



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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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**Legal form of entity**

Local Municipality

**Nature of business and principal activities**

The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, spatial development and land use management, economic and environmental development and supplying of the following services to the community: Waste Management Services (the collection, disposal and purifying of waste, refuse and sewerage); Electricity Services (electricity is bought in bulk from Eskom and sold and distributed to the consumers by the municipality); Water Services (supplying water to the consumers); and Rates and general services (all types of services rendered by the municipality, excluding the supply of housing to the community, but including the rental of units owned by the municipality to the public and staff).

**Mayoral committee**

Mayoral Committee from 18 January 2018 til 30 June 2018  
Mosokweni FD  
Makhefu LA  
Malindi MJ  
Fisher L  
Semonyo LS  
Mokoena NP  
Nyaku DJ  
Poho MS

**Executive Mayor**

Tshongwe SL (from 21 December 2017)

**Councillors**

Mabasa KT (Speaker from 21 Decemebr 2017)

Nyembe BV (Council Whip from 21 Decemebr 2017)

Barnard JJ (from 1 Decemebr 2017)

Burger GS (from 1 December 2017)

Du Plooy A

Du Toit T

Dywili NN (from 10 August 2016)

Gaigher L (late) (from 10 August 2016 till March 2018)

Grobbelaar JJ

Kobo SS (from 10 August 2016)

Leotlela MG (from 1 Decemebr 2017)

Mahlaela PM (from 1 Decemebr 2017)

Mare AK

Maseko ME (from 1 December 2017)

Mofokeng TH (from 1 Decemebr 2017)

Mohapi P (from 1 Decemebr 2017)

Mokoena MP (from 10 August 2016)

Mokoena TS (from 1 December 2017)

Molawa M (from 10 August 2016) MPAC chairperson from 25 January 2018

Motaung TA (from 10 August 2016) and MPAC chairperson from 28 September 2016 till 30 June 2017

Motjeane S (from 10 August 2016) and Ethics chairperson from 28 September 2016 till 30 June 2017

Mothale S (from 1 December 2017)

Motlounng TM (from 1 December 2017)

Mtshali NM (from 1 December 2017)

Nhlapo LL (from 1 December 2017)

Nkheloane M (from 1 December 2017)

# **Metsimaholo Local Municipality**

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## **General Information**

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Nnune GB

Nteso SJ (from 10 August 2016)

Taats TJ (from 1 December 2017)

Telane MM (from 10 August 2016)

Tsotetsi L (from 10 August 2016)

Van der Merwe FJ (from 1 December 2017)

Zwane ZJ (from 23 February 2017)

# Metsimaholo Local Municipality

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## General Information

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<b>Grading of local authority</b>	Metsimaholo Local Municipality is a grade 9 local authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
<b>Capacity of local authority</b>	High Capacity
<b>Municipal demarcation code</b>	FS 204
<b>Accounting Officer</b>	Molala SM Steenkamp GP (acting)
<b>Chief Finance Officer (CFO)</b>	Lambat A (B.Com, B.Accounting, CA(SA)) Vorster A (acting)
<b>Registered office</b>	Civic Centre Fichardt Street Sasolburg 1947
<b>Business address</b>	Civic Centre Fichardt Street Sasolburg 1947
<b>Postal address</b>	PO Box 60 Sasolburg 1947
<b>Bankers</b>	The Standard Bank of South Africa Ltd ABSA Bank Ltd
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Adolff Attorneys Boitumelo Maubane Attorneys Lebea and Associates Attorneys Leepile & Mbewe Inc Lizel Venter Attorneys Melato Attorneys Melato - Mkhwanazi Attorneys. Molefi Thoabala Inc Attorneys Mollenaar and Griffiths Attorneys and Conveyancers Moroka Attorneys Ndobela Attorneys Ponoane Attorney, Notaries and Conveyancers Rasegoete & Associates Werksmans Inc

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

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
mSCOA	Municipal Standard Chart of Accounts

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

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

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the 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 were given unrestricted access to all financial records and related data.

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

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

The accounting officer acknowledges that 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 2019 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.

