



**ELIAS MOTSOLEDI LOCAL MUNICIPALITY**

(Registration number LIM 472)

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## General Information

---

### Nature of business and principal activities

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

### Councillors List

#### Mayor

Cllr JL Mathebe

#### Chief Whip

Cllr TM Phahlamohlaka (Chief Whip)

#### Speaker

Cllr MD Tladi

#### Councillors

Cllr JL Mathebe (Mayor)  
Cllr TM Phahlamohlaka (Chief Whip)  
Cllr MD Tladi (Speaker)  
Cllr A Phatlane (Exco Member)  
Cllr AM Maloba (Exco Member)  
Cllr GD Matjomane (Exco Member)  
Cllr JP Kotze (Exco Member)  
Cllr KC Shai (Exco Member)  
Cllr MG Phetla (Exco Member)  
Cllr MS Mashilo (Exco Member)  
Cllr TA Machipa (Exco Member)  
Cllr TN Mmutle (Exco Member)  
Cllr AM Makweoane  
Cllr B Bogopa  
Cllr BM Zulu  
Cllr CN Mathebe  
Cllr EM Maphopha  
Cllr FM Mogotji  
Cllr GM Makeke  
Cllr GR Namane  
Cllr HJ Makunyane  
Cllr J Mahlangu  
Cllr KF Madisa  
Cllr KS Kgopa  
Cllr LM Moima  
Cllr M Ranala  
Cllr MA Mphela  
Cllr MB Ntuli  
Cllr MG Motlale  
Cllr MK Mokwane  
Cllr ML Mamakoko  
Cllr ML Phala  
Cllr MM Matsepe  
Cllr MN Malatji  
Cllr MP Tshivhula  
Cllr MR Msiza  
Cllr MT Mohlala  
Cllr MT Mosotho  
Cllr MW Ramphisa  
Cllr MZ Hlathi  
Cllr NN Mahlangu  
Cllr NT Matunyane  
Cllr P Masimula  
Cllr R Alberts  
Cllr RJ Makitla  
Cllr RM Ratau  
Cllr RN Ndlovu  
Cllr SH Mehlape

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## General Information

---

Cllr SM Maipushe  
Cllr SW Ratlou  
Cllr TA Phorothoe  
Cllr TM Mokganyetji  
Cllr TM Ntheko  
Cllr TS Matsepe  
Cllr TT Ratau  
Cllr VL Mthombeni  
Cllr VM Lecheko  
Cllr VP Madondo  
Cllr WJ Skhosana  
Cllr WN Oosthuizen  
Cllr Z Ngwenya

**Accounting Officer**

Mrs RM Maredi

**Business address**

2nd Grobler Avenue - Civic Centre  
Groblersdal  
0470

**Postal address**

PO Box 48  
Groblersdal  
0470

**Bankers**

Nedbank

**Auditors**

Office of the Auditor General (Polokwane)

**Grading of the Municipality**

Grade 3

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Index

---

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Audit Committee Report	5 - 6
Accounting Officer's Report	7 - 8
Statement of Financial Position	9
Statement of Financial Performance	10
Statement of Changes in Net Assets	11
Cash Flow Statement	12
Accounting Policies	19 - 43
Notes to the Annual Financial Statements	44

### Abbreviations

GRAP	Generally Recognised Accounting Practice
PAYE	Pay As You Earn
IAS	International Accounting Standards
INEP	Integrated National Electrification Programme
EPWP	Expanded Public works programme
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSCOA	Municipal Standard Chart Of Accounts
FMG	Finance Management Grant
MSIG	Municipal Systems Improvement Grants

# **ELIAS MOTSOLEDI LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Responsibilities and Approval**

---

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 9 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018.

---

**Mrs RM Maredi**  
**Accounting Officer**

**31 August 2018**

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Audit Committee Report

---

We are pleased to present our report for the year ended 30 June 2018.

### Audit committee members and attendance

The Audit Committee of the Municipality was established in terms of Section 166 of the Municipal Finance Management Act, Act 56 of 2003. The Audit Committee is comprising of five (05) members appointed for the period of three (03) years with effect from January 2016. The Audit Committee reported to council on their activities and recommendations as required by the Audit Committee Charter and section 166 of the MFMA. For the year under review, four (4) ordinary and five (05) special Audit Committee meetings were held.

The Audit Committee consists of the members listed hereunder.

<b>Audit Committee members</b>	<b>Number of meetings attended</b>
Mrs M.P Ramutsheli (Chairperson)	4 Normal - 4 Special - 8 Total
Mr V.K Chuene	4 Normal - 5 Special - 9 Total
Mr M.O Mojapelo	2 Normal - 4 Special - 6 Total
Mr M.M Thipe	4 Normal - 4 Special - 8 Total
Mr M.G Mathabathe	4 Normal - 5 Special - 9 Total

### Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee charter.

It has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The content and the quality of the yearly management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act have been reviewed by the Audit Committee.

The internal control environment was partially effective.

The Audit Committee is satisfied with Management's action to address deficiencies identified.

### Evaluation of annual financial statements

The Audit Committee has:

- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices
- reviewed the municipality's compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.
- reviewed the performance of the institution.

The Audit Committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Audit Committee Report

---

### Internal audit

The audit committee engaged and supported management team during the review of performance management information.

The municipality's Operating, Compliance, Performance and Risk Management controls are assessed by the internal audit function which is overseen by Audit Committee.

For the year under review the Internal Audit performed their responsibility in terms of the approved internal audit plan and reported their findings on regular basis to the Audit Committee and management for implementation.

In the quest for maintaining a sound control environment, the Audit Committee continues to build the necessary capacity within the municipality.

### Risk management

Every year the Council reviews the critical strategic risks facing the municipality and approves the municipality's risk approach.

The identification and assessment of those risks are informed amongst other things, by and understanding of our operational model including trends and interests of relevant stakeholders. The Audit Committee has overseen the process of developing risk strategy, risk register including mitigating factors for consideration by council.

The risk assessment was conducted quarterly during the year under review. The municipality had a full time Chief Risk Officer during the financial year.

### Auditor-General of South Africa

The Audit Committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

---

**Chairperson of the Audit Committee : Mrs M.P Ramutsheli**

**Date:** \_\_\_\_\_

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Officer's Report

---

The accounting officer submits her report for the year ended 30 June 2018.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and delivery of municipal services to the community.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and fully elaborated in the Statement of Comparison of Budget and Actual Amounts.

Net surplus of the municipality was R 13 601 904 (2017: deficit R 34 088 989).

### 2. Going concern

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

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial period which resulted in an adjusting subsequent event, or requiring further disclosure.

### 4. Accounting Officer's interest in contracts

The Accounting Officers does not have any interest in contracts of the Municipality.

### 5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year are set out in the notes to the financial statements.

### 7. Accounting Officer

The Accounting Officer of the municipality during the financial year and to the date of this report is :

**Name**  
Mrs RM Maredi

**Nationality**  
South African

### 8. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Officer's Report

---

### Councillors

The councillors:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising;
  - Mayor
  - Speaker
  - Executive committee councillors, and
  - Councillors.

### Mayor and Municipal Manager

The roles of the Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion. The Council and mayor performs their oversight role and duties in terms of the prescribed legislation and delegated authorities.

### Audit committee

The Audit Committee met during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint members of the Audit Committee.

### Internal audit

The municipality had four full time internal auditors for the year under review. The internal audit operates under section 165 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA).

### 9. Bankers

The municipality banks primarily with Nedbank.

### 10. Auditors

The Office of the Auditor General (Polokwane) will continue in office for the next financial period.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position

Figures in Rand	Note(s)	2018	2017 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	3 328 341	3 202 151
Receivables from exchange transactions	10	1 057 145	1 528 000
Receivables from non-exchange transactions	11	18 136 258	19 547 729
VAT receivable	12	11 673 080	18 060 451
Consumer debtors	13	24 952 612	20 636 049
Cash and cash equivalents	14	6 194 085	21 047 586
		<b>65 341 521</b>	<b>84 021 966</b>
<b>Non-Current Assets</b>			
Investment property	3	53 739 288	56 325 288
Property Plant and Equipment	4	951 853 689	923 932 192
Heritage Assets	5	463 363	463 363
Intangible assets	6	85 347	290 674
Deposit (Security held in advance)	8	12 706 118	11 932 253
		<b>1 018 847 805</b>	<b>992 943 770</b>
<b>Total Assets</b>		<b>1 084 189 326</b>	<b>1 076 965 736</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Deferred income	17	192 983	192 982
Finance lease obligation	15	-	6 899 877
Landfill Site Provision	18	1 707 120	2 947 231
Payables from exchange transactions	19	80 923 642	67 275 297
Consumer deposits	20	5 249 231	5 633 383
Employee benefit obligation	7	1 717 526	1 622 867
Unspent conditional grants and receipts	16	914 921	16 955 569
Provisions	18	633 421	333 471
		<b>91 338 844</b>	<b>101 860 677</b>
<b>Non-Current Liabilities</b>			
Deferred income	17	3 666 667	3 859 649
Landfill Site Provision	18	49 251 689	44 516 214
Employee benefit obligation	7	36 323 139	37 217 238
Provisions	18	4 713 236	4 218 110
		<b>93 954 731</b>	<b>89 811 211</b>
<b>Total Liabilities</b>		<b>185 293 575</b>	<b>191 671 888</b>
<b>Net Assets</b>		<b>898 895 751</b>	<b>885 293 848</b>
<b>Net Assets</b>			
Accumulated surplus		898 895 751	885 293 848

\* See Note 41

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Interest received	24	12 620 796	9 358 203
Licences and permits	21	4 955 863	5 255 414
Other income	23	1 522 446	6 976 694
Recoveries	23	22 447	1 104 833
Rental of facilities and equipment	34	944 246	1 318 716
Service charges	22	74 873 839	77 250 735
<b>Total revenue from exchange transactions</b>		<b>94 939 637</b>	<b>101 264 595</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	25 978 446	19 493 930
<b>Transfer revenue</b>			
Government grants & subsidies	27	324 063 649	282 035 154
Public contributions and donations		9 573 190	4 521 021
Fines, Penalties and Forfeits	21	67 325 397	50 884 525
<b>Total revenue from non-exchange transactions</b>		<b>426 940 682</b>	<b>356 934 630</b>
<b>Total revenue</b>	21	<b>521 880 319</b>	<b>458 199 225</b>
<b>Expenditure</b>			
Administration		(843 262)	(186 673)
Bulk purchases	32	(68 601 882)	(65 729 402)
Debt Impairment	31	(74 839 486)	(21 128 019)
Depreciation and amortisation	4&5&6	(53 653 958)	(54 913 404)
Employee related costs	28	(127 201 554)	(117 780 735)
Finance costs	30	(281 020)	(1 426 148)
General Expenses	33	(138 786 222)	(142 687 755)
Impairment loss/ Reversal of impairments	35	(630 188)	(4 041 316)
Lease rentals on operating lease	35	(7 873 341)	(7 473 615)
Remuneration of councillors	29	(22 873 581)	(20 297 858)
Repairs and maintenance		(12 305 069)	(12 547 111)
Transfers and Subsidies	26	(841 433)	(707 968)
<b>Total expenditure</b>		<b>(508 730 996)</b>	<b>(448 920 004)</b>
<b>Operating surplus/(deficit)</b>	35	<b>13 149 323</b>	<b>9 279 221</b>
Additional service cost landfill rehabilitation	18	(2 019 251)	(10 202)
Fair value adjustments - actuarial gains/(losses)	7&18	3 562 297	433 499
Investment property fair value adjustment	3	379 419	(40 411 043)
Profit/(Loss) on disposal of assets	35	(1 469 884)	(3 380 464)
		<b>452 581</b>	<b>(43 368 210)</b>
<b>Surplus/(deficit) for the year</b>		<b>13 601 904</b>	<b>(34 088 989)</b>

\* See Note 41

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2016</b>	<b>919 382 837</b>	<b>919 382 837</b>
Changes in net assets		
Surplus for the year	(34 088 989)	(34 088 989)
Total changes	(34 088 989)	(34 088 989)
Opening balance as previously reported	904 896 215	904 896 215
Adjustments		
2017 prior year adjustments (Note 41)	1 971 155	1 971 155
2016 prior year adjustments (Note 41)	(21 573 523)	(21 573 523)
<b>Balance at 01 July 2017 as restated</b>	<b>885 293 847</b>	<b>885 293 847</b>
Changes in net assets		
Surplus for the year	13 601 904	13 601 904
Total changes	13 601 904	13 601 904
<b>Balance at 30 June 2018</b>	<b>898 895 751</b>	<b>898 895 751</b>
Note(s)	41	

