

Elias Motsoaledi Local Municipality

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Our Ref:
Ons Verw: AGSA.10/2020

Correspondence with Municipal manager
Korrespondeer met die Munisipale Bestuurder

Enquiries: M.M. KGWALE

31st October 2020

The Business Executive: Limpopo
Auditor General South Africa
32 Dimitri Crescent
Platinum Park
Bendor Park
Polokwane
0699

Dear Madam,

SUBMISSION OF ANNUAL FINANCIAL STATEMENTS, ANNUAL PERFORMANCE REPORT, FIXED ASSET REGISTER AND RELATED AUDIT FILE DOCUMENTS FOR THE YEAR ENDING 30 JUNE 2020 FOR AUDIT PURPOSE

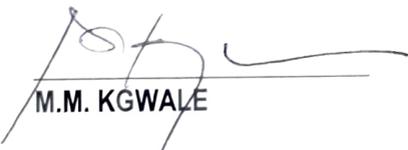
The municipality hereby submit to your office, the documents listed above for the purpose of auditing in line with the provisions of the past engagement letters discussed with the municipality

Yours sincerely

**Elias Motsoaledi Local
Municipality**

31 OCT 2020

Municipal Manager


M.M. KGWALE

ACTING MUNICIPAL MANAGER



ELIAS MOTSOLEDI LOCAL MUNICIPALITY
(Registration number LIM 472)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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

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 SW Ratlou (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 Motlape
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 2020

General Information

Cllr SM Maipushe
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
Cllr D Mashego
Cllr H Bolotni
Cllr A Gulube
Cllr VC Matsepas

Accounting Officer

Mrs RM Maredi
Resigned 31 August 2020

Acting Accounting Officer

Mr MM Kgwale

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)

Acting CFO

Mr Tjiane

Grading of the Municipality

Grade 3

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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

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The following supplementary information does not form part of the annual financial statements and is unaudited:

Abbreviations

GRAP	Generally Recognised Accounting Practice
WCA	Workmen's Compensation Act.
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
AG	Auditor General

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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 judgments and estimates.

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 71 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The external auditor, being the Auditor General of South Africa, is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 10 to 91, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020.



Mr M M Kgwale (Acting)
Acting Accounting Officer

31 October 2020

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Audit Committee Report

We are pleased to present our report for the year ended 30 June 2020.

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 comprised of Five (05) members appointed for the period of three (03) years with effect from January 2016 to December 2018.

The term of Four (04) Audit Committee members was extended during the financial year 2018/2019 under council resolution M18/19-04 from 04 January 2019 to end on 03 January 2021. The vacant post of one (01) member Mr. M.G Mathabathe whose term was not extended as he had already served in the Audit Committee consecutively for six years was re-advertised. The post was filled by Mr MJ Rabalao to serve in the Audit Committee under council resolution No M18/19-48 with effect from July 2019. Mr Rabalao's appointment is linked to the current Audit Committee members ending on the 3rd January 2021. 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 (5) special Audit Committee meetings were held.

The Audit Committee consists of the members listed hereunder.

Audit Committee members	Number of meetings attended
Mrs M.P Ramutsheli (Chairperson)	4 Normal - 5 Special - 9 Total
Mr V.K Chuene	4 Normal - 5 Special - 9 Total
Mr M.O Mojapelo	1 Normal - 2 Special - 3 Total
Adv M.M Thipe	2 Normal - 1 Special - 3 Total
Mr M.J Rabalao	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 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 2020

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.

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.

The total number of planned audits as per the 2019/2020 Internal Audit Plan was seventeen (17). Fifteen (15) audits were performed and finalized and three (3) audits could not be performed due to national lockdown. The following audits were not performed:

1. Supply Chain Management
2. Asset Management
3. ICT

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 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

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.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment other than the impact of COVID 19 on the operations.

COVID 19 negatively effectuated the municipality cash flow due to decreased debt collection process and as a result of lockdown. Many consumers could not afford to pay their debts. Expenditure was also diverted from their budget to cover for unexpected COVID 19 expenditure. This impact on cash flow was later relieved by the additional grant that was received by the municipality in the form of equitable share.

Net surplus of the municipality was R 66 765 552 (2019: surplus R 43 471 586).

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

The COVID-19 pandemic is having a devastating impact on the economy of the country, and the health and livelihoods of its citizens. During this crisis, municipalities still need to function and provide essential services such as access roads, electricity, licensing and solid waste removal.

The municipality had to suspend operation and work with reduced staff. Revenue collection was largely affected due to lockdown.

Revenue collection -Temporary suspension of credit control and debt collection policies (i.e. do not cut off/disconnect services due to defaulting payments)

Property rates and services revenue collection is highly vulnerable to defaulting by households as a result of income losses.

Conditional grants- Projects suspended (under expenditure)

COVID 19 had no significant impact on the municipality going concern. The municipality received additional equitable share of R58 000 000 for the 2020/21 financial year as a relief to the impact of COVID 19.

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.

Due to COVID 19, the municipality received additional equitable share of R58 000 000 for the 2020/21 financial year as a relief to the impact of COVID 19.

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.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

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	Nationality
Mr M M Kgwale (Acting)	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 2020

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 one full time internal auditor 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 2020

Statement of Financial Position

Figures in Rand	Note(s)	2020	2019 Restated
Assets			
Current Assets			
Inventories	9	8 190 203	6 244 690
Receivables from exchange transactions	10	2 528 347	3 756 047
Receivables from non-exchange transactions	11	42 865 792	29 746 705
VAT receivable	12	8 147 511	11 015 273
Consumer debtors - From Exchange Transactions	13	17 683 383	10 093 338
Consumer debtors - From Non Exchange Transactions	13	48 122 430	38 965 827
Cash and cash equivalents	14	1 929 384	24 176 627
		129 467 050	123 998 507
Non-Current Assets			
Investment property	3	60 324 073	56 613 958
Property Plant and Equipment	4	1 048 853 314	1 012 816 064
Heritage Assets	5	463 363	463 363
Intangible assets	6	30 963	39 387
Deposit (Security held in advance)	8	15 347 834	14 657 065
		1 125 019 547	1 084 589 837
Total Assets		1 254 486 597	1 208 588 344
Liabilities			
Current Liabilities			
Deferred income	17	192 983	192 983
Finance lease obligation	15	10 975 085	9 624 401
Landfill Site Provision	18	1 512 163	938 265
Payables from exchange transactions	19	98 948 519	89 236 703
Consumer deposits	20	5 515 652	5 383 183
Employee benefit obligation	7	1 815 000	1 748 184
Unspent conditional grants and receipts	16	5 616 431	23 851 443
Provision for Long Service Leave	18	992 000	335 969
		125 567 833	131 311 131
Non-Current Liabilities			
Deferred income	17	3 280 702	3 473 684
Finance lease obligation	15	2 444 092	13 468 764
Landfill Site Provision	18	36 386 657	37 034 961
Employee benefit obligation	7	31 232 000	34 723 588
Provision for Long Service Leave	18	5 908 000	5 674 465
		79 251 451	94 375 462
Total Liabilities		204 819 284	225 686 593
Net Assets		1 049 667 313	982 901 751
Net Assets			
Accumulated surplus		1 049 667 308	982 901 753

* See Note 42

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated
Revenue			
Revenue from exchange transactions			
Interest received	24	14 229 420	11 321 172
Licences and permits	21	3 938 911	4 706 876
Other income	23	1 065 335	1 679 788
Rental of facilities and equipment	34	896 695	1 644 122
Service charges	22	95 492 841	83 286 776
Total revenue from exchange transactions		115 623 202	102 638 734
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	35 773 260	32 756 281
Transfer revenue			
Government grants & subsidies	27	365 373 512	316 049 270
Public contributions and donations		-	41 272
Fines, Penalties and Forfeits	21	14 569 994	50 233 349
Total revenue from non-exchange transactions		415 716 766	399 080 172
Total revenue	21	531 339 968	501 718 906
Expenditure			
Bulk purchases	32	(81 427 521)	(72 759 064)
Debt Impairment	31	(12 632 173)	(47 513 779)
Depreciation and amortisation	4&5&6	(56 343 149)	(56 995 844)
Employee related costs	28	(150 217 425)	(143 444 993)
Finance costs	30	(2 360 819)	(2 796 740)
General Expenses	33	(121 494 392)	(104 574 016)
Impairment loss/ Reversal of impairments	35	(464 326)	(261 844)
Lease rentals on operating lease	35	(4 501 147)	(4 771 998)
Remuneration of councillors	29	(25 064 899)	(23 661 753)
Repairs and maintenance		(15 596 302)	(15 839 277)
Transfers and Subsidies	26	(2 309 565)	(6 006 079)
Total expenditure		(472 411 718)	(478 625 387)
Operating surplus/(deficit)	35	58 928 250	23 093 519
Additional service cost landfill rehabilitation	18	1 012 671	11 492 554
Fair value adjustments - actuarial gains	18&7	5 885 408	3 947 195
Investment property fair value adjustment	3	3 710 115	4 738 560
Profit/(Loss) on disposal of assets	35	(2 770 892)	199 758
		7 837 302	20 378 067
Surplus for the year		66 765 552	43 471 586

* See Note 42

ELIAS MOTSOALEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	939 430 167	939 430 167
Changes in net assets		
Surplus for the year	43 471 586	43 471 586
Total changes	43 471 586	43 471 586
Opening balance as previously reported	937 485 721	937 485 721
Adjustments		
Correction of errors June 2019 year	3 203 050	3 203 050
June 2018 prior year adjustments	38 987 961	38 987 961
Balance at 01 July 2019 as restated	982 901 756	982 901 756
Changes in net assets		
Surplus for the year	66 765 552	66 765 552
Total changes	66 765 552	66 765 552
Balance at 30 June 2020	1 049 667 308	1 049 667 308
Note(s)	42	

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Fines		3 127 130	5 747 340
Sale of goods and services		116 189 519	110 324 302
Grants		347 138 500	338 985 792
Interest		1 368 473	2 133 031
Other receipts		1 767 804	2 706 740
Licences and Permits		3 938 911	4 706 876
		<u>473 530 337</u>	<u>464 604 081</u>
Payments			
Employee costs		(165 180 148)	(158 083 525)
Suppliers		(225 326 239)	(197 054 170)
Finance cost		(2 360 819)	(2 796 741)
		<u>(392 867 206)</u>	<u>(357 934 436)</u>
Net cash flows from operating activities	36	<u>80 663 131</u>	<u>106 669 645</u>
Cash flows from investing activities			
Purchase of property plant and equipment	4	(95 652 789)	(82 439 090)
Proceeds from sale of investment property	3	-	2 839 219
Deposit (Security held in advance) movement		690 769	(275 053)
		<u>(94 962 020)</u>	<u>(79 874 924)</u>
Cash flows from financing activities			
Finance lease payments		(7 948 355)	(8 842 840)
		<u>(7 948 355)</u>	<u>(8 842 840)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(22 247 244)</u>	<u>17 951 881</u>
Cash and cash equivalents at the beginning of the year		24 176 627	6 224 745
Cash and cash equivalents at the end of the year	14	<u>1 929 383</u>	<u>24 176 626</u>