The annual financial statements set out on pages 6 to 93, which have been prepared on the going concern basis, were approved by the acting accounting officer on 31 August 2018.

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**Molala SM**  
**Acting Accounting Officer Steenkamp GP**  
**Saturday, 30 June 2018**

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	18 401 483	15 225 314
Other financial assets	4	3 261 499	3 018 504
Receivables from exchange transactions	5	196 428 617	121 133 326
Receivables from non - exchange transactions	7	87 539 410	91 323 285
Cash and cash equivalents	8	21 042 894	12 627 595
		<b>326 673 903</b>	<b>243 328 024</b>
<b>Non-Current Assets</b>			
Investment property	9	85 604 936	87 466 956
Property, plant and equipment	10	1 238 419 688	1 192 898 003
Intangible assets	11	3 484 671	4 421 285
Heritage assets	12	561 001	561 001
Receivables from exchange transactions long term	6	363 681	1 006 496
		<b>1 328 433 977</b>	<b>1 286 353 741</b>
<b>Total Assets</b>		<b>1 655 107 880</b>	<b>1 529 681 765</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	13	222 233 300	222 859 778
VAT payable	14	3 120 600	6 232 497
Finance lease obligation	15	3 257 767	2 727 836
Operating lease liability	16	2 753 122	2 361 153
Consumer deposits	17	20 993 784	19 459 196
Unspent conditional grants and receipts	18	1 672 391	7 583 751
Short term portion - long term loan	19	1 501 886	1 379 692
Employee benefit obligation	20	3 407 490	3 576 076
		<b>258 940 340</b>	<b>266 179 979</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	15	7 175 623	9 637 580
Long term portion - long term loan	19	1 634 939	3 136 825
Employee benefit obligation	20	40 725 557	37 016 968
Provisions	21	33 431 342	31 850 938
		<b>82 967 461</b>	<b>81 642 311</b>
<b>Total Liabilities</b>		<b>341 907 801</b>	<b>347 822 290</b>
<b>Net Assets</b>		<b>1 313 200 079</b>	<b>1 181 859 475</b>
Accumulated surplus		1 313 200 079	1 181 859 475

\* See Note 41

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

	Note(s)	2018 R	2017 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	639 185 574	533 334 444
Licences and permits		115 270	116 954
Traffic and other fines		9 851 422	16 284 742
Operational Revenue	23	8 809 008	7 112 224
Income legal cost		6 929 342	3 593 305
Interest received - investment	24	3 535 282	2 129 812
Dividends received	24	106 973	98 858
Interest income - consumers		32 954 552	25 071 512
Sale of stands		800 994	1 751 683
Fair value adjustment on other financial assets		242 994	204 724
Rehabilitation of land fill sites		-	17 767 740
Rental of facilities		6 156 372	6 068 776
<b>Total revenue from exchange transactions</b>		<b>708 687 783</b>	<b>613 534 774</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	134 499 406	128 980 269
<b>Transfer revenue</b>			
Transfers and subsidies	26	244 552 336	209 642 375
Public contributions and donations	27	15 883 454	10 414 953
<b>Total revenue from non-exchange transactions</b>		<b>394 935 196</b>	<b>349 037 597</b>
<b>Total revenue</b>		<b>1 103 622 979</b>	<b>962 572 371</b>
<b>Expenditure</b>			
Employee related costs	28	(262 460 492)	(244 887 772)
Remuneration of councillors	29	(9 996 810)	(15 772 177)
Depreciation and amortisation	30	(55 128 699)	(42 531 629)
Finance costs	31	(4 023 939)	(3 175 418)
Lease rentals on operating lease		(2 662 512)	(4 644 053)
Debt impairment	32	(160 445 391)	(139 338 673)
Bulk purchases	33	(338 343 506)	(324 846 542)
Contracted services	34	(77 879 418)	(68 620 109)
Transfers and subsidies		(9 000)	-
Write off of assets and liabilities		(766 193)	(1 876 969)
Provision land fill site		(1 580 404)	-
Inventories losses/write-downs		(543 063)	(43 538)
Library inventory transfer write-downs		-	(79 295)
Operating expenditure	35	(58 442 948)	(59 397 544)
<b>Total expenditure</b>		<b>(972 282 375)</b>	<b>(905 213 719)</b>
<b>Surplus for the year</b>		<b>131 340 604</b>	<b>57 358 652</b>

