,465	125,970
Mtyoble Trading and Projects (P N Mtyobile		Councillor	-	2,565
			<u>296,679</u>	<u>425,569</u>

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## 50.5 Other related party balances

The following outstanding balances exist at year-end where Councillors or staff have an interest:

Company Name	Related Party	Service Capacity		
Universal Garage	P. Greyling	Councillor	7,557	50,029
Khazimla Holdings (Pty) Ltd	NM. Ziduli	Councillor	-	12,125
			<u>7,557</u>	<u>62,154</u>

## 51. FINANCIAL SUSTAINABILITY

Management is of the opinion that will municipality will continue to operate as a going concern and perform it's functions as set out in the Constitution.

The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:

**Financial Indicators**

The current ratio decreased to 0.44:1 from 0.58:1 in the prior year.

The municipality have budgeted for a surplus of R7 569 000 for the 2018/2019 financial year. The municipality is also budgeting for negative cash flows during 2018/2019 and 2019/2020 amounting to R11 582 000 and R5 086 000 respectively.

The average debtors' payment days decreased to 351 days from 748 days. Even though this is a significant increase, it is considerably below the expected 30 days. The debtors impairment ration increased to 87% from the previous years 86%.

**Other Indicators**

Possible outflow of resources due the contingent liability disclosed in note 49.

**APPENDIX A  
EMALAHLENI MUNICIPALITY  
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2019**

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 June 2018	Correction of Error	Received during the period	Redeemed off during the period	Balance at 30 June 2019	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with the MFMA
<b>LEASE LIABILITY</b>										
Xerox C405			30/04/2021	17,908	-	-	(5,752)	12,156	16,751	-
Xerox C405			30/04/2021	17,908	-	-	(5,752)	12,156	16,751	-
Xerox C405			30/04/2021	17,908	-	-	(5,752)	12,156	16,751	-
Xerox C7020/5			30/04/2021	44,831	-	-	(14,401)	30,431	41,934	-
Xerox C7020/5			30/04/2021	44,831	-	-	(14,401)	30,431	41,934	-
Xerox C7020/5			30/04/2021	44,831	-	-	(14,401)	30,431	41,934	-
Xerox WC7225			30/04/2021	44,831	-	-	(14,401)	30,431	41,934	-
Xerox WC7225			30/04/2021	44,831	-	-	(14,401)	30,431	41,934	-
Xerox C8070			30/04/2021	138,883	-	-	(44,611)	94,271	129,907	-
Xerox C8070			30/04/2021	138,883	-	-	(44,611)	94,271	129,907	-
Xerox C8070			30/04/2021	138,883	-	-	(44,611)	94,271	129,907	-
Xerox D95			30/04/2021	251,835	-	-	(80,893)	170,942	235,560	-
<b>Total Lease Liabilities</b>				<b>1,147,989</b>	<b>-</b>	<b>-</b>	<b>(368,752)</b>	<b>779,237</b>	<b>1,073,796</b>	<b>-</b>
<b>TOTAL EXTERNAL LOANS</b>				<b>1,147,989</b>	<b>-</b>	<b>-</b>	<b>(368,752)</b>	<b>779,237</b>	<b>1,073,796</b>	<b>-</b>



**APPENDIX B**  
**EMALAHLENI MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**  
**GENERAL FINANCE STATISTIC CLASSIFICATIONS**

2018 Actual Income R	2018 Actual Expenditure R	2018 Surplus/ (Deficit) R		2019 Actual Income R	2019 Actual Expenditure R	2019 Surplus/ (Deficit) R
6,669,540	(31,782,947)	(25,113,407)	<b>Governance and Administration</b>	-	(31,020,806)	(31,020,806)
120,865,046	(64,138,951)	56,726,095		130,692,978	(82,399,153)	48,293,825
-	-	-		-	-	-
2,000,437	(20,270,499)	(18,270,062)	<b>Community and Public Safety</b>	2,412,035	(7,611,489)	(5,199,454)
-	-	-		-	(489,837)	(489,837)
-	(631,263)	(631,263)		-	-	-
-	(2,489,258)	(2,489,258)		170,560	(2,473,873)	(2,303,313)
-	-	-		-	-	-
884,425	(7,656,513)	(6,772,088)	<b>Economic and Environmental Services</b>	757,443	(11,797,594)	(11,040,151)
37,021,777	(38,072,868)	(1,051,091)		45,924,000	(10,884,922)	35,039,078
-	-	-		-	-	-
-	-	-		-	-	-
10,385,363	(16,400,535)	(6,015,172)	<b>Trading Services</b>	16,463,594	(37,687,231)	(21,223,637)
-	-	-		-	-	-
-	-	-		-	-	-
6,445,179	(9,132,966)	(2,687,787)		13,499,445	(32,895,896)	(19,396,451)
-	-	-	<b>Other</b>	-	-	-
184,271,768	(190,575,801)	(6,304,033)	<b>Sub Total</b>	209,920,055	(217,260,800)	(7,340,745)
-	-	-	<b>Less Inter-Departmental Charges</b>	-	-	-
184,271,768	(190,575,801)	(6,304,033)	<b>Total</b>	209,920,055	(217,260,800)	(7,340,745)