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Fines		7 578 865	2 718 886
Sale of goods and services		88 812 410	80 167 109
Grants		324 063 649	282 035 154
Interest		12 620 796	9 358 203
Other receipts		2 296 158	9 207 260
Licences and Permits		4 955 863	5 255 414
		<u>440 327 741</u>	<u>388 742 026</u>
<b>Payments</b>			
Employee costs		(146 517 206)	(134 247 202)
Suppliers		(197 510 715)	(155 151 924)
Finance cost		(281 020)	(1 426 148)
		<u>(344 308 941)</u>	<u>(290 825 274)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>96 018 800</u></b>	<b><u>97 916 752</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property plant and equipment	4	(106 372 423)	(80 664 683)
Proceeds from sale of property, plant and equipment	3	2 400 000	-
<b>Net cash flows from investing activities</b>		<b><u>(103 972 423)</u></b>	<b><u>(80 664 683)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(6 899 878)	(8 169 707)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(14 853 501)</u></b>	<b><u>9 082 362</u></b>
Cash and cash equivalents at the beginning of the year		21 047 586	11 965 225
<b>Cash and cash equivalents at the end of the year</b>	14	<b><u>6 194 085</u></b>	<b><u>21 047 587</u></b>

\* See Note 41

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	89 821 777	3 000 000	<b>92 821 777</b>	74 873 839	<b>(17 947 938)</b>	1
Rental of facilities and equipment	1 935 305	(935 312)	<b>999 993</b>	944 246	<b>(55 747)</b>	2
Licences and permits	5 170 789	(670 789)	<b>4 500 000</b>	4 955 863	<b>455 863</b>	3
Recoveries	-	-	-	22 447	<b>22 447</b>	4
Other income	2 498 748	11 179 076	<b>13 677 824</b>	1 522 446	<b>(12 155 378)</b>	5
Interest earned	9 961 399	6 798 529	<b>16 759 928</b>	12 620 796	<b>(4 139 132)</b>	6
<b>Total revenue from exchange transactions</b>	<b>109 388 018</b>	<b>19 371 504</b>	<b>128 759 522</b>	<b>94 939 637</b>	<b>(33 819 885)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	26 471 732	8 333 656	<b>34 805 388</b>	25 978 446	<b>(8 826 942)</b>	7
<b>Transfer revenue</b>						
Government grants & subsidies	297 023 000	27 489 319	<b>324 512 319</b>	324 063 649	<b>(448 670)</b>	8
Public contributions and donations	-	-	-	9 573 190	<b>9 573 190</b>	9
Fines, Penalties and Forfeits	30 000 000	25 015 960	<b>55 015 960</b>	67 325 397	<b>12 309 437</b>	10
<b>Total revenue from non-exchange transactions</b>	<b>353 494 732</b>	<b>60 838 935</b>	<b>414 333 667</b>	<b>426 940 682</b>	<b>12 607 015</b>	
<b>Total revenue</b>	<b>462 882 750</b>	<b>80 210 439</b>	<b>543 093 189</b>	<b>521 880 319</b>	<b>(21 212 870)</b>	
<b>Expenditure</b>						
Employee related costs	(123 460 142)	(2 677 054)	<b>(126 137 196)</b>	(127 201 554)	<b>(1 064 358)</b>	11
Remuneration of councillors	(22 112 835)	(1 317 408)	<b>(23 430 243)</b>	(22 873 581)	<b>556 662</b>	12
Administration	-	-	-	(843 262)	<b>(843 262)</b>	13
Depreciation and amortisation	(51 200 000)	-	<b>(51 200 000)</b>	(53 653 958)	<b>(2 453 958)</b>	14
Impairment loss/ Reversal of impairments	-	-	-	(630 188)	<b>(630 188)</b>	12.1
Finance costs	(3 124 140)	2 000 000	<b>(1 124 140)</b>	(281 020)	<b>843 120</b>	15
Lease rentals on operating lease	-	-	-	(7 873 341)	<b>(7 873 341)</b>	16

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Debt Impairment	(26 371 585)	-	<b>(26 371 585)</b>	(74 839 486)	<b>(48 467 901)</b>	17
Repairs and maintenance	(13 496 782)	1 676 154	<b>(11 820 628)</b>	(12 305 069)	<b>(484 441)</b>	18
Bulk purchases	(69 165 290)	(1 000 000)	<b>(70 165 290)</b>	(68 601 882)	<b>1 563 408</b>	19
Transfers and Subsidies	(3 723 680)	740 000	<b>(2 983 680)</b>	(841 433)	<b>2 142 247</b>	20
General Expenses	(73 733 679)	(42 425 569)	<b>(116 159 248)</b>	(138 786 222)	<b>(22 626 974)</b>	21
<b>Total expenditure</b>	<b>(386 388 133)</b>	<b>(43 003 877)</b>	<b>(429 392 010)</b>	<b>(508 730 996)</b>	<b>(79 338 986)</b>	
<b>Operating surplus</b>	<b>76 494 617</b>	<b>37 206 562</b>	<b>113 701 179</b>	<b>13 149 323</b>	<b>126 850 502</b>	
Loss on disposal of assets and liabilities	-	-	-	(1 469 884)	<b>(1 469 884)</b>	22
Additional contribution landfill rehabilitation	-	-	-	(2 019 251)	<b>(2 019 251)</b>	23
Fair value adjustments	-	-	-	3 562 297	<b>3 562 297</b>	24
Investment property fair value adjustment	-	-	-	379 419	<b>379 419</b>	25
	-	-	-	<b>452 581</b>	<b>452 581</b>	
<b>Surplus/(Deficit) before taxation</b>	<b>76 494 617</b>	<b>37 206 562</b>	<b>113 701 179</b>	<b>13 601 904</b>	<b>(100 099 275)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>76 494 617</b>	<b>37 206 562</b>	<b>113 701 179</b>	<b>13 601 904</b>	<b>(100 099 275)</b>	

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	3 200 000	300 000	3 500 000	3 328 341	(171 659)	26
Receivables from exchange transactions	-	-	-	1 057 145	1 057 145	27
Receivables from non-exchange transactions	36 846 000	6 000 000	42 846 000	18 136 258	(24 709 742)	28
VAT receivable	-	-	-	11 673 080	11 673 080	29
Consumer debtors	34 600 304	(4 000 000)	30 600 304	24 952 612	(5 647 692)	30
Cash and cash equivalents	32 967 532	(24 315 406)	8 652 126	6 194 085	(2 458 041)	31
	<b>107 613 836</b>	<b>(22 015 406)</b>	<b>85 598 430</b>	<b>65 341 521</b>	<b>(20 256 909)</b>	

##### Non-Current Assets

Investment property	96 145 592	(40 417 288)	55 728 304	53 739 288	(1 989 016)	32
Property Plant and Equipment	957 865 596	-	957 865 596	951 853 689	(6 011 907)	33
Heritage Assets	-	-	-	463 363	463 363	34
Intangible assets	-	290 674	290 674	85 347	(205 327)	35
Deposit (Security held in advance)	12 786 031	-	12 786 031	12 706 118	(79 913)	36
	<b>1 066 797 219</b>	<b>(40 126 614)</b>	<b>1 026 670 605</b>	<b>1 018 847 805</b>	<b>(7 822 800)</b>	

#### Total Assets

	<b>1 174 411 055</b>	<b>(62 142 020)</b>	<b>1 112 269 035</b>	<b>1 084 189 326</b>	<b>(28 079 709)</b>	
--	----------------------	---------------------	----------------------	----------------------	---------------------	--

#### Liabilities

##### Current Liabilities

Deferred income	-	-	-	192 983	192 983	37
Finance lease obligation	8 607 645	(3 000 000)	5 607 645	-	(5 607 645)	38
Landfill Rehabilitation Provision	-	-	-	1 707 120	1 707 120	39
Payables from exchange transactions	45 253 000	5 000 000	50 253 000	80 923 644	30 670 644	40
Consumer deposits	5 089 000	-	5 089 000	5 249 231	160 231	41
Employee benefit obligation	-	-	-	1 717 526	1 717 526	42
Unspent conditional grants and receipts	-	-	-	914 921	914 921	43



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Provisions	1 541 519	-	<b>1 541 519</b>	633 421	<b>(908 098)</b>	44
	<b>60 491 164</b>	<b>2 000 000</b>	<b>62 491 164</b>	<b>91 338 846</b>	<b>28 847 682</b>	
<b>Non-Current Liabilities</b>						
Deferred income	-	-	-	3 666 667	<b>3 666 667</b>	45
Finance lease obligation	16 500 000	3 000 000	<b>19 500 000</b>	-	<b>(19 500 000)</b>	46
Landfill Site Rehabilitation provision	-	-	-	49 251 689	<b>49 251 689</b>	47
Employee benefit obligation	-	-	-	37 217 238	<b>37 217 238</b>	48
Provisions	82 233 000	4 700 000	<b>86 933 000</b>	4 713 236	<b>(82 219 764)</b>	49
	<b>98 733 000</b>	<b>7 700 000</b>	<b>106 433 000</b>	<b>94 848 830</b>	<b>(11 584 170)</b>	
<b>Total Liabilities</b>	<b>159 224 164</b>	<b>9 700 000</b>	<b>168 924 164</b>	<b>186 187 676</b>	<b>17 263 512</b>	
<b>Net Assets</b>	<b>1 015 186 891</b>	<b>(71 842 020)</b>	<b>943 344 871</b>	<b>898 001 650</b>	<b>(45 343 221)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1 015 186 891	(71 842 020)	<b>943 344 871</b>	898 001 650	<b>(45 343 221)</b>	50

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Approved  
budget

Adjustments

Final Budget  
on

Figures in Rand

### Budget and Actual Amounts variance explanation

	Line item	Explanation
1	Service charges	Electricity and refuse removal revenue anticipated from the new mall was over projected and in addition, the illegal connections in Roosenekaal also had a negative impact on electricity revenue
2	Rental of facilities and equipment	The under performance is attributed to certain rentals that were still way below market related rental amount.
3	Licences and permits	The over performance is attributed to improved efficiency in the Licensing division
4	Recoveries	There was no budget provision for this account
5	Other income	The variance is due to reclassification of equitable share receipts incorrectly receipted in other income under Development planning and Cemeteries
6	Interest earned	The variance is attributed to early withdrawal on investments that resulted in municipality forfeiting certain portion of interest
7	Property rates	The under performance variance is as a result of unknown properties that are not getting billed
8	Government grants & subsidies	The variance of less than R1 million is attributed to savings on MIG and INEP
9	Public contributions and donations	This was not budgeted for as it wasn't gazetted
10	Fines, Penalties and Forfeits	The budget for this revenue source was underestimated
11	Employee related costs	The over performance variance is caused by classification of SDL as part of employee related cost and the overtime pay-out that was significant
12	Remuneration of councillors	The variance is caused by the annual salary increase that was slightly less than the projected increase
12	Impairment loss/reversal of impairment loss	Impairment loss/reversal of impairment loss was not budgeted for
13	Administration	The budget is included in other expenditure budget as per National Treasury Schedule
14	Depreciation and amortisation	The over-performance variance is attributed to donated assets and newly found assets
15	Finance costs	The underspending is as a result of budget provision for the new lease of vehicles that was supposed to commence in April 2018.
16	Lease rentals on operating lease	The budget is included in other expenditure budget as per National Treasury Schedule
17	Debt Impairment	The variance is attributed to low collection rate on traffic fines as well as a significant increase in the debt impairment figure
18	Repairs and maintenance	The variance is caused by transactions relating to repairs and maintenance that were classified as capital expenditure
19	Bulk purchases	The budget was overstated to cater for additional electricity usage by the new mall
20	Transfers and Subsidies	The number of households receiving free basic electricity was way below the projected amount
21	General Expenses	The variance is caused by those accounts that are presented separately in the National Treasury schedules whereas they are classified as other expenditure on the face of statement of financial performance (e.g. contracted services)
22	Loss on disposal of assets and liabilities	There was no budget provision for this account
23	Additional contribution landfill rehabilitation	There was no budget provision for this account
24	Fair value adjustments	There was no budget provision for this account
25	Investment property fair value adjustment	There was no budget provision for this account
26	Inventories	The variance resulted from stock issues that were slightly below the projection for the year
27	Receivables from exchange transactions	The budget for this item is combined with receivables from non exchange transactions and VAT receivable
28	Receivables from non-exchange transactions	Adding receivables from both exchange and non exchange transactions and VAT receivable, we remain with under performance variance that is caused by significant portion of traffic fines debtors having been impaired
29	VAT receivable	As explained above, the budget for this account is included in the receivables from non-exchange item
30	Consumer debtors	The variance is attributed to high debt impairment on consumer debtors