* See Note 42

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	101 507 066	1 348 740	102 855 806	95 492 841	(7 362 965)	
Rental of facilities and equipment	1 052 000	981 425	2 033 425	896 695	(1 136 730)	1
Licences and permits	5 470 400	600 000	6 070 400	3 938 911	(2 131 489)	2
Other income	1 664 477	487 220	2 151 697	1 065 335	(1 086 362)	3
Interest earned	9 985 979	5 562 245	15 548 224	14 229 420	(1 318 804)	
Total revenue from exchange transactions	119 679 922	8 979 630	128 659 552	115 623 202	(13 036 350)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	34 727 027	1 931 300	36 658 327	35 773 260	(885 067)	
Transfer revenue						
Government grants & subsidies	346 538 939	23 879 677	370 418 616	365 373 512	(5 045 104)	
Fines, Penalties and Forfeits	73 859 735	(20 221 676)	53 638 059	14 569 994	(39 068 065)	4
Total revenue from non-exchange transactions	455 125 701	5 589 301	460 715 002	415 716 766	(44 998 236)	
Total revenue	574 805 623	14 568 931	589 374 554	531 339 968	(58 034 586)	
Expenditure						
Employee related costs	(147 530 381)	4 762 709	(142 767 672)	(150 217 425)	(7 449 753)	3
Remuneration of councillors	(25 554 276)	485 803	(25 068 473)	(25 064 899)	3 574	
Depreciation and amortisation	(58 620 684)	3 790 945	(54 829 739)	(56 343 149)	(1 513 410)	
Impairment loss/ Reversal of impairments	-	-	-	(464 326)	(464 326)	5
Finance costs	(2 505 072)	-	(2 505 072)	(2 360 819)	144 253	
Lease rentals on operating lease	-	-	-	(4 501 147)	(4 501 147)	6
Debt Impairment	(55 759 572)	12 254 632	(43 504 940)	(12 632 173)	30 872 767	7
Repairs and maintenance	(13 590 642)	(4 207 757)	(17 798 399)	(15 596 302)	2 202 097	8

ELIAS MOTSOALEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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						
Bulk purchases	(80 941 008)	(6 058 995)	(87 000 003)	(81 427 521)	5 572 482	
Transfers and Subsidies	(3 740 229)	400 000	(3 340 229)	(2 309 565)	1 030 664	9
General Expenses	(94 350 082)	(14 839 815)	(109 189 897)	(121 494 392)	(12 304 495)	10
Total expenditure	(482 591 946)	(3 412 478)	(486 004 424)	(472 411 718)	13 592 706	
Operating surplus	92 213 677	11 156 453	103 370 130	58 928 250	162 298 380	
Loss on disposal of assets and liabilities	-	-	-	(2 770 892)	(2 770 892)	11
Additional contribution landfill rehabilitation	-	-	-	1 012 671	1 012 671	12
Fair value adjustments	-	-	-	5 885 408	5 885 408	13
Investment property fair value adjustment	-	-	-	3 710 115	3 710 115	30
	-	-	-	7 837 302	7 837 302	
Surplus/(Deficit) before taxation	92 213 677	11 156 453	103 370 130	66 765 552	(36 604 578)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	92 213 677	11 156 453	103 370 130	66 765 552	(36 604 578)	

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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	3 300 000	1 708 929	5 008 929	8 190 203	3 181 274	14
Other financial assets	24 154 615	(24 154 615)	-	-	-	
Receivables from exchange transactions	-	-	-	2 528 347	2 528 347	15
Receivables from non-exchange transactions	40 727 027	9 010 440	49 737 467	42 865 792	(6 871 675)	16
VAT receivable	-	-	-	8 147 511	8 147 511	17
Consumer debtors	41 949 994	6 994 737	48 944 731	65 805 813	16 861 082	18
Cash and cash equivalents	4 882 413	11 699 847	16 582 260	1 929 384	(14 652 876)	19
	115 014 049	5 259 338	120 273 387	129 467 050	9 193 663	
Non-Current Assets						
Investment property	53 739 000	4 500 775	58 239 775	60 324 073	2 084 298	
Property Plant and Equipment	1 055 765 407	80 042 811	1 135 808 218	1 048 853 314	(86 954 904)	
Heritage Assets	-	-	-	463 363	463 363	20
Intangible assets	85 347	(46 613)	38 734	30 963	(7 771)	21
Deposit (Security held in advance)	13 476 118	526 300	14 002 418	15 347 834	1 345 416	22
Long term lease Debtor - restated	-	-	-	-	-	
	1 123 065 872	85 023 273	1 208 089 145	1 125 019 547	(83 069 598)	
Total Assets	1 238 079 921	90 282 611	1 328 362 532	1 254 486 597	(73 875 935)	
Liabilities						
Current Liabilities						
Deferred income	-	-	-	192 983	192 983	23
Finance lease obligation	9 686 046	1 855 885	11 541 931	10 975 085	(566 846)	
Landfill Rehabilitation Provision	-	-	-	1 512 163	1 512 163	25
Payables from exchange transactions	60 923 642	3 567 566	64 491 208	98 948 519	34 457 311	26
Consumer deposits	4 860 000	569 683	5 429 683	5 515 652	85 969	

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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						
Employee benefit obligation	-	-	-	1 815 000	1 815 000	27
Unspent conditional grants and receipts	-	-	-	5 616 431	5 616 431	28
Provision for Long Service Leave	5 658 100	850 082	6 508 182	992 000	(5 516 182)	29
	81 127 788	6 843 216	87 971 004	125 567 833	37 596 829	
Non-Current Liabilities						
Deferred income	-	-	-	3 280 702	3 280 702	23
Finance lease obligation	13 553 931	(85 166)	13 468 765	2 444 092	(11 024 673)	24
Landfill Site Rehabilitation provision	-	-	-	36 386 657	36 386 657	25
Employee benefit obligation	-	-	-	31 231 996	31 231 996	27
Provision for Long Service Leave	90 141 814	(96 221)	90 045 593	5 908 000	(84 137 593)	29
	103 695 745	(181 387)	103 514 358	79 251 447	(24 262 911)	
Total Liabilities	184 823 533	6 661 829	191 485 362	204 819 280	13 333 918	
Net Assets	1 053 256 388	83 620 782	1 136 877 170	1 049 667 317	(87 209 853)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 053 256 388	83 620 782	1 136 877 170	1 049 667 317	(87 209 853)	

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Approved
budget

Adjustments

Final Budget
Actual

Figures in Rand

Budget and Actual Amounts variance explanation

Material difference between budget and actual amounts

The comparison of the municipality's financial performance with that budgeted is set out in the statement of comparison of budget and actual amounts.

The budget is approved on accrual basis using a classification based on the nature of the expense. The approved budget covers the period from 01 July 2019 to 30 June 2020.

Changes from the approved budget to the final budget.

The changes between the approved and final budget are as a consequence of adjustments and roll-overs of grants

Variances of 10% or more are explained as set out below:

1. Rental of facilities and equipment

The variance is attributed to straight lining of operating lease and the lockdown due to pandemic as customers were refunded for booking facilities.

2. Licences and permits

The variance is as a result of lockdown due to the pandemic as the licence department was only reopened towards end of June 2020.

3. Other income

The variance is as a result of lockdown due to the pandemic

4. Fines; penalties and forfeits

The variance is due to the ending of section 32 traffic fines speed cameras contract in November 2019. The tender was advertised and no appointment as at year end.

5. Impairment loss and reversals

Impairment loss/reversal of impairment loss was not budgeted for since was not expected to occur in the 2020 financial year.

6. Lease rentals on operating lease

The budget is included in other expenditure budget as per National Treasury Schedule, variance explanation is under general expenses.

7. Debt impairment

The variance is attributed to low collection rate on traffic fines due to economic slowdown as well as revised balance due to prior period error on debt impairment.

8. Repairs and maintenance

The variance is as a result of lockdown due to the pandemic

9. Transfers and subsidies

The variance is due to classification of Post-Employment Medical Aid Benefits Current Service Cost and interest charge which was previously incorrectly classified

10. General expenses

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Approved budget	Adjustments	Final Budget	Actual
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Figures in Rand

After adding general expenses and lease rentals on operating lease; the variance negative and caused by overspending on contracted services.

11. Loss on disposal of assets and liabilities

There was no budget provision for this account

12. Additional contribution landfill rehabilitation

There was no budget provision for this account

13. Fair value adjustments

There was no budget provision for this account

14. Inventory

Inventory was not requested during lockdown hence and increase in inventory balance.

15. Receivables from exchange transaction

The budget for this item is combined with receivables from non-exchange transactions as per National Treasury template, The explanation is under receivables from non-exchange transactions. Please see explanation 16.

16. Receivables from non-exchange transaction

Adding receivables from both exchange and non-exchange transactions and VAT receivable, we remain with underperformance variance that is caused by significant portion of traffic fines debtors having been impaired

17. VAT receivables

The budget is included in other receivables. Please see explanation 16.

18. Consumer debtors

The variance is attributable to none payment of customers due to the loss of income experienced because of the pandemic.

19. Cash and cash equivalent

The variance is immaterial and is due to low revenue collection rate because of the pandemic

20. Heritage assets

The budget for this account is included in the property plant and equipment

21. Intangible assets

The variance is due to the revision of lifespan of the licence that was coming to an end yet still in use.

22. Deposit (Security held in advance)

The variance is caused by prior period error on Eskom investment

23. Deferred income

The budget for this account is included in provisions

24. Finance lease obligation

The variance is attributed to specialised machinery and equipment and transport assets that were not all delivered.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Ac on
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Figures in Rand

25. Landfill Rehabilitation Provisions

The budget and explanations for this account is included in provisions section.

26. Trade and other payables

The variance is attributed to a significant amount for accruals and retention

27. Employee benefit obligation

The budget and explanations for this account is included in provisions section.

28. Unspent conditional grants

The variance is due to unexpected lockdown due to pandemic that caused construction to be on hold.

29. Provisions

Taking the employee benefit obligation; landfill rehabilitation and deferred income into consideration whose budget is included in the provision budget, the variance is 5% which is considered immaterial.

30. Investment property fair value adjustment

There was no budget provision for this account

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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. Amounts are rounded to the nearest 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 judgments 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 judgments 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 based on historical collection rate ratios and expected debt collection rates.

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.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Impairment testing

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 2020

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 measure 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 apply 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 2020

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, it's deemed cost is the carrying amount of the asset(s) given up.

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

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

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

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

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

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 2020

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 2020

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 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:

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

- cash;
- 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 unutilised 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 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Classification

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

Class	Category
Deposit (Security held in advance)	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
Receivables from exchange transactions	Financial Asset measured at amortised cost

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Accruals	Financial liability measured at amortised cost
Finance lease obligation	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.

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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.

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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.

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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.

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Annual Financial Statements for the year ended 30 June 2020

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.

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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.

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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:

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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 oversized or overcapacity asset. Oversized 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.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

1.13 Electricity distribution losses

The electricity distribution 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.

Cost of units purchased include all costs incurred as a result of buying electricity or that are directly attributable to purchasing electricity.