\* See Note 41

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	1 131 109 987	1 131 109 987
Adjustments		
Prior year adjustments	(6 609 164)	(6 609 164)
<b>Balance at 01 July 2016 as restated*</b>	<b>1 124 500 823</b>	<b>1 124 500 823</b>
Changes in net assets		
Surplus for the year	57 358 652	57 358 652
Total changes	57 358 652	57 358 652
<b>Restated* Balance at 01 July 2017</b>	<b>1 181 859 475</b>	<b>1 181 859 475</b>
Changes in net assets		
Surplus for the year	131 340 604	131 340 604
Total changes	131 340 604	131 340 604
<b>Balance at 30 June 2018</b>	<b>1 313 200 079</b>	<b>1 313 200 079</b>
Note(s)		

\* See Note 41

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

	Note(s)	2018 R	2017 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		584 881 012	544 923 928
Grants		244 552 336	209 642 375
Interest income		36 489 834	27 201 324
Dividends received		106 973	98 858
Other receipts		15 817 142	14 630 257
		<u>881 847 297</u>	<u>796 496 742</u>
<b>Payments</b>			
Employee costs		(266 729 949)	(257 314 143)
Suppliers		(513 511 097)	(457 508 247)
Finance costs		(4 023 939)	(3 175 418)
		<u>(784 264 985)</u>	<u>(717 997 808)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>97 582 312</u></b>	<b><u>78 498 934</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(86 656 289)	(85 966 770)
Purchase of investment property	9	-	(412)
Purchase of intangible assets	11	-	(6 355)
Movement in other financial assets		-	1 303 696
Proceeds from sale of stands		800 994	1 751 683
		<u>800 994</u>	<u>1 751 683</u>
<b>Net cash flows from investing activities</b>		<b><u>(85 855 295)</u></b>	<b><u>(82 918 158)</u></b>
<b>Cash flows from financing activities</b>			
Repayment of finance lease		(2 875 056)	(1 977 461)
Repayment of long term loan		(1 379 692)	(1 267 234)
Finance lease receipts		943 030	5 112 662
		<u>943 030</u>	<u>5 112 662</u>
<b>Net cash flows from financing activities</b>		<b><u>(3 311 718)</u></b>	<b><u>1 867 967</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8 415 299</b>	<b>(2 551 257)</b>
Cash and cash equivalents at the beginning of the year		12 627 595	15 178 853
<b>Cash and cash equivalents at the end of the year</b>	8	<b><u>21 042 894</u></b>	<b><u>12 627 596</u></b>