**APPENDIX C**  
**EMALAHLENI MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**  
**MUNICIPAL VOTES CLASSIFICATIONS**

2018 Actual Income R	2018 Actual Expenditure R	2018 Surplus/ (Deficit) R		2019 Actual Income R	2019 Actual Expenditure R	2019 Surplus/ (Deficit) R
6,669,540	(31,782,947)	(25,113,407)	<b>Municipal Manager</b>			
			Mayor and Council	-	(31,020,806)	(31,020,806)
120,865,046	(44,167,013)	76,698,033	<b>Chief Financial Officer</b>			
			Budget and Treasury Office	130,692,978	(38,978,986)	91,713,992
			<b>Director: Administration</b>			
-	(19,971,938)	(19,971,938)	Corporate Services	-	(43,420,167)	(43,420,167)
884,425	(7,656,513)	(6,772,088)	Planning and Development	757,443	(11,797,594)	(11,040,151)
			<b>Director: Community Services</b>			
1,994,694	(19,971,215)	(17,976,521)	Community and Social Services	2,412,035	(7,611,489)	(5,199,454)
5,743	(1,170,233)	(1,164,490)	Sport and Recreation	-	(489,837)	(489,837)
-	(2,489,258)	(2,489,258)	Housing	170,560	(2,473,873)	(2,303,313)
			<b>Director: Technical Services</b>			
37,021,777	(38,072,868)	(1,051,091)	Road Transport	45,924,000	(10,884,922)	35,039,078
10,373,468	(15,813,131)	(5,439,664)	Electricity	16,463,594	(37,687,231)	(21,223,637)
6,445,179	(8,893,281)	(2,448,101)	Waste Management	13,499,445	(32,895,896)	(19,396,451)
184,259,872	(189,988,397)	(5,728,525)	Sub Total	209,920,055	(217,260,800)	(7,340,745)
-	-	-	Less Inter-Departmental Charges	-	-	-
184,259,872	(189,988,397)	(5,728,525)	<b>Total</b>	209,920,055	(217,260,800)	(7,340,745)

APPENDIX D  
EMALAHLENI MUNICIPALITY  
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 30 June 2018	Correction of Error	Restated Balance 30 June 2018	Contributions during the year	Interest on Investments	Repaid to National Revenue Fund	Operating Expenditure Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 30 June 2019	Unspent 30 June 2019 (Creditor)	Unpaid 30 June 2019 (Debtor)
<b>National Government Grants</b>											
Equitable Share	-	-	-	115,774,000	-	-	(115,774,000)	-	-	-	-
Finance Management Grant	-	-	-	2,415,000	-	-	(2,415,000)	-	-	-	-
Municipal Infrastructure Grant	-	-	-	43,902,000	-	-	(1,345,187)	(42,556,813)	-	-	-
Extended Public Works Programme	-	-	-	2,022,000	-	-	-	(2,022,000)	-	-	-
<b>Total National Government Grants</b>	-	-	-	<b>164,113,000</b>	-	-	<b>(119,534,187)</b>	<b>(44,578,813)</b>	-	-	-
<b>Provincial Government Grants</b>											
DEDEAT: Waste management grant	-	-	-	3,000,000	-	-	(2,286,641)	(246,599)	466,761	466,761	-
Library	-	-	-	900,000	-	-	(900,000)	-	-	-	-
<b>Total Provincial Government Grants</b>	-	-	-	<b>3,900,000</b>	-	-	<b>(3,186,641)</b>	<b>(246,599)</b>	<b>466,761</b>	<b>466,761</b>	-
<b>District Municipality</b>											
Paving and beautification	-	-	-	500,000	-	-	(487,826)	-	12,174	12,174	-
Ward based plans	-	-	-	500,000	-	-	(75,876)	-	424,126	424,126	-
Dryland cropping programme	-	-	-	300,000	-	-	-	-	300,000	300,000	-
Allient plant project	-	-	-	30,000	-	-	-	-	30,000	30,000	-
Construction of feedlot	-	-	-	300,000	-	-	-	-	300,000	300,000	-
<b>Total District Municipality Grants</b>	-	-	-	<b>1,630,000</b>	-	-	<b>(563,701)</b>	-	<b>1,066,300</b>	<b>1,066,300</b>	-
<b>Total Grants</b>	-	-	-	<b>169,643,000</b>	-	-	<b>(123,284,528)</b>	<b>(44,825,412)</b>	<b>1,533,060</b>	<b>1,533,060</b>	-

The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received. No grants were withheld.