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Approved  
budget

Adjustments

Final Budget  
Actual

Figures in Rand

31	Cash and cash equivalents	The variance is due to low revenue collection rate and other commitments that impacted negatively on the cash flow position
32	Investment property	The variance is caused by investment properties written off and disposed
33	Property Plant and Equipment	The variance is attributed to newly found assets and donated assets
34	Heritage Assets	The budget for this account is included in the PPE budget
35	Intangible assets	The amortisation of intangible assets budget was understated relative to the actual figure thereof
36	Deposit (Security held in advance)	The variance is caused by the actual interest earned on this deposit that was slightly less than the projected interest
37	Deferred income	The budget for this account is included in the payable from exchange budget
38	Finance lease obligation	The budget provision was mainly for the new finance lease contract that was supposed to commence in April
39	Landfill Rehabilitation Provision	The budget for this account is included in the provisions budget
40	Payables from exchange transactions	The variance is attributed to a significant amount for creditors that were accrued in 2017/18 financial year
41	Consumer deposits	The consumer deposit received during the year was more than the projected amount
42	Employee benefit obligation	The budget for this account is included in the payable from exchange budget
43	Unspent conditional grants and receipts	The budget for this account is included in the payable from exchange budget
44	Provisions	The budgeted provision was understated as compared to the actual figure
45	Deferred income	The budget for this account is included in the provisions budget
46	Finance lease obligation	The budget provision was mainly for the new finance lease contract that was supposed to commence in April
47	Landfill Site Rehabilitation provision	The budget for this account is included in the provisions budget
48	Employee benefit obligation	The budget for this account is included in the provisions budget
49	Provisions	Taking the above items whose budget provisions were included in provisions, the budget performance shows over performance variance that is attributed to an increase in provision for landfill site
50	Accumulated surplus	The variance is attributed to high total expenditure that is caused by significant increase in debt impairment

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. In situations where the application of GRAP is not practicable, the International Accounting Standards will apply.

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

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand.

#### 1.2 Going concern assumption

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

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

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Useful lives and residual values of property plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimation should be based on the expected pattern in which an asset's future economic benefits or service potential are to be consumed by the municipality.

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

##### Trade receivables

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

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

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. The write down is included in the operation surplus note.

##### Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

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

##### Impairment testing

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

#### Post retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Effective interest rate

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

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows.

#### Provision for landfill sites

The provision for rehabilitation 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 of the expected future cash flows to rehabilitate the landfill site at year-end. To the extent that the 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 related asset are charged to the Statement of Financial Performance.

Provision of rehabilitation of landfill site is determined by :

- Calculating the cost of rehabilitation of landfill sites and assessing the useful life of each land fill site as done by an Actuary/Specialist
- The effect of time value of money is calculated using interest rates (investment rate) linked to the prime rate.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### 1.4 Investment property

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

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

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

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

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be measurable when construction is complete. It measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

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

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

#### 1.5 Property Plant and Equipment

Property Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property plant and equipment is recognised as an asset when:

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

Property Plant and Equipment is initially measured at cost.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Property Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	5 - 15 years
Furniture and fixtures	7 - 10 years
Motor vehicles	3 - 20 years
Office equipment	3 - 5 years
IT equipment	3 - 6 years
Infrastructure	5 - 30 years
Other property, plant and equipment	5 - 30 years
Other equipment	5 - 25 years
Specialised vehicles	10 years
Tools and loose gear	5 years

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

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

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

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

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### 1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

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

Item	Useful life
Computer Software	3-5 years

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

#### 1.7 Heritage assets

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

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a heritage asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of the heritage asset's net selling price and its value in use.

Value in use of the heritage asset is the present value of the asset's remaining service potential.

#### Recognition

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



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its initial fair value/cost less any accumulated impairment losses.

#### Impairment

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

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts.

There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

- cash;

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Long term advance payments are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

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

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that do not meet the definition of financial instruments at amortised cost or financial.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### Classification

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

Class	Category
Deposits	Financial Asset measured at amortised cost
Investments - Call accounts	Financial Asset measured at amortised cost
Consumer Debtors	Financial Asset measured at amortised cost
VAT	Financial Asset measured at amortised cost
Sundry debtors	Financial Asset measured at amortised cost

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

Class	Category
Deposits	Financial liability measured at amortised cost
Trade Payables	Financial liability measured at amortised cost
Accruals	Financial liability measured at amortised cost

#### Initial recognition

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

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

The Municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

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

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset 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 entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

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

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, is recognised in surplus or deficit.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

#### 1.9 Leases

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

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

##### Finance leases - lessee

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

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

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

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

##### Operating leases - lessor

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

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

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

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

##### Operating leases - lessee

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

#### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

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

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

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

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

#### 1.11 Impairment of cash-generating assets

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

Useful life is either:

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

#### Identification

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

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

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

##### Identification

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

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



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

#### Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### 1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

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

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity 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.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### 1.14 Provisions and Contingent Liabilities

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

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

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

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

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

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

### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.15 Commitments

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

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

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

### 1.16 Revenue from exchange transactions

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

#### Interest

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

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

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

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

#### 1.17 Revenue from non-exchange transactions

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

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

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

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

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

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

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

### Recognition

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

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

### Measurement

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

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

### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

### Fines



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Revenue is recognised when fines or summons are issued.

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

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

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

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

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

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

### Levies

Levies are recognised as revenue when:

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

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- Internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers.

### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

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

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

### Property rates - revenue

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- > it is probably that the economic benefits or service potential associated with the transaction will flow to the municipality;
- > the amount of the revenue can be measured reliably; and
- > to the extent that there has been compliance with any restrictions associated with the grant.

#### 1.18 Investment income

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

#### 1.19 Comparative figures

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

#### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

#### 1.21 Fruitless and wasteful expenditure

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

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

#### 1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

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

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

#### 1.23 Use of estimates

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

#### 1.24 Conditional grants and receipts

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

#### 1.25 Budget information

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

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

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

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

#### 1.26 Related parties

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

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

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

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

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements (continued)

#### 1.27 Events after reporting date

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

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

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### 1.28 Consumer Deposits

Consumer Deposits represents funds received by the municipality as security for payment of consumer accounts. The amount represent the actual cash received and can either be paid back or set off against an consumer account. The gross un-utilised deposit amount is indicated. No interest is paid to the consumers on the deposits held by the municipality.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 2. New standards and interpretations

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

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> <li>IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land</li> </ul>	01 July 2017	The impact of the is not material.

#### 2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> <li>GRAP 16 (as amended 2016): Investment Property</li> <li>GRAP 17 (as amended 2016): Property, Plant and Equipment</li> <li>GRAP 21 (as amended 2016): Impairment of non-cash-generating assets</li> <li>GRAP 26 (as amended 2016): Impairment of cash-generating assets</li> </ul>	<ul style="list-style-type: none"> <li>01 April 2018</li> <li>01 April 2018</li> <li>01 April 2018</li> <li>01 April 2018</li> </ul>	<ul style="list-style-type: none"> <li>The impact of the is not material.</li> <li>The impact of the is not material.</li> <li>The impact of the is not material.</li> <li>The impact of the is not material.</li> </ul>

#### 2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods. TBA indicates that the effective date is still to be determined by the ASB:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> <li>GRAP 34: Separate Financial Statements</li> <li>GRAP 35: Consolidated Financial Statements</li> <li>GRAP 36: Investments in Associates and Joint Ventures</li> <li>GRAP 37: Joint Arrangements</li> <li>GRAP 38: Disclosure of Interests in Other Entities</li> <li>Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme</li> <li>GRAP 110: Living and Non-living Resources</li> <li>GRAP 110 (as amended 2016): Living and Non-living Resources</li> <li>GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements</li> <li>GRAP 7 (as revised 2010): Investments in Associates</li> <li>GRAP 18 (as amended 2016): Segment Reporting</li> </ul>	<ul style="list-style-type: none"> <li>TBA</li> <li>TBA</li> <li>TBA</li> <li>TBA</li> <li>TBA</li> <li>TBA</li> <li>01 April 2020</li> <li>01 April 2020</li> <li>01 April 2019</li> <li>01 April 2019</li> <li>01 April 2019</li> </ul>	<ul style="list-style-type: none"> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> <li>Unlikely there will be a material impact</li> </ul>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	

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

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact

### 3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	53 739 288	-	53 739 288	56 325 288	-	56 325 288

### Reconciliation of investment property - June 2018

	Opening balance	Disposals	Write-off	Fair value adjustments	Total
Investment property	56 325 288	(1 897 176)	(1 068 244)	379 420	53 739 288

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### Reconciliation of investment property - June 2017

	Opening balance	Additions	Fair value adjustments	Total
Investment property	93 062 310	3 674 021	(40 411 043)	56 325 288

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. None of the assets of the Municipality has been pledged as security for any purposes.

The valuation of the Investment properties was performed by an independent valuator, Pierre Rynners valuers. Sales research was conducted for property transactions taking place in the period starting July 2015 to June 2018. Year-on-year increases were calculated based on the average sales data collected for each township within the larger municipal area. The property market in the greater Elias Motsoaledi area was very quiet, overall little if any increases took place.

### 4. Property Plant and Equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	186 531 191	(9 915 156)	176 616 035	185 642 935	(9 026 900)	176 616 035
Buildings	133 046 400	(60 859 175)	72 187 225	107 616 097	(27 343 077)	80 273 020
Leased assets capitalised	-	-	-	21 083 725	(4 112 589)	16 971 136
Infrastructure	962 633 002	(368 556 427)	594 076 575	858 696 234	(291 459 451)	567 236 783
Community	31 950 442	(11 168 115)	20 782 327	59 503 580	(47 474 551)	12 029 029
Other property, plant and equipment	93 802 568	(48 657 879)	45 144 689	73 570 527	(49 853 653)	23 716 874
Capital - Work in Progress	43 046 838	-	43 046 838	47 089 315	-	47 089 315
<b>Total</b>	<b>1 451 010 441</b>	<b>(499 156 752)</b>	<b>951 853 689</b>	<b>1 353 202 413</b>	<b>(429 270 221)</b>	<b>923 932 192</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

	Opening balance	Additions	Donations made	Disposals	Transfers	Donations received	Derecognised	Depreciation	Impairment loss	Total
Land	176 616 035	-	-	-	-	-	-	-	-	176 616 035
Buildings	80 273 020	-	-	-	1 554 406	-	(4 472 208)	(5 033 425)	(134 568)	72 187 225
Leased assets capitalised	16 971 136	-	-	-	(15 330 037)	-	-	(1 641 099)	-	-
Infrastructure	567 236 783	455 000	-	-	77 628 144	403 065	(11 002 802)	(40 320 236)	(323 379)	594 076 575
Community	12 029 029	-	-	-	10 054 537	-	(81 615)	(1 161 424)	(58 200)	20 782 327
Other property, plant and equipment	23 716 874	2 220 998	-	-	17 295 604	7 593 379	(275 680)	(5 292 445)	(114 041)	45 144 689
Capital - Work in Progress	47 089 315	104 887 238	(17 657 557)	-	(91 202 654)	-	(69 504)	-	-	43 046 838
	<b>923 932 192</b>	<b>107 563 236</b>	<b>(17 657 557)</b>	<b>-</b>	<b>-</b>	<b>7 996 444</b>	<b>(15 901 809)</b>	<b>(53 448 629)</b>	<b>(630 188)</b>	<b>951 853 689</b>

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

	Opening balance	Additions	Disposals	Transfers	Donations	Depreciation	Impairment loss	Total
Land	175 829 184	-	(60 149)	-	847 000	-	-	176 616 035
Buildings	81 700 175	-	-	6 696 065	-	(4 199 090)	(3 924 130)	80 273 020
Leased assets capitalised	18 798 258	-	-	-	-	(1 827 122)	-	16 971 136
Infrastructure	530 921 820	-	-	76 655 146	-	(40 339 807)	(376)	567 236 783
Community	14 099 029	-	-	-	-	(2 034 909)	(35 091)	12 029 029
Other property, plant and equipment	31 133 262	2 292 609	(3 320 216)	-	-	(6 307 060)	(81 721)	23 716 874
Capital - Work in Progress	68 269 229	78 372 074	-	(83 351 211)	(16 200 777)	-	-	47 089 315
	<b>920 750 957</b>	<b>80 664 683</b>	<b>(3 380 365)</b>	<b>-</b>	<b>(15 353 777)</b>	<b>(54 707 988)</b>	<b>(4 041 318)</b>	<b>923 932 192</b>



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. None of the assets of the Municipality has been pledged as security for any purposes.