The rand value of distribution loss is calculated per month using the unit cost of purchasing electricity in that month.

At the end of the year total distribution loss is calculated by adding up distribution losses for the 12 months.

1.14 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.

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.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

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.

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.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

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.

1.15 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.

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Accounting Policies

1. Presentation of Annual Financial Statements (continued)

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.

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.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

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, an 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.

1.16 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.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

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.

1.18 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.

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.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

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 2020

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 an average percentage of fines outstanding divided by the total fines issued for each financial year.

Impairment on all traffic fines outstanding is calculated on a basis of the average of uncollectable rate over the full period of traffic fines per type of traffic fine.

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-imburement 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.

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

Property rates - revenue

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.

1.19 Investment income

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

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure 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 2020

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.

1.24 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.

1.25 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.

1.26 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.

1.27 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 2020

Accounting Policies

1. Presentation of Annual Financial Statements (continued)

1.28 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.

1.29 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.

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality adopted new standards and interpretations as follows.

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	The impact of the is not material.
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	The impact of the is not material.
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	The impact of the is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The impact of the is not material.
• GRAP 108: Statutory Receivables	01 April 2019	The impact of the is not material.

2.2 Standards and Interpretations early adopted

The municipality did not choose to early adopt any standards and interpretations:

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 2020 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:
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Not expected to impact results but may result in additional disclosure

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 2020 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 32: Service Concession Arrangements: Grantor	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
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact

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Notes to the Annual Financial Statements

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3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	60 324 073	-	60 324 073	56 613 958	-	56 613 958

Reconciliation of investment property - June 2020

	Opening balance	Fair value adjustments	Total
Investment property	56 613 958	3 710 115	60 324 073

Reconciliation of investment property - June 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	44 857 902	(590 000)	12 346 056	56 613 958

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, Uniqueco property valuers (Pty) Ltd. Sales research was conducted for property transactions taking place in the period starting July 2019 to June 2020. 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.

Amounts recognised in surplus or deficit

Rental revenue from Investment property (866 321) (1 185 507)

From Investment property that generated rental revenue

Repairs and maintenance 2 000 100 321

There were no direct operating expenses and repairs and maintenance for Investment property that did not generate rental revenue for the 2019 and 2020 year

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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4. Property Plant and Equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	196 195 153	(9 026 900)	187 168 253	196 195 153	(9 026 900)	187 168 253
Buildings	129 254 490	(67 613 050)	61 641 440	130 379 025	(64 370 764)	66 008 261
Leased assets capitalised	26 156 047	(4 379 746)	21 776 301	26 156 047	(1 683 407)	24 472 640
Roads Infrastructure	954 894 094	(410 170 635)	544 723 459	955 663 618	(373 609 853)	582 053 765
Solid Waste Infrastructure	24 071 889	(12 363 848)	11 708 041	27 571 880	(13 142 841)	14 429 039
Electrical Infrastructure	86 146 599	(39 804 285)	46 342 314	79 520 430	(35 729 257)	43 791 173
Community	31 800 950	(13 597 578)	18 203 372	31 845 373	(12 319 359)	19 526 014
Furniture and Office Equipment	7 561 786	(5 516 639)	2 045 147	7 306 645	(5 055 682)	2 250 963
Machinery and Equipment	11 513 374	(6 393 418)	5 119 956	11 034 131	(5 345 253)	5 688 878
Computer Equipment	4 114 215	(2 690 078)	1 424 137	4 591 779	(2 456 739)	2 135 040
Transport Assets	38 841 936	(23 726 208)	15 115 728	38 412 628	(19 877 262)	18 535 366
Capital - Work in Progress	133 585 166	-	133 585 166	46 756 672	-	46 756 672
Total	1 644 135 699	(595 282 385)	1 048 853 314	1 555 433 381	(542 617 317)	1 012 816 064

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Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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Reconciliation of property plant and equipment - June 2020

	Opening balance	Additions	Disposals	Derecognised	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	187 168 253	-	-	-	-	-	-	-	-	187 168 253
Buildings	66 008 261	-	(169 147)	-	-	-	-	(4 079 110)	(118 564)	61 641 440
Leased assets capitalised	24 472 640	-	-	-	-	-	-	(2 696 339)	-	21 776 301
Roads Infrastructure	582 053 765	-	(247 153)	-	-	-	-	(36 796 780)	(286 373)	544 723 459
Solid Waste Infrastructure	14 429 039	-	(2 020 073)	-	-	-	-	(697 303)	(3 622)	11 708 041
Electrical Infrastructure	43 791 173	-	(53 053)	-	6 767 199	-	-	(4 156 385)	(6 620)	46 342 314
Community	19 526 014	-	(6 580)	-	-	-	-	(1 209 499)	(106 563)	18 203 372
Furniture and Office Equipment	2 250 963	554 385	(55 716)	-	-	-	-	(672 081)	(32 404)	2 045 147
Machinery and Equipment	5 688 878	1 034 984	(44 864)	-	-	-	-	(1 533 964)	(25 078)	5 119 956
Computer Equipment	2 135 040	38 420	(70 692)	-	-	-	-	(644 321)	(34 310)	1 424 137
Transport Assets	18 535 366	429 307	-	-	-	-	-	(3 848 945)	-	15 115 728
Capital - Work in Progress	46 756 672	93 595 693	-	-	(6 767 199)	-	-	-	-	133 585 166
	1 012 816 064	95 652 789	(2 667 278)	-	-	-	-	(56 334 727)	(613 534)	1 048 853 314

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Reconciliation of property plant and equipment - June 2019

	Opening balance	Additions	Disposals	Derecognised	Transfers	Depreciation	Impairment loss	Total
Land	187 168 253	-	-	-	-	-	-	187 168 253
Buildings	71 010 823	-	(312 284)	-	-	(4 529 476)	(160 802)	66 008 261
Leased assets capitalised	-	26 156 047	-	-	-	(1 683 407)	-	24 472 640
Roads Infrastructure	557 191 257	-	(1 321 710)	-	63 417 263	(36 052 595)	(1 180 450)	582 053 765
Solid Waste Infrastructure	15 143 570	-	-	-	-	(714 531)	-	14 429 039
Electrical Infrastructure	39 572 951	-	(394 005)	-	8 403 868	(3 787 818)	(3 823)	43 791 173
Community	20 817 418	-	(9 223)	-	-	(1 282 181)	-	19 526 014
Furniture and Office Equipment	2 226 901	576 060	(26 685)	-	-	(524 642)	(671)	2 250 963
Machinery and Equipment	7 187 084	322 648	(90 689)	-	-	(1 726 678)	(3 487)	5 688 878
Computer Equipment	2 259 208	609 064	(51 757)	-	-	(681 475)	-	2 135 040
Transport Assets	22 929 485	-	(435 190)	-	-	(3 958 929)	-	18 535 366
Capital - Work in Progress	41 366 818	79 824 380	-	(1 497 760)	(72 936 766)	-	-	46 756 672
	966 873 768	107 488 199	(2 641 543)	(1 497 760)	(1 115 635)	(54 941 732)	(1 349 233)	1 012 816 064

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services

8 011 092

15 738 956

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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.

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.

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5. Heritage Assets

	2020			2019		
	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 2020

	Opening balance	Total
Heritage Assets	463 363	463 363

Reconciliation of heritage assets - June 2019

	Opening balance	Total
Heritage Assets	463 363	463 363

6. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 554 591	(1 523 628)	30 963	1 554 591	(1 515 204)	39 387

Reconciliation of intangible assets - June 2020

	Opening balance	Amortisation	Total
Computer software	39 387	(8 424)	30 963

Reconciliation of intangible assets - June 2019

	Opening balance	Amortisation	Total
Computer software	85 347	(45 960)	39 387

Other information

The residual value, and the useful life and amortisation 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.

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7. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the Post Employment Medical Health Care obligation -	(36 471 768)	(38 040 665)
Opening balance		
Interest charge	(3 273 192)	(3 522 965)
Net actuarial gains or losses recognised	6 023 715	4 598 255
Current Service Cost	(1 065 351)	(1 272 540)
Benefits paid out of the fund	1 739 596	1 766 147
	(33 047 000)	(36 471 768)
Non-current liabilities	(31 232 000)	(34 723 584)
Current liabilities	(1 815 000)	(1 748 184)
	(33 047 000)	(36 471 768)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	36 471 768	38 040 665
Net expense recognised in the statement of financial performance	(3 424 768)	(1 568 897)
	33 047 000	36 471 768
Net expense recognised in the statement of financial performance		
Current service cost	1 065 351	1 272 540
Interest cost	3 273 192	3 522 965
Actuarial (gains)/losses	(6 023 715)	(4 598 255)
Paid out to current members	(1 739 596)	(1 766 147)
	(3 424 768)	(1 568 897)
Calculation of actuarial gains and losses		
Actuarial (gains)/losses – Obligation	(6 023 715)	(4 598 255)
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used: Long service awards	7.40 %	8.24 %
General salary inflation (Long Term)	3.99 %	5.60 %
Nett effective discount rate - Long service awards	3.28 %	2.50 %
Discount rate used: Post employment benefits	9.98 %	9.19 %
Health care inflation rate	6.11 %	6.71 %
Net effective discount rate - Post employment benefits	3.65 %	2.32 %

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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	4 062 600	4 468 300
Effect on defined benefit obligation	29 584 000	32 272 000

Amounts disclosed span the total information available as the municipality applied the GRAP standard only from 2015 annual financial statements. Future periods will include all further information as it ages.

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	33 047 000	36 472 000	38 040 665	38 840 103	35 484 327
Experience adjustments on plan liabilities	116 000	(2 253 000)	(1 888 000)	4 795 000	1 933 000
	2020 R	2019 R	2018 R	2017 R	2016 R
Long service award	6 900 000	6 010 000	5 347 000	4 552 000	4 509 000
Experience adjustments on plan liabilities	455 307	582 882	287 873	(103 338)	372 039

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	15 347 834	14 657 065
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9. Inventories

Consumables	8 190 203	6 244 690
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9.1 Consumables expenses

Statement of Financial Position

Opening stock	6 244 690	3 328 341
Add: Purchases	8 521 119	7 905 226
Less: Consumed	(6 575 604)	(4 988 879)
Closing stock	8 190 203	6 244 690

Statement of Financial Performance

Repairs And Maintenance used	4 951 685	3 311 722
Printing And Stationery used	1 602 159	1 654 657
Advertising	21 760	22 500

Inventories recognised as an expense during the year	6 575 604	4 988 879
------------------------------------------------------	-----------	-----------

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

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Annual Financial Statements for the year ended 30 June 2020