\* See Note 41

# Metsimaholo Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	746 409 600	(97 814 690)	<b>648 594 910</b>	639 185 574	<b>(9 409 336)</b>	52.1
Rental of facilities and equipment	4 818 220	1 750 000	<b>6 568 220</b>	6 156 372	<b>(411 848)</b>	
Interest income - consumers	28 295 350	5 010 290	<b>33 305 640</b>	32 954 552	<b>(351 088)</b>	52.2
Licences and permits	200 890	(100 000)	<b>100 890</b>	115 270	<b>14 380</b>	52.3
Fines	16 762 000	-	<b>16 762 000</b>	9 851 422	<b>(6 910 578)</b>	52.4
Other income	1 809 390	5 692 580	<b>7 501 970</b>	8 809 008	<b>1 307 038</b>	52.7 ;9;10
Income legal cost	5 550 740	2 200 000	<b>7 750 740</b>	6 929 342	<b>(821 398)</b>	52.5
Interest received - investment	1 000 000	400 000	<b>1 400 000</b>	3 535 282	<b>2 135 282</b>	0
Dividends received	-	-	-	106 973	<b>106 973</b>	52.19
<b>Total revenue from exchange transactions</b>	<b>804 846 190</b>	<b>(82 861 820)</b>	<b>721 984 370</b>	<b>707 643 795</b>	<b>(14 340 575)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	129 932 010	13 335 100	<b>143 267 110</b>	134 499 406	<b>(8 767 704)</b>	52.6
<b>Transfer revenue</b>						
Government grants and subsidies	282 312 290	14 956 850	<b>297 269 140</b>	244 552 336	<b>(52 716 804)</b>	52.8
Public contributions and donations	4 974 100	-	<b>4 974 100</b>	15 883 454	<b>10 909 354</b>	51.22
Interest income on consumer rates	-	327 280	<b>327 280</b>	-	<b>(327 280)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>417 218 400</b>	<b>28 619 230</b>	<b>445 837 630</b>	<b>394 935 196</b>	<b>(50 902 434)</b>	
<b>Total revenue</b>	<b>1 222 064 590</b>	<b>(54 242 590)</b>	<b>1 167 822 000</b>	<b>1 102 578 991</b>	<b>(65 243 009)</b>	
<b>Expenditure</b>						
Employee related cost	(280 823 070)	(2 921 410)	<b>(283 744 480)</b>	(262 460 492)	<b>21 283 988</b>	52.11
Remuneration of councillors	(17 412 350)	6 840 830	<b>(10 571 520)</b>	(9 996 810)	<b>574 710</b>	52.12
Depreciation and amortisation	(76 861 220)	19 725 610	<b>(57 135 610)</b>	(55 128 699)	<b>2 006 911</b>	
Finance costs	(6 059 450)	962 500	<b>(5 096 950)</b>	(4 023 939)	<b>1 073 011</b>	52.13
Lease rentals on operating lease	-	-	-	(2 662 512)	<b>(2 662 512)</b>	52.14
Debt impairment	(121 254 540)	-	<b>(121 254 540)</b>	(160 445 391)	<b>(39 190 851)</b>	52.17
Bulk purchases	(395 171 650)	40 000 000	<b>(355 171 650)</b>	(338 343 506)	<b>16 828 144</b>	52.18
Contracted services	(91 335 130)	(4 969 740)	<b>(96 304 870)</b>	(77 879 418)	<b>18 425 452</b>	52.23;24
Transfers and Subsidies	(535 000)	(700 000)	<b>(1 235 000)</b>	(9 000)	<b>1 226 000</b>	
General expenses	(77 465 900)	253 700	<b>(77 212 200)</b>	(58 442 948)	<b>18 769 252</b>	52.16;18;23;24
<b>Total expenditure</b>	<b>(1 066 918 310)</b>	<b>59 191 490</b>	<b>(1 007 726 820)</b>	<b>(969 392 715)</b>	<b>38 334 105</b>	
<b>Operating surplus</b>	<b>155 146 280</b>	<b>4 948 900</b>	<b>160 095 180</b>	<b>133 186 276</b>	<b>(26 908 904)</b>	
Loss on disposal of assets and liabilities	-	-	-	(766 193)	<b>(766 193)</b>	

# Metsimaholo Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actuarial gains/losses	(6 426 000)	-	<b>(6 426 000)</b>	(1 580 404)	<b>4 845 596</b>	
Sale of stands	2 000 000	-	<b>2 000 000</b>	800 994	<b>(1 199 006)</b>	
Loss on inventory	-	-	-	(543 063)	<b>(543 063)</b>	
Fair value adjustment on shares	-	-	-	242 994	<b>242 994</b>	
	<b>(4 426 000)</b>	-	<b>(4 426 000)</b>	<b>(1 845 672)</b>	<b>2 580 328</b>	
<b>Surplus before taxation</b>	<b>150 720 280</b>	<b>4 948 900</b>	<b>155 669 180</b>	<b>131 340 604</b>	<b>(24 328 576)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>150 720 280</b>	<b>4 948 900</b>	<b>155 669 180</b>	<b>131 340 604</b>	<b>(24 328 576)</b>	

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand. The municipality implemented the municipal standard chart of accounts (mSCOA) for the first time in the 2017-2018 financial year. This resulted in certain reclassifications as disclosed in the relevant note.