Certain assets were impaired during the year, based on physical verification that were performed during the 2017 financial year. The fair value less costs to sell method was used.

The impairment review was limited to review of the possible "Physical impairment" of the assets. This impairment review is therefore directly linked to the high-level condition assessment carried out on the assets that have been physically verified. Impairment was raised in cases where the carrying amount at yearend (Including accumulated impairment in prior years but before current year impairment losses) exceeded the recoverable service amount calculated. The additional impairment will be equal to the difference between the carrying value and the recoverable service amount.

Once the condition of an asset is determined the condition rating is applied in order to ensure that the value of the asset is correctly reflected, this is done by reducing the carrying value of the asset based on its condition, as per the table below:

Description	Rating
Very Good	95%
Good	70%
Fair	45%
Poor	25%
Very Poor	10%
Broken	0%

Electricity that does not exist but were recorded in the Fixed Asset Register as Elias Motsoaledi local municipality assets, have been removed from the Fixed Asset Register.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 5. Heritage Assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Heritage Assets	463 363	-	463 363	463 363	-	463 363

#### Reconciliation of heritage assets - June 2018

	Opening balance	Total
Heritage Assets	463 363	463 363

#### Reconciliation of heritage assets - June 2017

	Opening balance	Disposals	Total
Heritage Assets	463 463	(100)	463 363

### 6. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 554 591	(1 469 244)	85 347	1 554 591	(1 263 917)	290 674

#### Reconciliation of intangible assets - June 2018

	Opening balance	Additions	Amortisation	Total
Computer software	290 674	-	(205 327)	85 347

#### Reconciliation of intangible assets - June 2017

	Opening balance	Amortisation	Total
Computer software	496 092	(205 418)	290 674

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>7. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the Post Employment Medical Health Care obligation -	(38 840 105)	(35 484 327)
Opening balance		
Interest charge	(3 640 455)	(3 143 476)
Net actuarial gains or losses recognised	3 998 111	155 761
Current Service Cost	(1 310 645)	(1 410 336)
Benefits paid out of the fund	1 752 429	1 042 273
	<b>(38 040 665)</b>	<b>(38 840 105)</b>
 Non-current liabilities	 (36 323 139)	 (37 217 238)
Current liabilities	(1 717 526)	(1 622 867)
	<b>(38 040 665)</b>	<b>(38 840 105)</b>
 <b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening balance	38 840 105	35 484 327
Net expense recognised in the statement of financial performance	(799 440)	3 355 778
	<b>38 040 665</b>	<b>38 840 105</b>
 <b>Net expense recognised in the statement of financial performance</b>		
Current service cost	1 310 645	1 410 336
Interest cost	3 640 455	3 143 476
Actuarial (gains) losses	(3 998 111)	(155 761)
Paid out to current members	(1 752 429)	(1 042 273)
	<b>(799 440)</b>	<b>3 355 778</b>
 <b>Calculation of actuarial gains and losses</b>		
Actuarial (gains) losses – Obligation	(3 998 111)	(155 761)
 <b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Discount rates used: Long service awards	8.61 %	8.52 %
General salary inflation (Long Term)	6.21 %	6.34 %
Nett effective discount rate - Long service awards	2.26 %	2.05 %
Discount rate used: Post employment benefits	9.47 %	9.57 %
Health care inflation rate	7.33 %	7.85 %
Net effective discount rate - Post employment benefits	1.99 %	1.59 %

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	5 844 200	4 235 700

Amounts disclosed span the total information available as the municipality applied the GRAP standard only from 2012 annual financial statements. Future periods will include all further information as it ages.

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	38 040 665	38 840 103	35 484 327	30 763 371	28 168 340
Experience adjustments on plan liabilities	(1 888 000)	(4 795 000)	(1 933 000)	(363 000)	(1 258 817)

### 8. Deposit (Security held in advance)

A security deposit is held by Eskom who is the bulk electricity supplier to the municipality. The Municipality occasionally pays additional deposits as required by the supplier. The deposit attracts interest at rates determined by the supplier on an annual basis. The annual interest is accounted for in the additional deposit amounts held and the relevant interest earned amount on the statement of financial performance. The amount equals approximately twice the monthly account and will be held until the service is no longer required.

#### Eskom Deposits

Account payable security	12 706 118	11 932 253
--------------------------	------------	------------

### 9. Inventories

Consumables	3 328 341	3 202 151
-------------	-----------	-----------

#### 9.1 Consumables expenses

##### Statement of Financial Position

Opening stock	3 202 151	3 407 132
Add: Purchases	6 042 544	8 229 582
Less: Consumed	(5 916 354)	(8 434 563)
Closing stock	3 328 341	3 202 151

##### Statement of Financial Performance

Consumables used	34 508	3 769 005
Repairs And Maintenance used	3 539 796	2 619 488
Printing And Stationery used	2 342 050	2 046 070

<b>Inventories recognised as an expense during the year</b>	<b>5 916 353</b>	<b>8 434 562</b>
---	------------------	------------------

Inventories recognised as expenses during the year are included in different expenditure line items in the statement of financial performance as illustrated above.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>10. Receivables from exchange transactions</b>		
Interest receivable	48 247	-
Prepayments	150 235	-
Recoverable fruitless and wasteful expenditure	22 447	712 381
Trade debtors	836 216	815 619
	<b>1 057 145</b>	<b>1 528 000</b>
<b>11. Receivables from non-exchange transactions</b>		
Fines	129 118 352	69 371 820
Less: Provision for irrecoverable debt and fair value adjustment	(110 982 094)	(49 824 091)
	<b>18 136 258</b>	<b>19 547 729</b>
<b>12. VAT receivable</b>		
VAT	11 673 080	18 060 451
<p>The municipality is registered on the cash basis and the timing of payments to/from SARS is at the end of each month.</p> <p>Due to the accrual basis of accounting applied the amount disclosed for VAT include the total movement of VAT accounts. The basis includes a set of accounts that indicate the amount accrued for VAT in debtors and creditors separate from the amount receivable or owed to SARS. The basis of accounting does not lend itself to the separate disclosure of vat movement items. In terms of the prescribed guidelines only the nett VAT receivable or payable are disclosed.</p>		
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	25 293 820	20 827 726
Electricity	12 128 864	11 991 487
Refuse	6 667 441	2 570 683
Other	22 089 409	12 791 592
	<b>66 179 534</b>	<b>48 181 488</b>
<b>Less: Allowance for impairment</b>		
Rates	(17 106 313)	(11 432 623)
Electricity	(3 066 082)	(3 437 521)
Refuse	(4 343 679)	(1 327 999)
Other	(16 710 848)	(11 347 296)
	<b>(41 226 922)</b>	<b>(27 545 439)</b>
<b>Net balance</b>		
Rates	8 187 507	9 395 103
Electricity	9 062 782	8 553 966
Refuse	2 323 762	1 242 684
Other	5 378 561	1 444 296
	<b>24 952 612</b>	<b>20 636 049</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Rates</b>		
Current (0 -30 days)	2 343 694	3 985 933
31 - 60 days	1 320 296	792 950
61 - 90 days	970 488	555 189
91 - 120 days	845 741	522 094
121 - 365 days	6 654 584	3 455 791
> 365 days	13 159 017	11 515 769
	<b>25 293 820</b>	<b>20 827 726</b>
<b>Electricity</b>		
Current (0 -30 days)	5 507 063	5 582 773
31 - 60 days	2 002 991	1 984 050
61 - 90 days	559 908	412 297
91 - 120 days	301 435	281 062
121 - 365 days	740 860	1 982 889
> 365 days	3 016 607	1 748 416
	<b>12 128 864</b>	<b>11 991 487</b>
<b>Refuse</b>		
Current (0 -30 days)	652 157	477 313
31 - 60 days	451 927	167 466
61 - 90 days	375 759	93 592
91 - 120 days	346 037	78 382
121 - 365 days	3 019 094	451 286
> 365 days	1 822 467	1 302 644
	<b>6 667 441</b>	<b>2 570 683</b>
<b>Other (specify)</b>		
Current (0 -30 days)	1 681 066	3 888 163
31 - 60 days	1 033 695	592 311
61 - 90 days	784 473	416 180
91 - 120 days	636 065	444 203
121 - 365 days	5 414 572	2 173 560
> 365 days	12 539 538	5 277 175
	<b>22 089 409</b>	<b>12 791 592</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	3 963 868	11 019 345
31 - 60 days	2 465 659	2 820 708
61 - 90 days	1 514 234	1 065 243
91 - 120 days	1 237 309	928 807
121 - 365 days	8 845 488	4 909 043
> 365 days	19 516 342	13 990 090
	<hr/>	<hr/>
	37 542 900	34 733 236
Less: Allowance for impairment	(23 144 022)	(16 002 995)
	<hr/>	<hr/>
	<b>14 398 878</b>	<b>18 730 241</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	5 982 693	2 467 146
31 - 60 days	2 123 308	436 560
61 - 90 days	1 017 602	408 367
91 - 120 days	734 874	405 772
121 - 365 days	4 343 767	2 651 601
> 365 days	12 360 416	5 465 459
	<hr/>	<hr/>
	26 562 660	11 834 905
Less: Allowance for impairment	(16 970 661)	(11 048 854)
	<hr/>	<hr/>
	<b>9 591 999</b>	<b>786 051</b>
<b>National and provincial government</b>		
Current (0 -30 days)	237 420	447 690
31 - 60 days	219 942	279 510
61 - 90 days	158 792	3 649
91 - 120 days	157 095	(8 838)
121 - 365 days	213 417	502 882
> 365 days	1 087 306	388 454
	<hr/>	<hr/>
	2 073 972	1 613 347
Less: Allowance for impairment	(1 112 238)	(493 590)
	<hr/>	<hr/>
	<b>961 734</b>	<b>1 119 757</b>
<b>Total</b>		
Residential and Other	37 542 900	36 617 037
Commercial / industrial / agricultural	26 562 660	9 951 104
National, Provincial and other government organisations	2 073 976	1 613 348
	<hr/>	<hr/>
	66 179 536	48 181 489
Less: Allowance for impairment	(41 226 924)	(27 545 440)
	<hr/>	<hr/>
	<b>24 952 612</b>	<b>20 636 049</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(27 545 439)	(39 026 218)
Contributions to allowance	(13 681 483)	11 480 779
	<hr/>	<hr/>
	<b>(41 226 922)</b>	<b>(27 545 439)</b>
<b>Consumer debtors impaired</b>		

As of 30 June 2018, consumer debtors of R 66 179 536 (2017: R 48 181 499) were impaired and provided for.

The amount of the provision was R 41 226 922 as at 30 June 2018 (2017: R 27 545 439). The basis of the calculation of debt impairment is based on the risk assessment required in terms of GRAP 19.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### Consumer debtors breakdown

The carrying amount of consumer debtors consist of the following:

Consumer debtors from non-exchange transactions	13 566 068	9 395 103
Consumer debtors from exchange transactions	11 386 544	11 240 946
<b>Total</b>	<b><u>24 952 612</u></b>	<b><u>20 636 049</u></b>

### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 251	(125)
Bank balances	6 187 834	21 047 711
	<b><u>6 194 085</u></b>	<b><u>21 047 586</u></b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	
Nedbank Limited: Cheque Account (Acc no 1137278765)	4 050 088	4 175 411	-	6 194 085	5 287 700
VBS Mutual Bank - 32 Day Notice Group - 100-6277-2004	-	15 631 027	-	-	15 432 763
<b>Total</b>	<b><u>4 050 088</u></b>	<b><u>19 806 438</u></b>	<b><u>-</u></b>	<b><u>6 194 085</u></b>	<b><u>20 720 463</u></b>



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	-	7 267 085
	-	7 267 085
less: future finance charges	-	(367 208)
<b>Present value of minimum lease payments</b>	-	<b>6 899 877</b>

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases were secured by the lessor's charge over the leased assets. Refer note 4.