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10. Receivables from exchange transactions		
Interest receivable	48 247	48 247
Prepayments	560 203	1 725 941
Trade debtors	1 919 897	1 981 859
	2 528 347	3 756 047
11. Receivables from non-exchange transactions		
Traffic fines	186 588 251	175 186 754
Less: Provision for irrecoverable debt traffic fines	(143 722 459)	(145 440 049)
	42 865 792	29 746 705
12. VAT receivable		
VAT	8 147 511	11 015 273
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.		
13. Consumer debtors		
Gross balances		
Rates	45 500 077	36 022 422
Electricity	11 619 977	5 817 251
Refuse	14 540 720	10 469 424
Other	41 232 153	29 487 419
	112 892 927	81 796 516
Less: Allowance for impairment		
Rates	(19 812 216)	(13 439 698)
Electricity	(1 798 431)	(1 602 570)
Refuse	(6 678 883)	(4 590 767)
Other	(18 797 584)	(13 104 316)
	(47 087 114)	(32 737 351)
Net balance		
Rates	25 687 861	22 582 724
Electricity	9 821 546	4 214 681
Refuse	7 861 837	5 878 657
Other	22 434 569	16 383 103
	65 805 813	49 059 165
Rates		
Current (0 -30 days)	2 803 343	5 746 477
31 - 60 days	1 560 066	1 375 584
61 - 90 days	1 242 003	1 004 722
91 - 120 days	1 170 361	949 549
121 - 365 days	6 958 370	6 062 688
> 365 days	31 765 934	20 883 402
	45 500 077	36 022 422

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Electricity		
Current (0 -30 days)	5 902 750	3 123 446
31 - 60 days	1 380 844	1 750 989
61 - 90 days	483 505	296 864
91 - 120 days	247 101	92 005
121 - 365 days	501 474	453 695
> 365 days	3 104 303	100 252
	11 619 977	5 817 251
Refuse		
Current (0 -30 days)	678 704	652 118
31 - 60 days	508 300	559 854
61 - 90 days	428 495	372 757
91 - 120 days	408 569	357 706
121 - 365 days	2 569 135	2 424 798
> 365 days	9 947 517	6 102 191
	14 540 720	10 469 424
Other (specify)		
Current (0 -30 days)	2 248 299	2 036 361
31 - 60 days	1 473 336	1 217 892
61 - 90 days	1 255 867	902 508
91 - 120 days	1 219 921	842 010
121 - 365 days	7 161 075	5 524 866
> 365 days	27 873 655	18 963 782
	41 232 153	29 487 419

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Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	5 490 802	1 502 613
31 - 60 days	3 030 169	2 198 268
61 - 90 days	2 045 780	1 322 812
91 - 120 days	1 897 512	1 254 836
121 - 365 days	11 097 973	8 243 535
> 365 days	45 409 898	25 102 481
	<hr/>	<hr/>
	68 972 134	39 624 545
Less: Allowance for impairment	(30 659 352)	(17 740 581)
	<hr/>	<hr/>
	38 312 782	21 883 964
Industrial/ commercial		
Current (0 -30 days)	5 414 312	5 791 778
31 - 60 days	1 467 849	2 130 783
61 - 90 days	1 091 806	852 014
91 - 120 days	890 785	776 194
121 - 365 days	4 573 708	4 863 995
> 365 days	19 636 117	17 900 715
	<hr/>	<hr/>
	33 074 577	32 315 479
Less: Allowance for impairment	(12 294 598)	(11 893 657)
	<hr/>	<hr/>
	20 779 979	20 421 822
National and provincial government		
Current (0 -30 days)	727 982	1 472 965
31 - 60 days	424 529	575 268
61 - 90 days	272 283	402 024
91 - 120 days	257 655	210 240
121 - 365 days	1 518 373	1 358 516
> 365 days	7 645 400	5 837 477
	<hr/>	<hr/>
	10 846 222	9 856 490
Less: Allowance for impairment	(4 133 163)	(3 103 112)
	<hr/>	<hr/>
	6 713 059	6 753 378
Total		
Consumers	68 972 134	39 624 546
Commercial / industrial / agricultural	33 074 577	32 315 481
National, Provincial and other government organisations	10 846 221	9 856 489
	<hr/>	<hr/>
	112 892 932	81 796 516
Less: Allowance for impairment	(47 087 119)	(32 737 351)
	<hr/>	<hr/>
	65 805 813	49 059 165
Reconciliation of allowance for impairment		
Balance at beginning of the year	(32 737 351)	(23 178 438)
Contributions to allowance	(14 349 763)	(9 558 913)
	<hr/>	<hr/>
	(47 087 114)	(32 737 351)
Consumer debtors impaired		
As of 30 June 2020, consumer debtors of R 112 897 485 (2019: R 81 796 515) were impaired and provided for.		
The amount of the provision was R 47 088 940 as at 30 June 2020 (2019: R 32 737 351). The basis of the calculation of debt impairment is based on the risk assessment required in terms of GRAP 19.		

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Consumer debtors breakdown

Other debtors includes the following interest and VAT.

The carrying amount of consumer debtors consist of the following:

Consumer debtors from non-exchange transactions	48 122 430	38 965 827
Consumer debtors from exchange transactions	17 683 383	10 093 338
Total	<u>65 805 813</u>	<u>49 059 165</u>

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21 855	6 250
Bank balances	1 907 529	12 332 722
Short-term deposits	-	11 837 655
Total	<u>1 929 384</u>	<u>24 176 627</u>

The investment balance was fully withdrawn by 30 June 2020.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances			
	30 June 2020	30 June 2019	30 June 2020	30 June 2019		
Nedbank Limited: Cheque Account (Acc no 1137278765)	2 458 043	10 584 854	-	1 336 814	12 332 722	-
Nedbank Limited: Call Account (Acc no 037881068264)	-	11 837 655	-	-	11 837 655	-
Total	<u>2 458 043</u>	<u>22 422 509</u>	<u>-</u>	<u>1 336 814</u>	<u>24 170 377</u>	<u>-</u>

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15. Finance lease obligation		
Minimum lease payments due		
- within one year	11 844 451	12 113 666
- in second to fifth year inclusive	2 484 405	14 655 540
	<hr/>	<hr/>
	14 328 856	26 769 206
less: future finance charges	(909 678)	(3 676 040)
Present value of minimum lease payments	<hr/> 13 419 178	<hr/> 23 093 166
Non-current liabilities	2 444 092	13 468 764
Current liabilities	10 975 086	9 624 401
	<hr/>	<hr/>
	13 419 178	23 093 165

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:

Unspent conditional grants and receipts		
Land Affairs Grant	466 250	466 250
Integrated National Electrification Programme (Municipal Grant)	58 390	12 122
Municipal Infrastructure Grant	4 690 441	1 500 433
CoGHSTA - Development of Masakaneng	299 762	21 771 050
Education Training and Development Practices SETA	101 588	101 588
	<hr/>	<hr/>
	5 616 431	23 851 443

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.

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17. Deferred income		
Designated at fair value		
Deferred income	3 280 702	3 473 684
At amortised cost		
Deferred income	192 983	192 983
<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>		
Non-current liabilities		
Deferred income	3 280 702	3 473 684
Current liabilities		
Deferred income	192 983	192 983

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18. Provision for Long Service Leave

Reconciliation of provisions - June 2020

	Opening Balance	Current Service Cost/Change in provision	Benefit Vested	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation - Landfill	37 973 226	(1 012 671)	-	938 265	-	37 898 820
Provision for Long Service Leave	6 010 434	708 697	(439 130)	481 692	138 307	6 900 000
	43 983 660	(303 974)	(439 130)	1 419 957	138 307	44 798 820

Reconciliation of provisions - June 2019

	Opening Balance	Current Service Cost/Change in provision	Benefit Vested	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation - Landfill	47 862 390	(11 492 554)	-	1 603 390	-	37 973 226
Provision for Long Service Leave Bonus	5 346 657	599 274	(1 020 198)	433 641	651 060	6 010 434
	53 209 047	(10 893 280)	(1 020 198)	2 037 031	651 060	43 983 660

Non Current Portion Landfill site provision	36 386 657	37 034 961
Current Portion Landfill site provision	1 512 163	938 265
Non-current portion of long service leave provision	5 908 000	5 674 465
Current portion of long service leave provision	992 000	335 969
	44 798 820	43 983 660

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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 external experts to perform the rehabilitation review and estimation for the 2019 and 2020 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.

Key financial assumptions used

June 2020

Rates and information used:

Discount rate (D): 9.27%

Price inflation (I): 5.08%

Net discount rate $(1+D)/(1+I)-1 = 3.99\%$

Net present value calculations based on the Government Bond Yield Rate for 10-years as discount rate. Refer to the screenshot below for the rate as at 30 June 2020. Discount rate for Groblersdal Landfill = 9.27%.

In order to escalate and calculate the future values, the average CPI of the past ten years was used as escalation rate as obtained from StatsSA:

June 2020

Rates and information used:

Groblersdal Discount rate (D1): 8.10%

Roosenekal Discount rate (D2): 6.34%

Price inflation (I): 5.21%

Net discount rate Groblersdal $(1+D1)/(1+I)-1 = 2.75\%$

Net discount rate Roosenekal $(1+D2)/(1+I)-1 = 1.07\%$

Net present value calculations based on the Government Bond Yield Rate for 10-years and 2-years respectively as discount rates. Refer to the screenshots below for the rates as at 28 June 2019 (latest published rates before 1 July 2019). Discount rate for Groblersdal Landfill = 8.10% and for Roosenekal Landfill = 6.34%.

In order to escalate and calculate the future values, the average CPI of the past ten years was used as escalation rate as obtained from StatsSA:

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19. Payables from exchange transactions		
Trade payables	49 367 430	44 390 475
Payments received in advanced Consumer Accounts	4 659 115	6 287 447
Accrued leave pay	17 577 235	14 789 036
Accrued bonus	5 345 218	5 062 068
Retention Creditors	17 252 616	12 494 520
Unallocated deposits	2 169 050	3 608 394
Property sale deposit	-	45 600
Reimbursements	18 695	-
Licensing	2 559 160	2 559 163
	98 948 519	89 236 703

20. Consumer deposits

Electricity	5 515 652	5 383 183
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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.

21. Revenue

Fines, Penalties and Forfeits	14 569 994	50 233 349
Government grants & subsidies	365 373 512	316 049 270
Interest received	14 229 420	11 321 172
Licences and permits	3 938 911	4 706 876
Other income	1 065 335	1 679 788
Property rates	35 773 260	32 756 281
Public contributions and donations	-	41 272
Rental of facilities and equipment	896 695	1 644 122
Service charges	95 492 841	83 286 776
	531 339 968	501 718 906
Interest received - investment	14 229 420	11 321 172
Licences and permits	3 938 911	4 706 876
Other income	1 065 335	1 679 788
Rental of facilities and equipment	896 695	1 644 122
Service charges	95 492 841	83 286 776
The amount included in revenue arising from exchanges of goods or services are as follows:	115 623 202	102 638 734

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

Taxation revenue

Property rates	35 773 260	32 756 281
Property rates - penalties imposed	-	-

Transfer revenue

Government grants & subsidies	365 373 512	316 049 270
Assets donated	-	41 272
Fines, Penalties and Forfeits	14 569 994	50 233 349
	415 716 766	399 080 172

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22. Service charges

Sale of electricity	87 067 557	75 432 280
Refuse removal	8 425 284	7 854 496
	95 492 841	83 286 776

23. Other income

Other income	1 065 335	1 679 788
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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, General recoveries, Valuation Services, Building Plan Approval, Photocopies and Faxes, Application Fees for Land Usage, Photocopies, Facilities, Tender Documents and Advertisements.