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

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

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

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

##### Receivables

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

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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

An assessment is made of net realisable value at the end of each reporting period. Any write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

##### Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

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. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (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. It is reasonably possible that the discounted cashflow projection assumption may change which may then impact on the estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of cash-generating 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. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non - cash generating assets:

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

#### 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 21 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

#### Post-retirement benefits and other long-term benefits

The present value of the post retirement and other long-term employee obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net long-term benefit include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 20.

#### Effective interest rate

The municipality used the prime rate to discount future cash flows.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Allowance for impairment

On receivables 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 receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 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.

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

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

Where investment property is acquired through a non-exchange transaction, 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.

#### Cost model

Investment property is, subsequent to initial measurement, carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

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

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

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- When property is held for the production or supply of goods or services or for administrative purposes it is accounted for as property plant and equipment in accordance with GRAP 17.
- For sale in the ordinary course of operations it is accounted for as inventory in accordance with GRAP 12.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 8).

# Metsimaholo Local Municipality

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### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the 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 is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement part 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 municipality 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.

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

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation charge is recognised in surplus or deficit.

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

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Item	Depreciation method	Average useful life
Community assets	Straight line	50 years
Furniture and office equipment	Straight line	3 - 30 years
Infrastructure	Straight line	5 - 50 years
Land		Indefinite
Motor vehicles	Straight line	3 - 20 years
IT equipment	Straight line	3 - 10 years
Plant and machinery	Straight line	3 - 15 years

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# Metsimaholo Local Municipality

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## Accounting Policies

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

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 estimates and errors.

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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Compensation from third parties for an item of PPE that was impaired, lost or given up is recognised in surplus/deficit.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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.

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

Intangible assets are initially measured at cost.

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### 1.6 Intangible assets (continued)

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

Subsequent to initial measurement 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.

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

Internally generated goodwill is not recognised as an intangible asset. The amortisation charge for each period is recognised in surplus or deficit.

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

<b>Item</b>	<b>Useful life</b>
Computer software	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 arising from the derecognition of an intangible assets is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

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.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 11).

#### 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.

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 12 - Heritage assets.

#### 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

Subsequent to initial measurement classes of heritage assets are carried at cost less any accumulated impairment losses.

#### Impairment

The municipality assesses 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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Transfers

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

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage assets 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 the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the item is derecognised.

### 1.8 Financial instruments

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

#### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

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

<b>Class</b>	<b>Category</b>
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Operating lease	Financial liability measured at amortised cost
Long term loan	Financial liability measured at amortised cost
Unspent conditional grants	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.

The municipality recognises financial assets using trade date accounting.

#### 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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.8 Financial instruments (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.
- Financial instruments at cost.

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

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

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 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 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.

# Metsimaholo Local Municipality

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of 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 municipality 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.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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

### 1.9 Inventories

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

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

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

- 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.

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Policies**

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### **1.9 Inventories (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 amount 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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Management use their discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of generating a commercial return and generating cash flows managed for cash-generating purposes the assets are treated as cash-generating assets.

#### 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 tests 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 is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

#### Value in use

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.

#### Discount rate

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

#### 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.

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 uses 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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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.

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 municipality 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 assesses 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 municipality 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.

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.

### Redesignation

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

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follows: Management use their discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of service delivery and generating cash flows managed for non-cash-generating purposes the assets are treated as non - 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.

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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.

# Metsimaholo Local Municipality

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## Accounting Policies

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

#### Reversal of an impairment loss

The municipality assesses 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.

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.

#### Redesignation

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

### 1.12 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

### 1.13 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

### 1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of the municipality after deducting all of its liabilities.

### 1.15 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 municipality assesses the classification of each element separately.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.15 Leases (continued)

#### 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 the 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.

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits

#### 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.

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 cell phones) for current employees.

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

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

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 municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises 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 municipality has no realistic alternative but to make the payments.