## 16. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

<b>Unspent conditional grants and receipts</b>		
Land Affairs Grant	466 250	466 250
Integrated National Electrification Programme (Municipal Grant)	10 744	189 434
Municipal Infrastructure Grant	437 927	16 299 885
	<b>914 921</b>	<b>16 955 569</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 27 for reconciliation of grants from National/Provincial Government.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>17. Deferred income</b>		
<b>Designated at amortised cost</b>		
Deferred income	3 666 667	3 859 649
<b>Designated at amortised cost</b>		
Deferred income	192 983	192 982
<p>The municipality received R 5 500 000 in advance for the market related lease of a business property. As part of the lease agreement these payments are amortised over the period of the lease agreement. No escalation is applicable on the lease and the lease payments are amortised utilising the straight line method. The lease amounts to R 192 982 per annum excluding VAT (value added tax).</p>		
<b>Non-current liabilities</b>		
Deferred income	3 666 667	3 859 649
<b>Current liabilities</b>		
Deferred income	192 983	192 982

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 18. Provisions

#### Reconciliation of provisions - June 2018

	Opening Balance	Current Service Cost	Benefit Vested	Interest Cost	Actuarial Loss / (Gain) Restated	Total
Environmental rehabilitation - Landfill	47 463 445	2 019 251	-	1 476 113	-	50 958 809
Provision for Long Service Leave Bonus	4 551 581	544 811	(559 498)	373 948	435 815	5 346 657
	<b>52 015 026</b>	<b>2 564 062</b>	<b>(559 498)</b>	<b>1 850 061</b>	<b>435 815</b>	<b>56 305 466</b>

#### Reconciliation of provisions - June 2017

	Opening Balance	Current Service Cost	Benefit Vested	Interest Cost	Actuarial Loss / (Gain) Restated	Total
Environmental rehabilitation - Landfill	46 522 788	10 202	-	930 455	-	47 463 445
Provision for Long Service Leave Bonus	4 509 478	571 500	(618 551)	366 892	(277 738)	4 551 581
	<b>51 032 266</b>	<b>581 702</b>	<b>(618 551)</b>	<b>1 297 347</b>	<b>(277 738)</b>	<b>52 015 026</b>

Non Current Portion Landfill site provision	49 251 689	44 516 214
Current Portion Landfill site provision	1 707 120	2 947 231
Non-current portion of long service leave provision	4 713 236	4 218 110
Current portion of long service leave provision	633 421	333 471
	<b>56 305 466</b>	<b>52 015 026</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

2018

2017

### Employee benefit cost provision

An actuarial valuation was performed on the long service bonus awards - current and non current - liability for the purpose of reporting under the statement of Generally Recognised Accounting Practice 25 (GRAP 25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standards 19 (IAS 19) was performed.

In terms of the basic conditions of employment long service accumulated leave must be wholly or partially converted to payment on the date on which the employee qualifies for it or at any stage thereafter subject to budget provisions.

Detailed assumptions are disclosed under note 7

### Environmental rehabilitation provision

An actuarial valuation was performed on the environmental rehabilitation - current and non current - liability. The municipality appointed One Pangaea Financial as actuaries to perform the rehabilitation review and estimation for the 2018 financial year. The appropriate procedures were followed to ensure that the provision is appropriate for the landfill sites operated.

### Discount Rate Assumption

Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site. The discount rate was deduced from the GOVI long bond. The annualised rate at this date was 9.90%. The consumer price inflation of 6.12% p.a. is obtained from the differential between the long term market yields on the index-linked bond (the R197 at 2.62% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.83% p.a.).

The bond rates were obtained from the Bond Exchange of South Africa after the market closed on 29 June 2018.

### Key financial assumptions used

Assumption	30 June 2017 (OPES) %	30 June 2018 (OPES) %
Discount rate (D)	9.42	9.90
Consumer price inflation (C)	6.12	6.05
Net discount rate $((1+D)/(1+H)-1)$	3.11	3.65

### 19. Payables from exchange transactions

Trade payables	41 608 686	31 642 641
Payments received in advanced Consumer Accounts	6 404 313	8 395 977
Accrued leave pay	9 943 981	11 875 952
Accrued bonus	4 981 241	3 419 662
Retention Creditors	12 042 247	8 841 102
Unallocated deposits	3 612 245	2 841 982
Licensing	2 330 929	257 981
	<b>80 923 642</b>	<b>67 275 297</b>

During the year it was decided to fairly present Trade payables by unbundling the balance into further categories such as Unallocated deposits, Licensing and Trade payables.

### 20. Consumer deposits

Electricity	5 247 792	5 633 383
Library Books	1 439	-
	<b>5 249 231</b>	<b>5 633 383</b>

The electricity deposit relates to the guarantees or amounts paid by consumers on initial connection to municipal services. The deposit will be used to settle the debt in case of disconnection of services or payment default by the customer.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>21. Revenue</b>		
Fines, Penalties and Forfeits	67 325 397	50 884 525
Government grants & subsidies	324 063 649	282 035 154
Interest received	12 620 796	9 358 203
Licences and permits	4 955 863	5 255 414
Other income	1 522 446	6 976 694
Property rates	25 978 446	19 493 930
Public contributions and donations	9 573 190	4 521 021
Recoveries	22 447	1 104 833
Rental of facilities and equipment	944 246	1 318 716
Service charges	74 873 839	77 250 735
	<b>521 880 319</b>	<b>458 199 225</b>
Interest received - investment	12 620 796	9 358 203
Licences and permits	4 955 863	5 255 414
Other income	1 522 446	6 976 694
Recoveries	22 447	1 104 833
Rental of facilities and equipment	944 246	1 318 716
Service charges	74 873 839	77 250 735
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>	<b>94 939 637</b>	<b>101 264 595</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	25 978 446	19 493 930
Property rates - penalties imposed	-	-
<b>Transfer revenue</b>		
Government grants & subsidies	324 063 649	282 035 154
Assets donated	9 573 190	4 521 021
Fines, Penalties and Forfeits	67 325 397	50 884 525
	<b>426 940 682</b>	<b>356 934 630</b>
<b>22. Service charges</b>		
Sale of electricity	67 574 989	70 744 781
Refuse removal	7 298 850	6 505 954
	<b>74 873 839</b>	<b>77 250 735</b>
<b>23. Other income</b>		
Recovery of fruitless and wasteful expenditure	22 447	1 104 833
Other income	1 522 446	6 976 694
	<b>1 544 893</b>	<b>8 081 527</b>

Other income comprises of income from different sources as follows: Tender Documents, Plan Printing and Duplicates, Administrative fees, Cemetery and Burial, Clearance Certificates, Insurance Refund, Bad Debts Recovered, Staff Recoveries, Valuation Services, Building Plan Approval, Photocopies and Faxes, Application Fees for Land Usage, Photocopies, Facilities, Tender Documents and Advertisements.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>24. Investment revenue</b>		
<b>Interest received</b>		
Bank and investments	2 154 009	2 889 230
Interest charged on trade and other receivables	9 692 922	5 940 378
Interest received on Eskom deposits	773 865	528 595
	<b>12 620 796</b>	<b>9 358 203</b>
<b>25. Property rates</b>		
<b>Rates received</b>		
Rates levied	31 606 551	28 061 828
Less: Income forgone (Property rates rebates)	(5 628 105)	(8 567 898)
	<b>25 978 446</b>	<b>19 493 930</b>
<b>Valuations</b>		
Residential	2 191 319 500	2 079 180 990
Commercial	959 600 000	870 856 000
State	241 892 000	86 949 000
Municipal	181 270 000	1 458 710 780
Small holdings and farms	4 210 243 725	3 363 006 440
Social	85 233 750	57 468 100
	<b>7 869 558 975</b>	<b>7 916 171 310</b>
<p>The municipality implemented the new valuation roll effective on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.</p> <p>The municipality have 80 unknown properties, these properties are still unknown and the municipality is investigating to identify the possible owners.</p>		
<b>26. Grants and subsidies paid</b>		
<b>Expenditure on specific conditional grants received</b>		
Electricity Subsidies	663 614	707 968
Bursaries	177 819	-
	<b>841 433</b>	<b>707 968</b>
<b>27. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	223 019 000	210 385 000
Local Government Financial Management Grant	1 700 000	1 625 000
Expanded Public Works Programme Integrated Grant for Municipalities	1 444 000	1 095 000
	<b>226 163 000</b>	<b>213 105 000</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	82 721 959	56 119 115
Integrated National Electrification Programme Grant (INEP)	15 178 690	12 811 039
	<b>97 900 649</b>	<b>68 930 154</b>
	<b>324 063 649</b>	<b>282 035 154</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	16 299 885	-
Current-year receipts	66 860 000	72 419 000
Conditions met - transferred to revenue	(82 721 958)	(56 119 115)
Conditions still to be met - transferred to liabilities	(437 927)	(16 299 885)
	-	-
<b>Financial Management Grant (FMG)</b>		
Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
	-	-

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Land Affairs Grant</b>		
Balance unspent at beginning of year	466 250	466 250
Conditions still to be met - remain liabilities (see note 16).		
<b>DME-Integrated national Electrification Programme Grant</b>		
Balance unspent at beginning of year	189 434	1 108 473
Current-year receipts	15 000 000	13 000 000
Conditions met - transferred to revenue	(15 178 690)	(13 189 434)
Amount paid back to NRF	-	(1 108 473)
Conditions still to be met - transferred to liabilities	(10 744)	189 434
	-	-
<b>Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)</b>		
Current-year receipts	1 444 000	1 095 000
Conditions met - transferred to revenue	(1 444 000)	(1 095 000)
	-	-



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>28. Employee related costs</b>		
Acting allowances	483 813	413 672
Basic	74 503 920	67 261 174
Bonus	5 928 487	5 316 590
Defined contribution plans	14 728 241	13 335 828
Housing benefits and allowances	161 711	151 996
Contribution to provision for Leave and bonus pay	388 805	2 520 762
Long-term benefits - incentive scheme	-	3 143 476
Medical aid - company contributions	4 726 589	4 097 808
Directors' remuneration as disclosed below	6 475 267	6 806 505
Overtime payments	2 977 585	3 362 096
Post Employment Medical Aid Benefits and Long Service Leave - Current Service Charge	1 855 458	1 737 520
Post Employment Medical Aid Benefits and Long Service Leave - Interest Charge	4 014 403	366 892
SDL	921 904	901 068
Travel, motor car, accommodation, subsistence and other allowances	9 419 065	7 778 720
UIF	581 490	554 034
WCA	34 816	32 594
	<b>127 201 554</b>	<b>117 780 735</b>

Included in the above balances is (unless stated otherwise) the remuneration for the following s57 municipal employees:

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### Remuneration of Municipal Manager

Annual Remuneration	729 076	958 307
Backpay	7 196	22 113
Car Allowance	120 000	120 000
Cell Phone Allowance	14 400	4 800
Contributions to Medical and Pension Funds	54 681	71 686
Contribution to UIF and SDL	11 096	12 993
Annual Bonus	72 251	81 364
Contribution to Bargaining Council	99	92
N.P.A	30 000	30 000
Leave Pay	36 905	-
	<b>1 075 704</b>	<b>1 301 355</b>

### Director Planning and Development

Annual Remuneration	961 304	892 166
Car Allowance	120 000	120 000
Contribution to medical & pension Fund	72 098	66 912
Cellphone allowance	10 000	-
Annual Bonus	81 218	18 640
Contribution to Bargaining Council	99	92
Contribution to UIF and SDL	12 692	11 192
Back Pay	14 310	924
	<b>1 271 721</b>	<b>1 109 926</b>

### Remuneration of Chief Financial Officer

Annual Remuneration	852 716	821 004
Car Allowance	120 000	120 000
Contributions to Medical and Pension Funds	82 523	16 342
Contribution to UIF and SDL	10 947	10 881
Backpay	13 089	28 106
Contribution to Bargaining Council	99	92
Acting Allowance	-	9 893
	<b>1 079 374</b>	<b>1 006 318</b>