24. Investment revenue

Interest revenue

Bank and investments	1 368 473	2 133 031
Interest charged on trade and other receivables	12 170 178	8 350 194
Interest received on Eskom deposits	690 769	837 947
	14 229 420	11 321 172

25. Property rates

Rates received

Rates levied	43 193 191	39 240 818
Less: Income forgone (Property rates rebates)	(7 419 931)	(6 484 537)
	35 773 260	32 756 281

Valuations

Residential	2 371 723 500	2 545 434 000
Commercial	1 043 021 000	916 893 000
State	381 470 150	263 152 000
Municipal	252 917 000	83 563 350
Small holdings and farms	4 274 578 725	4 354 558 625
Social	63 386 000	54 801 500
	8 387 096 375	8 218 402 475

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.

26. Grants and subsidies paid

Other subsidies

Electricity Subsidies	1 134 214	1 018 802
Bursaries	110 000	191 772
Post Employment Medical Aid Benefits Current Service Charge	1 065 351	1 272 540
Employee related costs: Post Employment Medical Aid Benefits - Interest Charge	-	3 522 965
	2 309 565	6 006 079

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Figures in Rand	2020	2019
27. Government grants and subsidies		
Operating grants		
Equitable share	269 012 500	237 511 155
Expanded Public Works Programme Integrated Grant for Municipalities	1 374 000	1 002 000
Local Government Financial Management Grant	2 235 000	1 770 000
Disaster Management Grant COVID-19	596 000	-
	273 217 500	240 283 155
Capital grants		
Municipal Infrastructure Grant (MIG)	51 730 992	60 769 493
Integrated National Electrification Programme Grant (INEP)	18 953 732	9 996 622
Energy Efficiency Demand System Management Grant	-	5 000 000
COGHSTA	21 471 288	-
	92 156 012	75 766 115
	365 373 512	316 049 270
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	1 500 433	437 927
Current-year receipts	54 921 000	61 831 999
Conditions met - transferred to revenue	(51 731 039)	(60 769 493)
Conditions still to be met	(4 690 394)	(1 500 433)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
Financial Management Grant (FMG)		
Current-year receipts	2 235 000	1 770 000
Conditions met - transferred to revenue	(2 235 000)	(1 770 000)
	-	-
Land Affairs Grant		
Balance unspent at beginning of year	466 250	466 250
Conditions still to be met - remain liabilities (see note 16).		
DME-Integrated national Electrification Programme Grant		
Balance unspent at beginning of year	12 124	10 744
Current-year receipts	19 000 000	9 998 002
Conditions met - transferred to revenue	(18 953 782)	(9 996 622)
Conditions still to be met	(58 342)	(12 124)
	-	-
Conditions still to be met - remain liabilities (see note 16).		

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Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)		
Current-year receipts	1 374 000	1 002 000
Conditions met - transferred to revenue	(1 374 000)	(1 002 000)
	<u>-</u>	<u>-</u>
Energy Efficiency Demand System Management Grant (EEDM)		
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(5 000 000)
	<u>-</u>	<u>-</u>
COGHSTA - Development of Masakaneng		
Balance unspent at beginning of year	21 771 050	-
Current-year receipts	-	21 771 050
Conditions met - transferred to revenue	(21 471 288)	-
Conditions still to be met	(299 762)	(21 771 050)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
Disaster Management Grant COVID-19		
Current-year receipts	596 000	-
Conditions met - transferred to revenue	(596 000)	-
	<u>-</u>	<u>-</u>

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28. Employee related costs		
Acting allowances	412 382	298 527
Basic salary	87 892 369	84 473 346
Bonus	7 056 795	6 794 711
Defined contribution plans	17 185 955	16 185 064
Housing benefits and allowances	178 829	171 325
Contribution to provision for Leave and bonus pay	3 478 778	5 981 146
Medical aid - company contributions	5 555 004	5 303 272
Directors' remuneration as disclosed below	6 575 211	6 463 833
Overtime payments	2 180 459	3 055 930
Post Employment Medical Aid Benefits and Long Service Leave - Current Service Charge	708 697	599 274
Long Service Leave - Interest Charge	3 754 884	433 641
SDL	914 472	1 037 991
Car, Cellphone and other allowances	13 664 281	12 002 902
UIF	620 276	606 955
WCA	39 033	37 076
	150 217 425	143 444 993

Included in the above balances is (unless stated otherwise) the remuneration for the following 57 municipal employees:

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Remuneration of Municipal Manager

Annual Remuneration	887 484	782 520
Car Allowance	120 000	120 000
Cell Phone Allowance	30 000	27 400
Contributions to Medical and Pension Funds	64 635	54 539
Contribution to UIF and SDL	10 050	11 194
Annual Bonus	63 921	59 491
Contribution to Bargaining Council	112	105
N.P.A	30 000	30 000
	1 206 202	1 085 249

Director Planning and Development

Annual Remuneration	854 118	645 257
Car Allowance	122 582	100 000
Contribution to medical & pension Fund	-	12 183
Cellphone allowance	27 600	20 400
Annual Bonus	-	63 038
Contribution to Bargaining Council	112	88
Contribution to UIF and SDL	9 373	10 934
Leave pay	-	148 187
	1 013 785	1 000 087

Acting Manager Development and Planning - Sethoja B - 6 JAN 2020 - 17 JAN 2020

3 409

Remuneration of Chief Financial Officer

Annual Remuneration	-	428 766
Car Allowance	-	61 384
Contributions to Medical and Pension Funds	-	44 968
Contribution to UIF and SDL	-	5 997
Contribution to Bargaining Council	-	53
Cellphone allowance	-	10 200
Leave pay	-	40 229
	-	591 597

Remuneration of Acting Chief Financial Officer

Mthimunye M P - 1 SEPT 2019 - 01 FEB 2020	18 387	-
Sebelebele KU - 1 APR 2020 - 01 MAY 2020	40 594	-
Sebelemetja M L - 1 JULY 2019 - 01 AUG 2019	6 494	62 528
Tjjane M C - 1 JUN 2020	6 118	-
	71 593	62 528

Remuneration of Director of Community Services

Annual Remuneration	802 602	702 338
Car Allowance	60 000	60 000
Contributions to Medical and Pension Funds	47 110	41 530
Cellphone allowance	27 600	25 000
Contribution to UIF and SDL	9 535	10 317
Contribution to Bargaining Council	112	105

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Figures in Rand	2020	2019
Annual Bonus	57 859	36 415
	1 004 818	875 705

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Figures in Rand	2020	2019
Remuneration of Acting Directors Community Services		
Acting Manager Community Service - Coetzee C - 8 AUG 2019 - 27 SEP 2019	13 450	-
Remuneration of Director of Corporate Services		
Annual Remuneration	956 118	799 755
Car Allowance	53 204	61 804
Cellphone allowance	27 600	25 000
Contribution to Bargaining Council	112	105
Contribution to UIF and SDL	9 582	10 497
	1 046 616	897 161
Director Executive Support		
Annual Remuneration	751 791	654 054
Car Allowance	108 000	108 000
Cellphone allowance	27 600	25 000
Contributions to Medical and Pension Funds	54 155	46 063
Annual Bonus	53 926	50 268
Contribution to UIF and SDL	10 205	10 512
Contribution to Bargaining Council	112	105
	1 005 789	894 002
Remuneration of Acting Municipal Manager		
Director Excecutive Support - Kgwale M M - 1 JUL 2019 - 30 JUN 2020	186 524	103 145
Director of Infrastructure		
Annual Remuneration	685 964	634 702
Annual Bonus	51 545	48 349
Leave pay	17 858	-
Car Allowance	235 335	222 260
Contributions to Medical and Pension Funds	83 612	75 948
Cell Phone Allowance	27 600	25 000
Contribution to UIF and SDL	9 454	10 518
Contribution to Bargaining Council	112	105
	1 111 480	1 016 882
Acting Manager Infrastructure - Malaka Jk - 13 JAN 2020-24 JAN 2020	7 520	-
29. Remuneration of councillors		
Mayor	941 434	909 155
Speaker	765 573	747 209
Executive Committee Councillors	4 321 205	3 349 651
Ordinary Councillors	18 313 343	17 954 092
Chief Whip	723 346	701 646
	25 064 899	23 661 753

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In-kind benefits

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 52.

Remuneration of Mayor

Car Allowance	7 162	214 868
Annual Remuneration	513 604	497 922
Contributions to Medical and Pension Funds	153 980	144 795
SDL	5 987	7 170
Other - Data, cellphone, adjustments, parking and subscriptions	260 700	44 400
	941 433	909 155

Remuneration of Speaker

Car Allowance	178 770	171 894
Annual Remuneration	466 113	446 909
Contributions to Medical and Pension Funds	67 953	67 263
SDL	4 743	5 695
Other - Data, cellphone, adjustments, parking, subsistence allowance and subscriptions	47 994	55 448
	765 573	747 209

Remuneration of Executive Committee

Car Allowance	970 275	753 155
Annual Remuneration	2 534 620	1 896 544
Contributions to Medical and Pension Funds	362 555	344 309
Other - Data, cellphone, adjustments, parking, subsistence allowance and subscriptions	425 047	329 890
SDL	28 708	25 752
	4 321 205	3 349 650

Remuneration of Chief Whip

Car Allowance	167 531	161 151
Annual Remuneration	394 008	381 338
Contributions to Medical and Pension Funds	106 746	100 700
Other - Data, cell phone, adjustments, parking and subscriptions	50 046	52 984
SDL	4 569	5 473
	722 900	701 646

Remuneration of Ordinary Councillors

Car Allowance	3 825 028	3 844 136
Annual Remuneration	10 568 554	10 184 827
Contributions to Medical and Pension Funds	1 339 912	1 316 336
Other - Data, cell phone, adjustments, parking and subscriptions	122 302	2 461 318
SDL	2 457 993	147 767
	18 313 789	17 954 384

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Figures in Rand	2020	2019
30. Finance costs		
Finance leases	2 360 819	2 796 740
Total interest expense, calculated using the effective interest rate of 10.25% on finance leases.		
31. Debt impairment		
Contributions to debt impairment consumers	14 349 763	9 558 913
Contributions to debt impairment traffic fines	(1 717 590)	37 954 866
	12 632 173	47 513 779
32. Bulk purchases		
Electricity	81 427 521	72 759 064
33. General expenses		
Administration and management fees	437 190	777 858
Advertising	136 578	374 765
Assets expensed	65 743	2 990 119
Auditing - Internal audit fee	530 335	1 235 580
Auditors remuneration - Office of AG	3 961 558	4 097 311
Bank charges	801 359	634 443
Bursaries	256 948	95 068
Community services - developmental and outreach programmes	55 080	-
Conferences and seminars	10 492 631	6 731 675
Consulting and professional fees	34 405 886	27 359 945
Consumables	5 539 167	4 909 073
Electricity Water and Refuse - Municipal Consumption	8 588 882	8 045 728
Entertainment	6 314	7 255
Foreign exchange differences	28 423	-
IT expenses	7 232 313	8 285 729
Insurance	3 628 394	5 588 104
Landfill site - additional interest landfill rehabilitation provision	938 265	1 603 390
Motor vehicle expenses	666 192	567 586
Operation of landfill site	1 565 217	379 738
Postage and courier	58 271	67 734
Printing and stationery	2 352 811	2 377 222
Resettlement Cost	752 174	-
Remuneration to Ward Committees	3 590 000	3 652 000
SARS Adjustments	81 522	897 886
Security (Guarding of municipal property)	19 619 478	15 088 710
Staff welfare	1 302 901	943 293
Subscriptions and membership fees	2 195 966	317 294
Telephone and fax	3 962 052	3 962 078
Town planning - Valuation costs	4 427 887	135 000
Travel - Subsistence reimbursement	2 805 174	2 992 808
Uniforms	1 009 681	456 624
	121 494 392	104 574 016