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits (continued)

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

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

When an employee has rendered services to the municipality during a reporting period, the municipality recognises 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, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the 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 are consistent with the currency and estimated term of the obligation.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits (continued)

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

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The amount recognised as a defined benefit liability 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;
- plus any liability that may arise as a result of a minimum funding requirement

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Employee benefits (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) 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 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 long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligations.

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 municipality recognises 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;
- actuarial gains and losses.

### 1.17 Provisions and contingencies

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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.17 Provisions and contingencies (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 surplus (deficit).

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a:

- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

### 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, are accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability are 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; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers 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 municipality tests 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 1.10 and 1.11.

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 are recognised in surplus or deficit as they occur.

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

### 1.18 Revenue from exchange transactions

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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

When 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 surveys of work performed.

#### Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is 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.

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

### 1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the 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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### 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.

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.

#### 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.

#### Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

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

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

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

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.

#### Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

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

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

#### Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

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

### 1.22 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given rise to the transfer occurred.

### 1.23 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements.

The municipality discloses each of capital assets (Property Plant and Equipment, Investment properties, Intangible assets and Heritage assets) recognised in the financial statements, as well as future minimum lease payments under non-cancellable operating leases, for each of the following periods:

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.23 Commitments (continued)

-Not later than a year;

-Later than one year and not later than five years, and;

-Later than five years.

### 1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. These reclassifications were done in line with the implementation of the municipal standard chart of accounts (mSCOA). Refer to note 41 for detail.

### 1.25 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.

### 1.26 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.

### 1.27 Irregular expenditure

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

### 1.28 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

### 1.29 Related parties

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.29 Related parties (continued)

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.

### 1.30 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 adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses 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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

##### **GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 35: Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 36: Investments in Associates and Joint Ventures**

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 37: Joint Arrangements**

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## 2. New standards and interpretations (continued)

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Accounting Standards Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

### GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2021 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2019

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

### **GRAP 32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

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Annual Financial Statements for the year ended 30 June 2018

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

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers definitions, identifying whether an entity is a principal or agent, accounting by a principal or agent, presentation, disclosure, transitional provisions and effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### **IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land**

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

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

The impact of this interpretation is currently being assessed.

#### IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

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## Notes to the Annual Financial Statements

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

#### GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: to align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

# Metsimaholo Local Municipality

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2018	2017
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### 2. New standards and interpretations (continued)

- IPSASB amendments: to clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; to clarify acceptable methods of depreciating assets; to align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and to define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 21 (as amended 2016): Impairment of non-cash-generating assets**

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: to update the basis of conclusions and comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 26 (as amended 2016): Impairment of cash-generating assets**

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: to update the basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 27 (as amended 2016): Agriculture**

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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2018	2017
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### 2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 31 (as amended 2016): Intangible Assets**

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: to add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: to clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 103 (as amended 2016): Heritage Assets**

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>3. Inventories</b>		
Water (purified water in reservoirs and pipes)	553 639	495 836
Housing Stock	17 000 843	13 164 043
Fuel (diesel, petrol)	52 144	366 667
Stores and materials	794 857	1 198 768
	<b>18 401 483</b>	<b>15 225 314</b>
<p>2018: After the inventory count, an amount of R 458 063 was written off.            2017: After the inventory count, an amount of R 43 538 was written off.</p>		
<b>3.1 Movement of housing stock</b>		
Opening balance	13 164 043	13 635 043
Additional stands transfer to housing stock	3 921 800	-
Register in name of owner and remove from housing stock	(85 000)	(471 000)
	<b>17 000 843</b>	<b>13 164 043</b>
Inventories recognised as an expense during the year	1 354 389	2 069 495
<b>Inventory pledged as security</b>		
During the year no inventory was pledged as security.		
<b>4. Other financial assets</b>		
<b>At fair value</b>		
Listed shares	3 230 858	2 987 863
2018: 46 109 @ R70.07		
2017: 46 109 @ R64.80		
<b>At amortised cost</b>		
Investment - ceded	30 641	30 641
<b>Total other financial assets</b>	<b>3 261 499</b>	<b>3 018 504</b>
<b>Current assets</b>		
At fair value	3 230 858	2 987 863
At amortised cost	30 641	30 641
	<b>3 261 499</b>	<b>3 018 504</b>
<b>Financial assets at fair value</b>		
<b>Fair value hierarchy of financial assets at fair value</b>		
<p>Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.            The municipality received the shares historical from SANLAM.</p>		
<b>Level 1</b>		
Sanlam Shares	3 230 858	2 987 863