### Remuneration of Acting Chief Financial Officer

Deputy CFO	-	26 655
------------	---	--------

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Remuneration of Director of Community Services</b>		
Annual Remuneration	647 268	781 117
Backpay	8 865	17 312
Car Allowance	60 000	60 000
Contributions to UIF, Medical and Pension Funds	35 910	35 857
Cellphone allowance	3 000	-
Termination pmt - leave	57 845	42 951
Contribution to UIF and SDL	10 249	10 427
Contribution to Bargaining Council	99	92
NFMW	-	38 954
Annual Bonus	45 574	-
	<b>868 810</b>	<b>986 710</b>
<b>Remuneration of Director of Corporate Services (Resigned)</b>		
Annual Remuneration	61 966	756 288
Backpay	-	19 477
Car Allowance	12 121	145 452
Contributions to Medical and Pension Funds	3 359	38 167
Termination pmt - leave	45 460	-
Annual bonus	36 147	-
Contribution to UIF and SDL	1 669	10 520
Contribution to Bargaining Council	8	92
NFMW	4 647	56 721
	<b>165 377</b>	<b>1 026 717</b>
<b>Remuneration of Newly appointed Director Corporate Services</b>		
Annual Remuneration	238 668	-
Car Allowance	32 544	-
Contributions to UIF, Medical and Pension Funds	3 282	-
Cellphone allowance	4 000	-
Contribution to Bargaining Council	33	-
	<b>278 527</b>	<b>-</b>
<b>Remuneration of Acting Director Infrastructure</b>		
Annual Remuneration	-	55 634
Car Allowance	-	222 251
	<b>-</b>	<b>277 889</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>Director Executive Support</b>		
Annual Remuneration	598 209	752 396
Car Allowance	113 463	91 661
Back Pay	8 912	-
Cellphone allowance	12 000	-
Contributions to UIF, Medical and Pension Funds	41 056	33 124
Annual Bonus	25 134	100 567
MGF	-	55 183
Contribution to UIF and SDL	8 681	10 886
Termination pmt - leave	-	20 785
Contribution to Bargaining Council	99	77
	<b>807 554</b>	<b>1 064 679</b>
<b>Director of Infrastructure</b>		
Annual Remuneration	567 556	89 825
Annual Bonus	32 048	-
Back Pay	10 186	-
Car Allowance	220 166	36 585
Contributions to Medical and Pension Funds	76 623	5 709
Cell Phone Allowance	12 000	2 000
Contribution to UIF and SDL	9 674	1 498
MGF	-	6 736
Contribution to Bargaining Council	99	15
	<b>928 352</b>	<b>142 368</b>
<b>29. Remuneration of councillors</b>		
Mayor	874 060	813 396
Speaker	739 371	715 996
Executive Committee Councillors	4 008 792	4 371 408
Ordinary Councillors	16 574 043	13 771 618
Chief Whip	677 316	625 440
	<b>22 873 582</b>	<b>20 297 858</b>
<b>In-kind benefits</b>		
The Mayor, Speaker, Chief Whip and three full time Exco councillors and seven part time Exco councillors. The three are provided with an office and secretarial support at the cost of the Council		
It is certified in the accounting officer's report that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.		
The additional disclosures as required by the Municipal Finance Management Act of 2004 as part of the MFMA disclosure note 51		
<b>Remuneration of Mayor</b>		
Public Office Remuneration	-	90 000
Car Allowance	206 603	160 945
Basic Salary	464 137	403 945
Contributions to Medical and Pension Funds	138 457	135 318
Backpay	13 633	8 604
SDL	6 830	5 906
Other - Data, cellphone, adjustments, parking and subscriptions	44 400	8 676
	<b>874 060</b>	<b>813 394</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### Remuneration of Speaker

Public Office Remuneration	-	90 000
Car Allowance	189 033	149 746
Basic Salary	417 398	359 882
Contributions to Medical and Pension Funds	64 676	58 929
Backpay	11 977	6 946
Subsistence Allowance	-	2 310
SDL	5 424	4 859
Other - Data, cellphone, adjustments, parking, subsistence allowance and subscriptions	50 864	43 322
	<b>739 372</b>	<b>715 994</b>

### Remuneration of Executive Committee

Public Office Remuneration	-	898 169
Car Allowance	933 802	1 029 036
Basic Salary	2 274 997	1 808 504
Contributions to Medical and Pension Funds	334 675	385 914
Subsistence Allowance	-	12 850
Other - Data, cellphone, adjustments, parking, subsistence allowance and subscriptions	362 342	158 633
Backpay	71 499	48 886
SDL	31 477	29 414
	<b>4 008 792</b>	<b>4 371 406</b>

### Remuneration of Chief Whip

Public Office Remuneration	-	90 000
Car Allowance	162 363	147 675
Basic Salary	357 003	266 486
Contributions to Medical and Pension Funds	94 942	89 146
Backpay	9 510	8 288
Subsistence Allowance	-	2 400
Other - Data, cell phone, adjustments, parking and subscriptions	48 291	21 442
SDL	5 206	-
	<b>677 315</b>	<b>625 437</b>

### Remuneration of Ordinary Councillors

Public Office Remuneration	-	3 909 589
Car Allowance	3 662 317	3 044 830
Basic Salary	8 781 622	4 195 277
Contributions to Medical and Pension Funds	1 440 921	1 231 059
Back pay	301 384	290 680
Other - Data, cell phone, adjustments, parking and subscriptions	2 257 854	989 345
Subsistence Allowance	-	30 090
SDL	129 945	87 583
	<b>16 574 043</b>	<b>13 778 453</b>

### 30. Finance costs

Finance leases	281 020	1 426 148
----------------	---------	-----------

Total interest expense, calculated using the effective interest rate of 11.25% on finance leases amounted to R 281 020 for June 2018 and (2017: R 1 426 148).

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>31. Debt impairment</b>		
Contributions to debt impairment consumers	13 681 483	(11 480 779)
Contributions to debt impairment traffic fines	61 158 003	32 608 798
	<b>74 839 486</b>	<b>21 128 019</b>
<b>32. Bulk purchases</b>		
Electricity	68 601 882	65 729 402
<b>33. General expenses</b>		
Advertising	721 077	735 577
Assets expensed	33 150 395	16 436 553
Auditing - Internal audit fee	686 851	693 051
Auditors remuneration - Office of AG	3 503 678	3 107 740
Bad debt - Sundry debtors from exchange transactions written off	-	27 486 394
Bank charges	640 737	386 363
VAT Adjustments	1 449 719	5 616 918
Bursaries	-	18 500
Community services - developmental and outreach programmes	1 460 906	1 147 869
Conferences and seminars	6 141 412	1 014 171
Consulting and professional fees	30 473 236	24 628 996
Consumables	4 268 751	5 085 647
Electricity Water and Refuse - Municipal Consumption	8 186 121	6 986 393
Entertainment	7 815	1 326 651
Foreign exchange differences	36 687	5 341
IT expenses	6 131 728	5 113 289
Insurance	5 278 200	4 197 170
Landfill site - additional interest landfill rehabilitation provision	1 476 113	930 455
Motor vehicle expenses	520 958	484 775
Operation of landfill site	2 062 733	2 745 469
Postage and courier	207 656	177 751
Printing and stationery	3 459 536	2 385 849
Remuneration to Ward Committees	3 644 000	2 695 600
Security (Guarding of municipal property)	11 872 459	10 217 743
Staff welfare	974 903	2 289 294
Subscriptions and membership fees	1 140 956	1 934 940
Telephone and fax	6 150 546	5 662 824
Town planning - Valuation costs	421 870	3 568 999
Training	-	872 373
Travel - Subsistence reimbursement	4 277 836	4 185 999
Uniforms	439 343	549 061
	<b>138 786 222</b>	<b>142 687 755</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
<b>34. Operating lease Income</b>		
<b>Operating leases - as lessor (income)</b>		
<b>Minimum lease payments due</b>		
- within one year	171 848	679 819
- in second to fifth year inclusive	782 821	1 591 736
- later than five years	1 024 795	300 327
	<b>1 979 464</b>	<b>2 571 882</b>
Revenue for the year included Rental income from facilities and equipment	944 246	1 318 716
<b>35. Operating (deficit)/surplus</b>		
Operating (deficit)/surplus for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Plant and equipment		
• Contractual amounts	3 276 201	3 529 012
Lease rentals on operating lease - Other		
• Contractual amounts	4 597 140	3 944 603
	<b>7 873 341</b>	<b>7 473 615</b>
Loss on sale of property plant and equipment	(1 469 884)	(3 380 464)
Impairment on property, plant and equipment	630 188	4 041 316
Depreciation on property, plant and equipment	53 653 958	54 913 404
Employee costs	150 075 135	138 078 593
<b>36. Cash generated from operations</b>		
Surplus/(deficit)	13 601 904	(34 088 989)
<b>Adjustments for:</b>		
Depreciation and amortisation	53 653 956	54 913 404
Loss/(Gain) on sale of assets and liabilities	1 469 884	3 380 464
Movements Landfill provision	2 019 251	10 202
Investment property fair value adjustment	(379 419)	40 411 043
Bad Debts	-	27 486 394
Assets expensed - non cash donations	33 040 836	16 200 778
Impairment deficit	630 188	4 041 316
Debt impairment	74 839 486	21 128 019
Landfill site - additional interest landfill rehabilitation provision	1 476 113	930 455
Movements in retirement benefit assets and liabilities	(799 440)	3 355 778
Movements in provisions	795 076	42 103
Deferred Income movement	(192 983)	(192 983)
Donations received	(9 573 190)	(4 521 021)
<b>Changes in working capital:</b>		
Inventories	(126 190)	195 351
Receivables from exchange transactions	470 856	2 070 008
Consumer debtors	(17 998 046)	(11 603 843)
Receivables from non-exchange transactions	(59 746 532)	(48 165 629)
Payables from exchange transactions	13 648 344	13 966 005
VAT	6 387 371	(6 515 126)
Unspent conditional grants and receipts	(16 040 648)	15 380 846
Consumer deposits	(384 152)	20 772
Eskom security deposits	(773 865)	(528 595)
	<b>96 018 800</b>	<b>97 916 752</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 37. Commitments

#### Authorised capital expenditure

##### Already contracted for

• Property, plant and equipment	8 116 790	28 242 196
---------------------------------	-----------	------------

##### Total capital commitments

Already contracted for	8 116 790	28 242 196
------------------------	-----------	------------

##### Total commitments

##### Total commitments

Authorised capital expenditure	8 116 790	28 242 196
--------------------------------	-----------	------------

This committed expenditure relates to property, plant and equipment and will be financed by available grants, retained surpluses, existing cash resources and funds internally generated. The commitments disclosed amounts are VAT inclusive.

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

Finance lease payments represent rentals payable by the municipality for its fleet. These rentals are negotiated for a three year term. No contingent rent is payable.

##### Minimum lease payments due

- within one year	17 502 442	7 267 085
- in second to fifth year inclusive	35 004 885	-
	<b>52 507 327</b>	<b>7 267 085</b>

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

##### Minimum lease payments due

- within one year	5 352 790	3 213 476
- in second to fifth year inclusive	10 222 348	-
	<b>15 575 138</b>	<b>3 213 476</b>

Operating lease payments represent rentals payable by the municipality for leased assets used in the day to day operations of the municipality. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### 38. Contingent Liabilities

Litigation is in the process against the municipality relating to disputes with stakeholders. The estimate of the contingent liability is +/- R16 975 263.04 (June 2018), R 23 364 508.17 (June 2017).

The litigation matters for the year under review are detailed below as follows:

#### Maboe Rachidi

The Plaintiff Mr. Maboe Rachidi is suing the municipality for damages he suffered as a result of an alleged assault, the claim amounts to R 300 000.

#### EMS Envirotel Energy Management (Pty) Ltd

In 2012 the Municipality appointed Maredi Telecoms & Broadcasting (pty) Ltd to supply and install the Smart Metering in Groblersdal and Rossenekal Town. Maredi Telecom & Broadcasting (pty) Ltd entered into a cession agreement with EMS Envirotel Energy management (pty)ltd, which cession was approved by the Municipality.