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

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Figures in Rand	2020	2019
34. Operating lease Income		
Operating leases - as lessor (income)		
Minimum lease payments due		
- within one year	407 967	391 076
- in second to fifth year inclusive	1 308 686	1 342 476
- later than five years	1 170 972	1 170 972
	2 887 625	2 904 524
Revenue for the year included Rental income from facilities and equipment	896 695	1 644 122
35. Operating (deficit)/surplus		
Operating (deficit)/surplus for the year is stated after accounting for the following:		
Operating lease charges		
Plant and equipment		
• Contractual amounts	1 229 726	2 141 076
Lease rentals on operating lease - Other		
• Contractual amounts	3 271 421	2 630 922
	4 501 147	4 771 998
(Loss)/gain on sale of property plant and equipment	(2 770 892)	199 758
Impairment on property, plant and equipment	464 326	261 844
Depreciation on property, plant and equipment	56 343 149	56 995 844
Employee costs	175 282 324	167 106 746

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Figures in Rand	2020	2019
36. Cash generated from operations		
Surplus/(deficit)	66 765 552	43 471 586
Adjustments for:		
Depreciation and amortisation	56 343 149	56 995 844
Loss/(Gain) on sale of assets	2 770 892	(199 758)
Landfill site - additional interest landfill rehabilitation provision	938 265	1 603 390
Fair value adjustments - actuarial gains and losses	(5 885 408)	(3 947 195)
Assets expensed - non cash donations	64 156	2 983 737
Impairment deficit	464 326	261 844
Debt impairment	12 632 173	47 513 779
Additional service cost landfill rehabilitation	(1 012 671)	(11 492 554)
Movements in retirement benefit assets and liabilities	(5 024 323)	(1 568 897)
Movements in provision for long service awards	889 566	663 777
Eskom interest	(690 769)	(837 947)
Operating lease straight lined	13 605	(1 167 869)
Deferred Income movement	(192 983)	(192 983)
VAT Adjustments	81 522	897 886
Post Employment Medical Aid Benefits and Long Service Leave	5 528 932	5 828 420
Employee costs Contribution to provision for Leave and bonus pay	3 478 778	5 981 146
Donations received	-	(41 272)
Post Employment Medical Aid Benefits and Long Service Leave vested benefits	(2 178 726)	(2 786 345)
Fair Value Adjustments	(3 710 115)	(4 738 560)
Changes in working capital:		
Inventories	(1 945 513)	(2 916 349)
Receivables from exchange transactions	1 227 700	(2 721 128)
Consumer debtors	(31 096 411)	(15 616 982)
Receivables from non-exchange transactions	(15 123 519)	(50 957 061)
Payables from exchange transactions	11 641 256	16 720 989
VAT	2 786 240	(138 327)
Unspent conditional grants and receipts	(18 235 012)	22 936 522
Consumer deposits	132 469	133 952
	80 663 131	106 669 645

ELIAS MOTSOLEDI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2020

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	2020	2019
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37. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	60 955 721	37 667 254
---------------------------------	------------	------------

Total capital commitments

Already contracted for but not provided for	60 955 721	37 667 254
---------------------------------------------	------------	------------

Total commitments

Total commitments

Authorised capital expenditure	60 955 721	37 667 254
--------------------------------	------------	------------

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	11 844 451	12 113 666
- in second to fifth year inclusive	2 484 405	14 655 540
	14 328 856	26 769 206

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	3 045 325	3 045 325
- in second to fifth year inclusive	2 847 585	2 847 585
	5 892 910	5 892 910

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.

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2019

38. Contingent Liabilities

Litigation is in the process against the municipality relating to disputes with stakeholders.

The estimate of the contingent liability is +/- R 5 845 745.44 (June 2020); R17 913 375.19 (June 2019).

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

1. REKHUDITSE CONTRACT AND CLEANING SERVICES // ELIAS MOTSOLEDI LOCAL MUNICIPALITY

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 and the total estimated legal fees is R 400 000.00.

2. Mofokeng // Elias Motsoaledi Local Municipality

The municipality was instructed to bring a review application against the Award made by the SALGBC regarding an alleged unfair dismissal of Mofokeng, an employee of the municipality.

The total estimated claim is R 420 000.00 and the total estimated legal fees is R 400 000.00.

3. Elias Motsoaledi Local Municipality // Mohlala Leonox

High Court matter the plaintiff is suing the municipality for contravening its own Bylaws

The total estimated legal fees is R 800 000.00.

4. Maboe Rachidi //Elias Motsoaledi Local Municipality // C Coetzee / Melinda Marshall

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 and the total estimated legal fees is R 150 000.00.

5. Elias Motsoaledi Local Municipality // 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 and the total estimated legal fees is R 200 000.00.

6. MOHLANGANE K.J // EMLM

The plaintiff alleges that he fell on a ditch pit and sustain a fracture on his right hand and abrasions on the said hand. He is claiming an amount of R150 000.00 for damages. The total estimated legal fees is R 500 000.00.

7. EMLM/ Maphochsgrone and Vlaklaagte Illegal dwellers

The Municipality appointed attorneys to obtain an eviction order against the Maphochsgronde and Vlaklaagte Illegal dwellers. The total estimated legal fees is R 350 000.00.

8. Elias Motsoaledi Municipality v Mohlala Leonox

Labour court application to set aside a contract of employment Unfair dismissal dispute (CCMA matter) JR 1077/18, The total estimated legal fees is R 500 000.00.

9. EMLM/Maredi

The municipal manager was suspended for financial misconduct.

The total estimated legal fees is R 300 000.00.

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Contingent assets

Litigation is in progress in favour of the municipality relating to disputes with employees and members of the public. The municipality is likely to receive an amount of +/- R 2 710 000.00. 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:

1. Maboe Rachidi //Elias Motsoaledi Local Municipality // C Coetzee / Melinda Marshall

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.

2. EMLM/ Maredi

The municipal manager was suspended for financial misconduct.

The total estimated claim is R 320 000.00.

3. YB Mashalaba & Associates Consultants CC & DR. Yandisa Bavulele Mashalaba

01 October 2014, the Municipality appointed the First Defendant to establish a township at Portion 39 of Klipbank 26 JS under the project PROPOSED TOWNSHIP ESTABLISHMENT ON PORTION 39 OF FARM KLIPBANK 26 JS ELIAS MOTSOLEDI LOCAL MUNICIPALITY, project number EMLM 16/2014. The project was for a duration of 12 months. According to the implied terms of the agreement, the Defendants were duty-bound to deliver and/or submit to the Plaintiff the Land Surveyor diagrams that ought to have been endorsed, commissioned and approved by the General Surveyor to unlock and advertise the proclamation and opening of a township register for purposes of establishing a township development for the benefit of the community of Groblersdal, within the demarcated area of the Plaintiff. Which the defendants failed to do.

The total estimated claim is R 2 290 000.00..

39. Related parties

Relationships

Accounting Officer

Refer to accounting officer's 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

Transactions

Councillors - Councillor remuneration		25 064 899	23 661 753
Post employment benefit plan for employees and/or other related parties	7	33 047 000	36 471 768
s57 Employees remuneration	28	6 575 211	6 463 833

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

In terms of SCM regulation – state that Awards to close family members of persons in the service of the state; sub-regulation - 45. State that; The notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including -

- (a) the name of that person;
- (b) the capacity in which that person is in the service of the state
- (c) the amount of the award..

The following is a list as recorded:

No	Date of Expenditure/ Award	Supplier Name	Director's Name	Name of person in service of state & Capacity	Amount
1	06/12/2019	Assist Communication Agency	Dikeledi Bertha Ramphisa	Lebogang Ramphisa, PA of Senior Manager Executive Support	18 750
2	20/12/2019	Democratic Construction and Services Services	Buta Ntina Lizzy	Councillor Alfred Phatlane	345 000
3	04/02/2020	Thato Katlegong Trading	Maepa Mogeru Veronica	Mary Mankate Maepa, (IT Technician)	5 100
					8 450
4	24/02/2020	D.B Nkambule Business Enterprise	Dikeledi Bertha Ramphisa	Lebogang Ramphisa, PA of Senior Manager Executive Support	27 000
5	21/02/2020	247 Travel and Tourism	Dikeledi Bertha Ramphisa	Lebogang Ramphisa, PA of Senior Manager Executive Support	708 500
	07/02/2020				
	28/11/2019				
	23/10/2019				
	20/09/2019				
	04/09/2019				
6	17/10/2019	Baupa Trading Enterprise	Precious Ratlou ,(Company Director)	Winter Ratlou, Ward Councillor EMLM	1 328 026
	21/11/2019				
	11/12/2019				
	28/01/2020				
TOTAL					2 440 826

41. Change in estimate

Property Plant and Equipment

Depreciable assets with a remaining useful life of one year or less have been revised by management at the beginning of the current period to reflect the actual pattern of service potential derived from the assets

Transport Assets- Depreciation increased by R825 813.36 after changes in residual values and reviewal of remaining useful were affected.

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42. Prior period errors

The following prior year error was identified and adjusted retrospectively:

1. During the prior years the consumer debtors impairment was not calculated accurately as per the municipality methodology, after correct calculations per municipality methodology the impairment was restated.

2. Electricity billing was incorrectly calculated in the year ending June 2019 due to human error on capturing tariff codes, a recalculation was done and corrected as prior period error.

3. During the previous year, a payment to Eskom deposit was incorrectly classified to bulk purchases, interest accrued was not accounted for and VAT was also affected, the error is therefore corrected.

4. Under note 42 (Risk Management disclosure) June 2019, VAT receivable and Cash and Cash equivalents was not included in the note. These line items are now added and the effect can be seen in note 42. There is no impact on the Statement of Financial Position and Performance.

5. Interest Charge on Post Employment Medical Aid Benefits was incorrectly classified to employee related costs. The error is corrected by reclassifying to grants and subsidies paid.

6. During the year ended June 2019 traffic fines receipts were incorrectly classified under traffic fines revenue as a result it affected traffic fines debtors, revenue and impairment balance. The error was corrected during the June 2020 financial year and the impact of the correction can be seen below.

7. During the year June 2018 the Dennilton site was incorrectly accounted for after closure, the appropriate corrections were done during the current year as prior period error. The calculation of the provision for landfill was calculated using incorrect space in the previous financial years, to correct this a new independent expert was hired to provide with new correct calculations.

8. The senior manager have received a salary adjustment not in line with the SALGA circular 20 of 2016 – Guiding framework for determination by Municipal Councils of cost of living adjustments for section 56/ 57 managers. The increase was calculated on the upper limit as per government gazette no. 40117. The calculation resulted in the upper limit being adjusted by 8.15% instead on the 5% as determined by the guiding framework for determining cost of living adjustment. This resulted in the package to be higher than the upper limit as per the government gazette (COMAF 36 2017-18 financial year) and the over payment was repaid by the senior manager in 2018-19 financial year hence prior period error.

9. Land sale deposit on properties was not accounted for in the past years, when the land was actually transferred it was noted that the actual deposit was not accounted for.

10. Education Training and Development Practices SETA grant receipt was incorrectly classified as unallocated deposits due to incorrect referencing, the error was correctly allocated after receiving more detailed information.

11. Prior period Errors Non: Current Assets

Buildings

1.1 Fixed Assets that are owned by the Municipality were incorrectly omitted from the records of the municipality: They have been added to the financial records and fixed Assets register, the financial impact is stipulated below:

PPE: Buildings: Cost: +R 24 564.33

PPE: Buildings: Accumulated Depreciation: +R 12 691.57

Depreciation expense: Buildings: +R 818.81

1.2 The following Assets have been reclassified from PPE to Investment Property; Assets Id no. ,10073,10165,10166,10167,10168,10169,10170,10171, 10172,10173,10174,10175,10176,10177,39415,9953,9955,9956,9957,9958,9959,9960,9961,9962,9963,9964 and 9965

Financial Impact:

PPE Buildings: Cost (2018/19): -R 2 200 071.68

Accumulated Depreciation Buildings (2018/19): -R 1 069 956.11

Depreciation on Buildings (2018/19): -R 70 516.4

1.3

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Assets with the following assets ID numbers 10365 and 10684 were incorrectly committed to the FAR from WIP before the project was completed in the 2017/18 financial year

Financial impact:

Buildings cost: -R7 405.00

PPE: Buildings: Accumulated depreciation: -R6 910.77

Depreciation on Buildings (2018/19): -R246.78

Computer Equipment

2.1

Fixed Assets that are owned by the Municipality were incorrectly omitted from the records of the municipality: They have been added to the financial records and fixed Assets register, the financial impact is stipulated below:

PPE: Computer Equipment: Cost: +R 130095.1

PPE: Computer Equipment: Accumulated Depreciation: +R 2 969.93

Depreciation expense: Computer Equipment: +R 2 564.19

Furniture

3.1

Fixed Assets that are owned by the Municipality were incorrectly omitted from the records of the municipality: They have been added to the financial records and fixed Assets register, the financial impact is stipulated below:

PPE: Furniture: Cost: +R 118 412.9

PPE: Furniture: Accumulated Depreciation: +R 967 454.99

Depreciation expense: Furniture: +R 6 831.73

Infrastructure assets Electricity

4.1

Fixed Assets that are owned by the Municipality were incorrectly omitted from the records of the municipality: They have been added to the financial records and fixed Assets register, the financial impact is stipulated below:

PPE: Infrastructure Electricity: Cost: +R 2 136 095.16

PPE: Infrastructure Electricity: Accumulated Depreciation: +R 6 845.74

Depreciation expense: Infrastructure Electricity: +R 112 951.87

4.2

The Municipality upgraded street lights in Groblersdal town by replacing the old light holders and replacing them with LED lights. The value of the streetlights had to be impaired to cater for the removal of the old light holders. The impairment was omitted from the Financial records of the municipality in the 2018/19 financial year:

The Financial impact is as follows:

Impairment loss on Roads (2018/19): +R1 083 566.17

PPE: Roads: Accumulated Impairment (2018/19): +R1 083 566.17

Infrastructure Assets Roads

5.1

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Fixed Assets that are owned by the Municipality were incorrectly omitted from the records of the municipality: They have been added to the financial records and fixed Assets register, the financial impact is stipulated below:

PPE: Infrastructure Roads: Cost: +R 1 335 561.96

PPE: Infrastructure Roads: Accumulated Depreciation: +R 551 139.69

Depreciation expense: Infrastructure Roads: +R 98 862.14

Machinery and Equipment

6.1

Fixed Assets that are owned by the Municipality were incorrectly omitted from the records of the municipality: They have been added to the financial records and fixed Assets register, the financial impact is stipulated below:

PPE: Machinery and Equipment: Cost: +R 151 205.11

PPE: Machinery and Equipment: Accumulated Depreciation: +R 25 499.48

Depreciation expense: Machinery and Equipment: +R 15 199.28

Investment Property

7.1

Asset ID No. 1929 and 1911 have been reclassified from Investment property to PPE (Land)

Financial Impact:

Investment Property Carrying Value (2018/19): -R12 857 976.65

Fair Value Adjustment (2018/19): +R 8 847 974.65

Profit and Loss: Fair value adjustment (2018/19): -R8 847 974.65

7.2

The following Assets have been reclassified from PPE to Investment Property; Assets Id no. 8062,8091,10073,10165,10166,10167,10168,10169,10170,10171, 10172,10173,10174,10175,10176,10177,39415,9953,9955,9956,9957,9958,9959,9960,9961,9962,9963,9964 and 9965

Financial Impact:

Investment Property Carrying value (2018/19): R 4 225 130.69

Land

8.1

Asset ID No. 1929 and 1911 have been reclassified from Investment property to PPE (Land)

Financial Impact:

PPE: Land: Cost (2018/19): R 12 857 974.64

8.2

The following Assets have been reclassified from PPE to Investment Property; Assets Id no. 8062, 8063, 8191, 39415 and 39495

Financial Impact:

PPE Land: Cost (2018/19): -R2 025 059.01

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8.3

Asset ID no. 8309 was incorrectly valued on the fixed Asset Register the Value of the Land was stated as R1 493 457 instead of R605 200 in the 2018/19 financial year.

Financial Impact:

PPE: Land: Cost (2018/19) :-R888 256.57

8.4

ERF 885 was split into 17 parts and disposed in the 2017 financial year, 3 of this parts have been correctly disposed in the Financial records of the municipality but the remaining 14 stands where not disposed. Assets Id nos. 40114, 40115, 40116, 40118, 40119, 40120, 40121, 40122, 40123, 40124, 40125, 40126, 40127 and 40128.

Financial impact:

PPE: Land Cost (2017/18): -R 280 696.11

Transport Assets

9.1

Acquisition amount Tractor, Asset ID no. 4317 was captured incorrectly in the previous financial years and has been reinstated to the correct amount

Financial impact:

Transport Assets: Cost: +R 73 483.56

Accumulated Depreciation: Transport assets (2018/19): +R 4990.53

Depreciation Transport Assets: (2018/19): +R612.37

9.2

Asset ID no. 4575 is a Truck that was acquired through an operating lease by the municipality and was incorrectly capitalised. The asset has to be removed from the Municipality's property, plant and equipment.

Financial impact:

Transport Assets: Cost: -R 547 655

Accumulated Depreciation: Transport assets: -R 390,765.18

Depreciation Expense: -R44 777.47

10

10.1

The AG requested the Municipality to recalculate depreciation on assets. The recalculation has been done and this is the financial impact for each category of assets:

Building

Depreciation Expense: +R 15 961.91

Accumulated depreciation: +R 15 961.91

Infrastructure Electricity

Depreciation Expense: +R 6 147.16

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Accumulated depreciation: +R 6 147.16

Infrastructure Roads

Depreciation Expense: -R 49 959.11

Accumulated depreciation: -R 49 959.11

Leased Assets

Depreciation Expense: +R 150 630.40

Accumulated depreciation: +R 150 630.40

Transport Assets

Depreciation Expense: -R825 186.97

Accumulated depreciation: -R825 186.97

(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 2020	June 2019
Accumulated surplus (1) + (6) + (7) + (8) + (9) + (11)	-	(38 987 961)
Consumer debtors - Allowance for impairment (1)	-	19 845 647
Consumer debtors - Electricity (2)	-	373 300
Deposit (Security held in advance) (3)	-	1 118 010
Current Liabilities - Landfill Site Provision (7)	-	740 001
Non-Current Liabilities - Landfill Site Provision (7)	-	13 245 474
Receivables from exchange transactions - Trade debtors (8) + (11)	-	(22 226)
Payables from exchange transactions - Property sale deposit (9)	-	(45 600)
Payables from exchange transactions - Unallocated deposits (10)	-	101 587
Unspent conditional grants and receipts - Education Training and Development Practices SETA (10)	-	(101 587)
Payables from exchange transactions - Trade payables (11)	-	378 883
VAT receivable (2) + (3) + (11)	-	(317 224)
Property Plant and Equipment (11)	-	73 254
Receivables from non-exchange transactions - Fines (6)	-	(4 497 139)
Receivables from non-exchange transactions - Provision for irrecoverable debt (6)	-	1 937 524
Property Plant and Equipment (11)	-	9 361 107
	-	3 203 050

Statement of Financial Performance

Debt Impairment - Contributions to debt impairment consumers (1)	-	(1 797 162)
Service charges - Electricity (2)	-	(324 609)
Expenditure: Bulk purchases - Electricity (3)	-	(967 826)
Employee related costs: Post Employment Medical Aid Benefits and Long Service Leave - Interest Charge (5)	-	(3 522 965)
Grants and subsidies paid: Post Employment Medical Aid Benefits Current Service Charge (5)	-	3 522 965
Debt impairment- Contributions to debt impairment traffic fines (6)	-	1 559 388
Transfer revenue -Fines, Penalties and Forfeits (6)	-	6 401 190
Operating surplus/(deficit) - Additional service cost landfill rehabilitation (7)	-	(10 785 326)
General Expenses Landfill site - additional interest landfill rehabilitation provision (7)	-	(103 730)
Revenue from exchange transactions - Interest received (3)	-	(5 010)
Profit/(Loss) on disposal of assets (11)	-	1 993
Depreciation (11)	-	2 818 042
	-	(3 203 050)

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As a result of prior period errors, the cash flow June 2019 was restated to reflect accurate figures.

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43. 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.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality's risk to liquidity is a result of the funds available to cover future commitments.

The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The municipality analyses its 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.

The municipality have insignificant interest risk exposure in the form of finance costs from finance lease obligation, however the fluctuation in interest rates will not hinder any of the municipality operations.

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.

Receivables and consumer debtors comprise a widespread customer base and amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously. The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay are negotiated in line with the credit control policy and terms of payments are agreed upon with the consumer.

Cash and cash equivalent - The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with council's approved investment policy. The municipality does not consider that to be any significant exposure to credit risk.

Financial instruments exposed to credit risk at year end were as follows positive for assets and negative for Liabilities:

Financial instrument	June 2020	June 2019
Receivables - From Exchange Transactions	2 528 347	3 778 273
Receivables - From Non Exchange Transactions	42 865 792	32 306 320
Consumer Debtors - From Exchange Transactions	17 683 383	6 223 088

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Consumer Debtors - From Non Exchange Transactions	48 122 430	22 617 127
Deposit (Security held in advance)	15 347 834	13 539 055
Payables from exchange transactions	(91 458 654)	(89 570 131)
Consumer deposits.	(5 581 262)	(5 383 183)
Finance lease obligation	(15 144 810)	(23 093 166)
VAT receivables	8 343 292	11 138 632
Cash and cash equivalent	3 490 390	21 176 627

The above financial instruments are measured at amortised cost.