In April 2015, the Municipality wrote a letter informing the defendant that the contract has terminated in March 2015.

Therefore the defendant are challenging the termination of the said contract to be unlawful and they are claiming for damages as a result of breach of contract.

The total estimated claim is : R11 517 629.75

#### Oupa Nkosi

The plaintiff claim for damages caused on his motor vehicle during the impounding by traffic police, the total estimated claim is : R 81 887.85

#### Mtema Mashao Consulting Engineers (Pty) Ltd

The plaintiff is suing the municipality for loss of income and unpaid invoices for services rendered, the total estimated claim is : R125 336.30

#### Mogotleng Kgaphane vs the Municipality and Department of Water and Sanitation

The plaintiff is suing the municipality for injuries sustained after he fell into an unprotected pit hole left by the municipality, the total estimated claim is : R 1 550 000

#### Rekhuditse Construction and Cleaning Services (Pty) Ltd

The plaintiff is suing the municipality for loss of income and unpaid invoices for services rendered, the total estimated claim is : R1 250 409.14

#### The municipality have the following labour cases for Unfair labour practise, the estimated total claim is R 2 000 000

Mary Maepa is claiming R 200 000  
Monageng is claiming R 1 800 000

#### Mokgotso and others

Alleged irregular procedures; waiting for hearing date R150 000

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

### Contingent assets

Litigation is in progress in favour of the municipality relating to disputes with employees, members of the public and contractors/suppliers. The municipality is likely to receive an amount of R 100 000. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount.

Contingent asset for the year under review are detailed below as follows:

#### Maboe Rachidi

The municipality filed a plea and a counterclaim of R 100 000.00. It is the municipality's plea defence that on that day, the applicant was violent and he assaulted one of the traffic officers. The matter went on trial and the municipality managed to get a Default judgement and a Warrant of Execution was granted in favour of the Municipality.

The plaintiff made an urgent application praying that the Warrant of Execution be stayed and he afforded an opportunity to file a plea in respect of the counter claim.

### 39. Related parties

Relationships

Remuneration of Councilors

Refer to Remuneration of Councilors report note 29

#### Nature of related party transactions:

Remuneration of Councilors and Employee costs paid to councilors and s57 managers respectively during the year.

#### Related party transactions

Councillors - Councillor remuneration		22 873 582	20 317 363
Post employment benefit plan for employees and/or other related parties	7	38 040 665	38 840 105
s57 Employees remuneration	28	6 475 417	6 867 705

### 40. Bids awarded to family of employees in service of state

In terms of Section 45 of the municipal supply chain management regulations any award above R 2 000 to family of employees in the service of the state must be disclosed in the annual financial statements.

The following is a list as recorded:

Name of person	Capacity in which the person is in service	Successful tenderer	Amount
Ratlou S	Councillor	Baupa trading	784 580

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 41. Prior period errors

The following prior year error was identified and adjusted retrospectively:

1. Unallocated deposits amounting to R 2 841 982 was incorrectly classified as trade and other payables under note 19.
2. During the year the balance of amounts overpaid to employees was recalculated and the debtor amount differed to the amount that was recognised in the June 2017 financial statements, the error was corrected to fairly present the debtor balance by reducing it with R 16 578.
3. Payments received in advance balance of R1 949 574.39 was incorrectly mapped in the financial statements under VAT receivable balance during the year ended June 2017, a correction was made to fairly present the payments received in advance and VAT receivable by remapping the amounts received in advance to Trade and other payables - Amounts received in advance.
4. During the VAT balance re-calculation, it was noted that SARS reduced assessments were not accounted for correctly resulting in amounts that are not recoverable still showing in the financial statements as VAT receivables, to fairly state the VAT balance we reduced the VAT balance with R5 616 918 in the current financial year as prior period error. General expenses increased with the same amount. The VAT receivable was also reduced by R18 500 in reversal of errors on prior year transactions.
5. Windeed expenses amounting to R 157 354 were misclassified in the previous financial year, the correction was made by reclassifying from operating lease expenses to town planning valuation cost, since they do not meet the recognition criteria for an operating lease.
6. In June 2017 Interest received on Eskom deposits of R528 595 was incorrectly mapped under Interest charged on trade and other receivables, the account was correctly mapped under Interest received on Eskom deposits.
7. Remuneration to Ward Committees with net effect of R 268 200 was incorrectly captured in the June 2017 financial statements and only corrected during the June 2018 financial year instead of June 2017, the error was corrected retrospectively.
8. During the 2016/17 financial year, the municipality erroneously recognised debtors, revenue and bad debts on properties that were identified as unknown. On subsequent investigation, it was discovered that the same properties were allocated to the farms with subdivisions and the farms were correctly billed including the subdivisions that were incorrectly classified as unknown properties. The related debtors, revenue and bad debts was reversed as prior period error.

A further analysis was performed on unknown properties and adjustments are corrected as prior period error.

The valuation roll of the municipality included 14 446 unknown properties which were billed at zero rate during the financial year. The municipality investigated the whole valuation roll and noted that the total of 14 352 of unknown properties are linked to the farms and such farms are the title holders of the farms that were deemed to be unknown properties in previous years and these properties are being billed monthly by the municipality. There are 86 unknown properties that are still to be identified in Motetema area, 1773 properties that were deemed to be unknown properties are now in Mpumalanga Province and no longer within Limpopo Province.

### 9. Prior period error on Property Plant and Equipment.

The following prior year error was identified and adjusted retrospectively

#### Investment properties

Assets to the value of R3 387 219, incorrectly categorised as Investment properties were moved to Land, therefore the value of Investment properties decreased with R3 387 219

Land to the value of R 310 183 were reclassified from land to investment properties, therefore Investment properties increased with R310 183

Properties to the value of R3 674 021 was received as a donation during the 2016/17 financial year from Nkangala district, therefore the Investment properties increased with R3 674 021

#### Land

Assets to the value of R3 387 219, incorrectly categorised as Investment properties were moved to Land, therefore land increased with R3 387 219

One Erf to the value of R20 050, which transferred during the 2016/17 financial year has been removed from Land

Land to the value of R847 000, received as donations during the 2016/17 financial year from Nkangala district were recorded,

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

therefore land increased with R847 000.

Land to the value of R310 183 were reclassified from land to investment properties, therefore land decreased with R310 183

### Buildings

Assets with a closing carry value of R23 603 162 during the 2016/17 financial year were incorrectly categorised. It was moved from infrastructure, community and other assets to buildings, therefore Buildings increased with R23 603 162

Buildings not previously recorded in the Fixed Asset Register and found during verification with an opening carry value of R17 312 441 were included in the Fixed Asset Register. The prior year depreciation is R1 116 928. The nett change in value at the end of 2016/17 was an increase of R16 195 513

### Community Assets

Assets with a closing carry value of R26 779 211 during the 2016/17 financial year were incorrectly categorised. It was moved to buildings, infrastructure and solid waste. This includes prior year depreciation and impairment of R3 918 426.86 The net change at the end of 2016/17 was a decrease of R26 779 211

Assets with a closing carry value of R1 592 821 during the 2016/17 financial year were incorrectly categorised. It was moved from buildings, infrastructure and machinery and equipment

The net change due to category changes at the end of 2016/17 was a decrease of R25 186 391

### Infrastructure

Assets with a closing carry value of R239 208 during the 2016/17 financial year were incorrectly categorised. It was moved to buildings, community assets and solid waste

Assets with a closing carry value of R2 568 207 during the 2016/17 financial year were incorrectly categorised. It was moved from community and machinery and equipment

The net change due to category changes at the end of 2016/17 was an increase of R2 328 999

Transformers were consolidated with the relevant mini sub stations in order to ensure a workable fixed asset register. The change in carry value at the end of the 2016/17 financial year was R-12 522, therefore a decrease of R12 522

Electricity with a carry value of R-2 206 495 were identified as not belonging to the municipality and was removed from the fixed asset register, therefore Infrastructure decreased with R2 206 495

Highmast lights that were duplicated were removed from the asset register. The carry value was decreased with R5 616 620 during the 2016/17 financial year

Electricity items were added to the Fixed asset register to align the register with the billing system.

A net amount of R1 610 604 were added and a net amount of R186 965 were removed

This caused an increase of R1 566 214 in the opening carry value and an increase of R142 575 on the 2016/17 depreciation, therefore a net increase in the balance of R1 423 639

Infrastructure assets not previously recorded in the fixed asset register were included at a carry value of R3 294 074 for assets verified by the Orbit system and R563 923 for assets verified manually.

Therefore there was an increase of R3 294 974 and R 563 923 to the closing balance, net increase of R3 857 997

Road infrastructure assets were combined which caused a decrease of R26 793 751 in the opening carry value of infrastructure and a decrease of R5 228 584 in the 2016/17 depreciation, therefore a net decrease of R32 022 335

### Other assets

The categories of the various moveable assets were updated to ensure a more relevant Fixed Asset Register. The carry values of the category changes for the various asset types were as follow:

Furniture and Fittings: R -719 877, therefore a decrease of R719 877

Computer Equipment: R-27 448, therefore a decrease of R2 7 448

Machinery and Equipment R-147 650, therefore a decrease of R147 650

Transport assets: R-4 032, therefore a decrease of R4 032

Solid waste: R153 236, therefore an increase of R153 236

Assets not previously recorded in the Fixed Asset Register and found during verification were included in the Fixed Asset Register

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

at their carry values as follows:

Furniture and Fittings: R 18 997, therefore an increase of R 18 997

Computer Equipment: R12 589, therefore an increase of R 12 589

Machinery and Equipment R 21 696, therefore an increase of R 21 696

10. Foreign exchange differences were incorrectly calculated in the prior year, the foreign exchange differences were corrected resulting in a decrease of R17 489.36 for trade payables and foreign exchange differences.

11. Prior year amount for irregular expenditure was restated after a detailed analysis of the amount, this resulted in irregular expenditure incurred during the June 2017 financial year adjusted to R 83 551 160 as disclosed under note 47.

12. There was an omission error on retention in prior years. The retention was not accounted for, the error was corrected by recognising the retention of R 248 128.23.

13. Reversal of duplicated repairs and maintenance expenses during the June 2017 financial year amounting to R326 060.52.

(The correction number is indicated in brackets next to the item adjusted. Brackets on amounts is for Credit adjustment and no brackets for Debit adjustment)

### Statement of financial position

	June 2018	June 2017
Accumulated surplus (9) + (12)	-	21 573 523
Investment property (9)	-	596 982
Property Plant and Equipment - Land (9)	-	3 903 987
Cash and cash equivalents (7) + (13)	-	103 509
Property Plant and Equipment - Buildings (9)	-	39 798 676
Property Plant and Equipment - Community (9)	-	(25 186 391)
Property Plant and Equipment - Infrastructure (9)	-	(32 247 336)
Property Plant and Equipment - Other assets (9)	-	(692 488)
Trade payables (10)	-	17 489
Receivables from exchange transactions (2)	-	(16 578)
Payables from exchange transactions - Retentions (12)	-	(248 128)
Payables from exchange transactions - Payments received in advance	-	(1 949 574)
Consumer Accounts (3)	-	
VAT (3) + (4) +(12) + (13)	-	(3 682 516)
	-	<b>1 971 155</b>

### Statement of Financial Performance

Other revenue (2)	-	16 578
General Expenses - VAT Adjustments (4)	-	5 616 918
Depreciation and amortisation (9)	-	6 915 753
General Expenses - Foreign exchange differences (10)	-	(17 489)
Interest received on Eskom deposits (6)	-	(528 595)
Interest charged on trade and other receivables (6)	-	528 595
Property rates (8)	-	6 320 731
Repairs and maintenance (13)	-	(326 061)
Loss on disposal of assets (9)	-	20 049
Public contributions and donations (9)	-	(4 521 019)
General Expenses - Remuneration to Ward Committees (7)	-	268 200
General Expenses - Town planning - Valuation costs (5)	-	157 354
Lease rentals on operating lease (5)	-	(157 354)
General expenses - Bad debt - Sundry debtors from exchange transactions written off(8)	-	(16 264 815)
	-	<b>(1 971 155)</b>

As a result of prior period errors, the cash flow June 2017 was restated to reflect accurate figures.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Risk management

#### Capital risk management

The municipality's objectives when managing capital are to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality as disclosed in the cash and cash equivalents note, 14, and equity as disclosed in the statement of financial position.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

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

#### Liquidity risk

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

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality is able to cover the current and future commitments from available funds at a ratio of 0.76 times from the accumulated investment balances.

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

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

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

#### Credit risk

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

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

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	June 2018	June 2017
Receivables - From Exchange Transactions	1 057 145	1 528 000
Receivables - From Non Exchange Transactions	18 136 258	19 547 729
Consumer Debtors - From Exchange Transactions	11 386 544	11 240 946
Consumer Debtors - From Non Exchange Transactions	13 566 068	9 395 103

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 43. Going concern

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

### 44. Events after the reporting date

There were no material non-adjusting events after the reporting period.

### 45. Unauthorised expenditure

Opening balance	80 123 905	53 997 955
Condoned by Council resolution no BT17/18-09	(80 123 905)	(53 997 955)
Incurred during the year	75 392 906	80 123 905
	<b>75 392 906</b>	<b>80 123 905</b>

### 46. Fruitless and wasteful expenditure

Opening balance	3 261 119	11 839 600
Incurred during the year	421 359	625 089
Written off by Council (Special Council meeting held on the 31st August 2017)	-	(9 203 570)
	<b>3 682 478</b>	<b>3 261 119</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	421 359	625 089
Prior years	3 261 119	2 636 030
	<b>3 682 478</b>	<b>3 261 119</b>

### Details of fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Interest paid on late payments	To be submitted to Council in 2018/2019	421 359
---	---	---------

### 47. Irregular expenditure

Opening balance - Adjusted and restated	84 524 414	135 139 646
Add: Irregular Expenditure - current year	82 617 973	83 551 160
Written off by Council (Special Council meeting held on the 31st August 2017)	-	(134 166 392)
	<b>167 142 387</b>	<b>84 524 414</b>

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

Amounts disclosed above for Irregular expenditure are VAT exclusive.

### Analysis of expenditure awaiting write off per age classification

Current year	82 617 973	83 551 160
Prior year	84 524 414	973 254
	<b>167 142 387</b>	<b>84 524 414</b>



# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Electricity distribution losses

Losses incurred - units		22 102 840	16 148 505
% loss incurred		29.650 %	23.000 %
Purchased units		(74 550 024)	(70 124 717)
Sold units		52 447 184	53 976 212
		-	-
Losses incurred - Rand value	-	14 505 057	21 199 619
% loss incurred	-	29.810 %	44.000 %
Purchased units Rand value	-	(50 168 014)	(47 450 775)
Sold units Rand value	-	35 662 957	68 650 395
	-	-	-

The above losses are as a result of technical losses caused by the nature of electricity and the manner of its distribution, via the network, status / condition and age of the network, weather conditions and load on the system as well as non-technical losses, e.g. theft and vandalism, as a result the losses are not recoverable. The illegal electricity connection in Roosenekal contributed to the significant losses incurred in electricity distribution in 2017 and 2018 financial year. .

#### SALGA Fees

Current year subscription / fee	1 300 690	1 100 233
Amount paid - current year	(1 235 656)	(1 100 233)
5% discount received	(65 034)	-
	-	-

5% discount was received as a result of early payment of the invoice.

#### PAYE and UIF

Current year subscription / fee	20 812 207	17 817 919
Amount paid - current year	(20 812 207)	(17 817 919)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	32 856 576	30 762 233
Amount paid - current year	(32 856 576)	(30 762 233)
	-	-

#### VAT

VAT receivable	11 673 080	18 060 451
----------------	------------	------------

VAT output payables and VAT input receivables are shown in note 12.

All VAT returns have been submitted by the due date throughout the year. The municipality is registered on the cash basis and the timing of payments to/from SARS is at the end of each month.

Due to the accrual basis of accounting applied the amount disclosed for VAT include the total movement of VAT accounts. The basis includes a set of accounts that indicate the amount accrued for VAT in debtors and creditors separate from the amount receivable or owed to SARS. The basis of accounting does not lend itself to the separate disclosure of vat movement items. In terms of the prescribed guidelines only the nett VAT receivable or payable are disclosed.

There was no councilors arrear accounts outstanding for more than 90 days as at 30 June 2018:

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Deferred income

Operating lease payments received in advance	3 859 650	4 052 631
--	-----------	-----------

Operating lease payment received in advance have been utilized in accordance with the Municipal Finance Management Act. Sufficient resources are set aside to ensure that the liability can be serviced in the future.

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Goods and services were procured through quotations totaling **R1 439 730.70** during the financial year under review and the process followed in procuring those goods and services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

The table below reflects deviations for the year.

Service Provider	Description of Goods or Services	Reason for Deviation	Legislation	Amount R
MMN Engineering	Strip, Quote and repair of 2 Pedestrian Rollers	It is impractical or impossible to follow the official procurement processes	Section 36 of Supply Chain Management Regulations	56751
Forest And Gardern Centre	Strip and repair of Chainsaw, Brushcutter and tractor	It is impractical or impossible to follow the official procurement processes	Section 36 of Supply Chain Management Regulations	5264
MTP	Service, Repairs and regassing of Airconditioners	It is impractical or impossible to follow the official procurement processes	Section 36 of Supply Chain Management Regulations	13699
NTT Toyota	Repair Brakes and front fender	Single Provider	Section 36 of Supply Chain Management Regulations	16064
Forever Resort	ACCOMODATION FOR WARD COMMITTEE MEMBERS	It is impractical or impossible to follow the official procurement processes	Section 36 of Supply Chain Management Regulations	661650
Tiso Black Star Group	NEWSPAPER ADVERTISING	It is impractical or impossible to follow the official procurement processes	Section 36 of Supply Chain Management Regulations	42978
Wits University	Training	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	5500
SAGE	Training	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	20740
Inter Municipal Sports Of South Africa	Games for municipal officials	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	6000
Inter Municipal Sports Of South Africa	Games for municipal officials	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	11000
Rand Data	Template design and supply of Warrant of arrest document for the Municipality	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	10891
Munsoft	Training	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	11400
Forest and Garden	Fixing of parks and garden material	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	5039

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

Eskom Holdings SOC LTD	Upgrade Hlogotlou waste transfer station electricity	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	13505
Enterprise At University Of Pretoria	Attending advanced computer training and report writing	Goods or services available from a single source	Section 36 of Supply Chain Management Regulations	4140

**884 621**

### 51. Public Office Holders Remuneration

All Public Officers	Basic Salary	Medical Aid	Other Receipts	Pension Fund	Skills Contribution	Travelling Allowance	Grand Total
Cllr JL MATHEBE (MAYOR)	477 770	66 485	44 400	71 971	6 830	206 603	874 060
Cllr MD TLADI (SPEAKER)	429 375		50 864	64 676	5 424	189 033	739 371
Cllr TM PHAHLAMOHLAKA (CHIEF WHIP)	366 513	39 752	48 291	55 190	5 206	162 363	677 316
Cllr A PHATLANE	402 540		46 841	60 634	5 113	165 828	680 955
Cllr AM MAKWEOANE	169 719		45 562	25 583	2 409	69 945	313 218
Cllr AM MALOBA	205 666	26 809	44 400	25 205	3 204	86 443	391 727
Cllr B BOGOPA	169 718		44 400	25 584	2 409	65 382	307 494
Cllr BM ZULU	169 718		45 029	25 584	2 409	68 765	311 506
Cllr CN MATHEBE	169 718		44 400	25 584	2 446	65 382	307 531
Cllr EM MAPHOPHA	169 718		45 029	25 584	2 409	67 822	310 562
Cllr FM MOGOTJI	160 182	33 953	44 400	2 011	2 858	65 382	308 787
Cllr GD MATJOMANE	397 620	5 658	46 543	59 896	5 127	169 096	683 940
Cllr GM MAKEKE	169 718		46 607	25 584	2 409	73 673	317 991
Cllr GR NAMANE	169 718		44 794	25 584	2 409	66 514	309 020
Cllr HJ MAKUNYANE	390 731		48 259	58 855	4 976	162 573	665 394
Cllr J MAHLANGU	169 718		47 673	25 584	2 409	75 663	321 047
Cllr JP KOTZE	259 330		44 400		3 686	86 443	393 859
Cllr KC SHAI	230 025		45 146	28 188	3 150	90 382	396 892
Cllr KF MADISA	217 805		44 794	32 833	2 966	84 857	383 256
Cllr KS KGOPA	169 718		44 773	25 584	2 409	67 525	310 009
Cllr LM MOIMA	169 718		44 794	25 584	2 409	66 264	308 769
Cllr M RANALA	173 982		44 400	21 320	2 491	65 382	307 575
Cllr MA MPHELA	169 718		45 285	25 584	2 409	69 667	312 663
Cllr MB NTULI	173 982		44 635	21 320	2 491	66 799	309 227
Cllr MG MOTLAPE	150 314	21 782	46 607	22 661	2 462	71 850	315 676
Cllr MG PHETLA	224 387		44 400	33 826	3 042	86 443	392 099
Cllr MK MOKWANE	169 718		45 146	25 584	2 409	69 144	312 001
Cllr ML MAMAKOKO	169 718		45 029	25 584	2 409	68 209	310 950
Cllr ML PHALA	196 147		46 767		2 896	71 823	317 633
Cllr MM MATSEPE	169 718		45 839	25 584	2 409	70 474	314 024
Cllr MN MALATJI	217 805		45 402	32 833	2 966	89 311	388 318
Cllr MNS OOSTHUIZEN	169 718		44 400	25 584	2 409	65 382	307 494
Cllr MP TSHIVHULA	169 718		44 794	25 584	2 409	66 237	308 742
Cllr MR MSIZA	217 805		44 400	32 833	2 966	83 907	381 912
Cllr MS MASHILO	224 387		44 400	33 826	3 042	86 443	392 099
Cllr MT MOHLALA	168 848		47 801	25 454	2 411	73 872	318 386
Cllr MT MOKGANYETSI	217 805		44 400	32 833	2 966	83 907	381 912
Cllr MT MOSOTHO	173 982		44 400	21 320	2 491	65 382	307 575
Cllr MW RAMPHISA	169 718		44 400	25 584	2 409	65 382	307 494
Cllr MZ HLATHI	173 982		44 635	21 320	2 491	66 860	309 288
Cllr NN MAHLANGU	217 805		44 400	32 833	2 966	83 907	381 912
Cllr NT MATUNYANE	169 718		44 400	25 584	2 409	65 382	307 494
Cllr P MASIMULA	169 718		44 794	25 584	2 409	66 626	309 132
Cllr R ALBERTS	128 974	40 744	44 400	25 584	2 409	65 382	307 494
Cllr RJ MAKITLA	169 718		44 400	25 584	2 409	65 382	307 494
Cllr RM RATAU	169 718		45 029	25 584	2 409	68 610	311 350
Cllr RN NDLOVU	169 718		44 794	25 584	2 409	66 196	308 702
Cllr SH MEHLAPE	164 558	60 058	47 630	24 818	3 112	95 362	395 539

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

Cllr SM MAIPUSHE	169 718		44 635	25 584	2 409	66 860	309 206
Cllr SW RATLOU	217 805		46 820	32 833	2 966	96 044	396 468
Cllr SZ NGWENYA	173 982		44 400	21 320	2 491	65 382	307 575
Cllr TA MACHIPA	402 541		45 285	60 633	5 113	160 377	673 948
Cllr TA PHOROTLHOE	217 805		44 912	32 833	2 966	85 914	384 431
Cllr TM NTHEKO	173 982		44 912	21 320	2 491	67 538	310 243
Cllr TN MMUTLE	224 387		45 327	33 826	3 042	88 789	395 372
Cllr TS MATSEPE	169 718		44 400	25 584	2 409	65 382	307 494
Cllr TT RATAU	169 718		45 402	25 584	2 409	70 983	314 096
Cllr VCP MADONDO	169 718		44 400	25 584	2 409	65 382	307 494
Cllr VL MTHOMBENI	173 982		45 423	21 320	2 491	68 765	311 982
Cllr VM LECHEKO	173 982		44 656	21 320	2 491	66 786	309 235
Cllr WJ SKHOSANA	169 718		44 794	25 584	2 409	66 650	309 156
	<b>12 703 160</b>	<b>295 242</b>	<b>2 763 751</b>	<b>1 778 428</b>	<b>178 882</b>	<b>5 154 119</b>	<b>22 873 582</b>