44. 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.

The COVID-19 pandemic is having a devastating impact on the economy of the country, and the health and livelihoods of its citizens. During this crisis, municipalities still need to function and provide essential services such as access roads, electricity, licensing and solid waste removal.

The municipality had to suspend operation and work with reduced staff. While the was demand for PPE expenditure, revue collection it was largely affected.

Revenue collection -Temporary suspension of credit control and debt collection policies (i.e. do not cut off/disconnect services due to defaulting payments)

Property rates and services revenue collection is highly vulnerable to defaulting by households as a result of income losses.

Conditional grants- Projects suspended (under expenditure)

COVID 19 had no significant impact on the municipality's going concern. The municipality received additional equitable share of R58 000 000 for the 2020/21 financial year as a relief to the impact of COVID 19.

45. Events after the reporting date

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

The municipal manager resigned on the 31st of August 2020 and this will not have any material impact to the municipality.

46. Unauthorised expenditure

Opening balance	110 842 906	75 392 906
Incurred during the year	7 896 279	35 450 000
	118 739 185	110 842 906

47. Fruitless and wasteful expenditure

Opening balance	4 278 118	3 682 478
Incurred during the year	295 173	595 640
	4 573 291	4 278 118

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Analysis of expenditure awaiting condonation per age classification

Current year	294 930	595 640
Prior years	4 278 118	3 682 478
	4 573 048	4 278 118

Details of fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Interest paid on late payments	294 930
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48. Irregular expenditure

Opening balance - Adjusted and restated	216 975 283	167 142 387
Add: Irregular Expenditure - current year	51 208 371	49 832 896
	268 183 654	216 975 283

Amounts disclosed above for Irregular expenditure are VAT exclusive.

Analysis of expenditure awaiting write off

Current year	51 208 371	49 832 896
Prior year	216 975 283	167 142 387
	268 183 654	216 975 283

49. Additional disclosure in terms of Municipal Finance Management Act

Electricity distribution losses

Losses incurred - units	13 791 231	15 052 271	
% loss incurred	20.000 %	20.000 %	
Purchased units	(70 236 766)	(73 453 306)	
Sold units	56 445 535	58 401 035	
	-	-	
Losses incurred - Rand value	-	16 963 156	15 936 175
% Losses loss incurred	-	21.000 %	25.000 %
Purchased units Rand value	-	(80 254 911)	(71 367 749)
Sold units Rand value	-	63 291 755	55 431 574
	-	-	-

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.

SALGA Fees

Recognition of Prepayment	-	1 725 941
Current year subscription / fee	1 845 300	314 271
Amount paid - current year	(469 030)	(1 979 804)
5% discount received	-	(60 408)
Amount Accrued to creditors	(1 376 270)	-
	-	-

5% discount was received as a result of early payment of the invoice during the 2018/19 financial year.

The financial year circle for SALGA differs from the municipality; the amount R1 845 300 is applicable for April 2020 to March 2020 whereas the municipal financial year runs from July 2020 to June 2020. R1 376 270 relates to 2020/21 financial year.

PAYE, SDL and UIF

Current year subscription / fee	25 705 866	25 429 390
Amount paid - current year	(25 705 866)	(25 429 390)
	-	-

Pension and Medical Aid Deductions

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Current year subscription / fee	35 853 363	34 906 356
Amount paid - current year	(35 853 363)	(34 906 356)
	<u>-</u>	<u>-</u>

VAT

VAT receivable	<u>8 147 511</u>	<u>11 015 273</u>
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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.

The was no councilors arrear accounts outstanding for more than 90 days as at 30 June 2020:

Audit Fees - Auditor general:

Audit fees paid to auditor general for the 2020 year was R 3 961 558 and for 2019 year was R4 097 311. There were no outstanding amounts due to Auditor General at year end.

Audit fees	<u>3 961 558</u>	<u>4 097 311</u>
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50. Deferred income

Operating lease payments received in advance	<u>3 473 685</u>	<u>3 666 667</u>
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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.

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51. Deviation from supply chain management regulations

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

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

Goods and services were procured through quotations totaling **R582 406** 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.

NO	SERVICES PROVIDER	DATE APPROVED BY MM	REASON	AMOUNT
1	K F Phetla	17/06/2020	Ratify any minor breach of the procurement process by an official or committee acting in terms of delegated power or duties which are purely of technical nature.	32 562
2	Nnese Medicals Inc	07/05/2020	Emergency (deviation from threshold)	166 800
3	Rena Batswako Transport and construction	28/04/2020	Emergency (deviation from threshold)	43 000
4	Great Focus Media	06/04/2020	Emergency (deviation from threshold)	47 663
5	Dr LG Nemukongwe Inc	03/04/2020	Emergency (deviation from threshold)	230 000
	SAGE SOUTH AFRICA (PTY) LTD	21/11/2019	Emergency (deviation from threshold)	62 381
				582 406

52. Public Office Holders Remuneration

All Public Officers	Annual Remuneration	Travelling & Car Allowance	Other receipts	Skills contribution	Medical Aid	Pension Funds	Grand Total
Cllr J MATHEBE	513 604	223 463	44 400	5 987	76 518	77 461	941 434
Cllr M PHALA	484 510	88 910	44 400	5 236			623 056
Cllr M TLADI	466 113	182 363	44 400	4 743		67 953	765 573
Cllr S MAIPUSHE	449 122	90 004	44 400	4 716		33 915	622 157
Cllr T MACHIPA	434 020	180 665	44 400	4 557		61 668	725 310
Cllr H MAKUNYANE	422 343	171 584	44 400	4 355		63 657	706 339
Cllr G MATJOMANE	412 660	177 637	44 400	4 543	26 303	61 726	727 269
Cllr T PHAHLAMOHLAKA	394 008	173 176	44 400	4 569	47 235	59 511	722 899
Cllr A PHATLANE	390 573	193 749	44 400	4 602	51 111	59 004	743 439
Cllr J KOTZE	280 491	93 497	44 400	3 217			421 605
Cllr K SHAI	280 491	95 331	44 400	3 219			423 441
Cllr A MALOBA	249 792	99 142	44 400	3 223	30 699		427 256

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CLlr M PHETLA	243 860	93 497	44 400	2 677		35 458	419 892
CLlr M MASHILO	242 733	106 604	44 400	2 671		36 586	432 993
CLlr S RATLOU	242 139	126 844	44 400	2 688		36 496	452 567
CLlr R NDLOVU	236 375	97 994	44 400	2 584		33 439	414 791
CLlr M MALATJI	235 612	96 682	44 400	2 595		35 513	414 801
CLlr M MOKGANYETSI	235 612	90 754	44 400	2 588		35 513	408 867
CLlr M MSIZA	235 612	90 754	44 400	2 588		35 513	408 867
CLlr N MAHLANGU	235 612	107 300	44 400	2 604		35 513	425 429
CLlr K MADISA	235 612	94 234	44 400	2 592		35 513	412 350
CLlr T PHOROTLHOE	235 612	97 490	44 400	2 594		35 513	415 609
CLlr M HLATHI	212 152	70 718	44 400	2 523			329 793
CLlr M MOSOTHO	212 152	70 718	44 400	2 523			329 793
CLlr M NTULI	212 152	70 718	44 400	2 523			329 793
CLlr M RANALA	212 152	70 718	44 400	2 523			329 793
CLlr S NGWENYA	212 152	71 181	44 400	2 524			330 256
CLlr T NTHEKO	212 152	72 244	44 400	2 523			331 320
CLlr V LECHEKO	212 152	73 840	44 400	2 527			332 919
CLlr V MTHOMBENI	212 152	70 718	44 400	2 523			329 793
CLlr W OOSTHUIZEN	194 414	70 718	44 400	2 183		17 738	329 453
CLlr M TSHIVHULA	183 593	79 171	44 400	2 108		27 672	336 945
CLlr R MAKITLA	183 593	70 718	44 400	2 098		27 672	328 481
CLlr A MAKWEOANE	183 593	75 921	44 400	2 105		27 672	333 691
CLlr B BOGOPA	183 593	70 718	44 400	2 098		27 672	328 481
CLlr C MATHEBE	183 593	70 718	44 400	2 132		27 672	328 514
CLlr E MAPHOPHA	183 593	73 872	44 400	2 102		27 672	331 639
CLlr G MAKEKE	183 593	85 237	44 400	2 115		27 672	343 018
CLlr G NAMANE	183 593	74 291	44 400	2 100		27 672	332 056
CLlr J MAHLANGU	183 593	73 865	44 400	2 101		27 672	331 631
CLlr K KGOPA	183 593	70 718	44 400	2 098		27 672	328 481
CLlr L MOIMA	183 593	76 963	44 400	2 105		27 672	334 733
CLlr M MAMAKOKO	183 593	76 242	44 400	2 105		27 672	334 012
CLlr M MATSEPE	183 593	74 365	44 400	2 102		27 672	332 133
CLlr M MOKWANE	183 593	75 977	44 400	2 102		27 672	333 745
CLlr M MPHELA	183 593	78 105	44 400	2 107		27 672	335 878
CLlr M RAMPHISA	183 593	70 718	44 400	2 098		27 672	328 481
CLlr N MATUNYANE	183 593	70 718	44 400	2 098		27 672	328 481
CLlr P MASIMULA	183 593	74 147	44 400	2 102		27 672	331 915
CLlr R RATAU	183 593	77 385	44 400	2 106		27 672	335 156
CLlr T MATSEPE	183 593	70 718	44 400	2 098		27 672	328 481
CLlr T RATAU	183 593	86 740	44 400	2 117		27 672	344 522
CLlr W SKHOSANA	183 593	86 068	44 400	2 117		27 672	343 851
CLlr B ZULU	183 592	76 538	44 400	2 105		27 672	334 308
CLlr S MEHLAPE	176 946	111 725	44 400	2 750	67 345	26 834	430 000
CLlr F MOGOTJI	171 408	70 718	44 400	2 523	40 744		329 793
CLlr M MOTLAFE	161 922	78 402	44 400	2 156	24 878	24 466	336 224
CLlr D MASHEGO	140 726	54 806	33 300	1 663		17 916	248 411
CLlr H BOLOTINI	140 726	53 627	33 300	1 661		18 448	247 763

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Cllr A GULUBE	140 105	54 646	33 300	1 663		18 537	248 251
Cllr R ALBERTS	102 481	50 998	33 300	1 888	30 558	19 956	239 181
Cllr M MOHLALA	55 129	19 300	11 100	746		5 869	92 144
Cllr C MATSEPE	52 949	17 679	11 100	252			81 981
Cllr VC MADONDO	44 346	16 999	11 100	629		6 652	79 727
Cllr T MMUTLE	19 544	7 492	3 700	266		2 932	33 933
Grand Total	14 477 056	5 689 552	2 701 000	166 136	395 391	1 635 756	25 064 898