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>5. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	88 401 212	69 746 271
Water	751 904 585	600 472 308
Sewerage	45 409 737	38 785 751
Refuse	63 491 152	53 945 857
	<b>949 206 686</b>	<b>762 950 187</b>
<b>Less: Allowance for impairment</b>		
Electricity	(39 824 290)	(42 126 623)
Water	(623 282 933)	(523 051 031)
Sewerage	(36 726 459)	(31 688 648)
Refuse	(52 944 387)	(44 950 559)
	<b>(752 778 069)</b>	<b>(641 816 861)</b>
<b>Net balance</b>		
Electricity	48 576 922	27 619 648
Water	128 621 652	77 421 277
Sewerage	8 683 278	7 097 103
Refuse	10 546 765	8 995 298
	<b>196 428 617</b>	<b>121 133 326</b>
<b>Electricity</b>		
Current (0 -30 days)	17 401 861	14 680 927
31 - 60 days	4 860 350	7 403 996
61 - 90 days	3 870 288	3 502 911
91 > days	62 268 713	44 158 437
Allowance for impairment	(39 824 290)	(42 126 623)
	<b>48 576 922</b>	<b>27 619 648</b>
<b>Water</b>		
Current (0 -30 days)	49 551 879	25 827 113
31 - 60 days	20 287 094	17 909 637
61 - 90 days	15 434 245	13 556 462
> 91 days	666 631 367	543 179 097
Allowance for impairment	(623 282 933)	(523 051 032)
	<b>128 621 652</b>	<b>77 421 277</b>
<b>Sewerage</b>		
Current (0 -30 days)	2 194 843	1 931 584
31 - 60 days	1 369 869	1 215 947
61 - 90 days	950 684	864 552
> 91 days	40 894 341	34 773 667
Allowance for impairment	(36 726 459)	(31 688 647)
	<b>8 683 278</b>	<b>7 097 103</b>
<b>Refuse</b>		
Current (0 -30 days)	2 537 476	2 515 665
31 - 60 days	1 669 432	1 659 297
61 - 90 days	1 321 535	1 321 492
> 91 days	57 962 709	48 449 403
Allowance for impairment	(52 944 387)	(44 950 559)
	<b>10 546 765</b>	<b>8 995 298</b>

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	55 929 488	29 606 228
31 - 60 days	21 911 631	19 280 480
61 - 90 days	16 763 712	15 977 327
> 91 days	756 072 621	603 590 383
	<b>850 677 452</b>	<b>668 454 418</b>
<b>Industrial/commercial</b>		
Current (0 -30 days)	13 216 507	13 032 644
31 - 60 days	4 591 929	6 157 745
61 - 90 days	2 887 277	1 804 619
91 > days	52 785 716	52 652 207
	<b>73 481 429</b>	<b>73 647 215</b>
<b>National and provincial government</b>		
Current (0 -30 days)	2 540 064	2 316 417
31 - 60 days	1 683 185	2 750 652
61 - 90 days	1 925 763	1 463 471
> 91 days	18 898 793	14 318 014
	<b>25 047 805</b>	<b>20 848 554</b>
<b>Total</b>		
Current (0 -30 days)	71 686 059	44 955 289
31 - 60 days	28 186 745	28 188 877
61 - 90 days	21 576 752	19 245 417
> 91 days	827 757 130	670 560 604
	949 206 686	762 950 187
Less: Allowance for impairment	(752 778 069)	(641 816 861)
	<b>196 428 617</b>	<b>121 133 326</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(14 659 832)	(12 708 249)
31 - 60 days	(15 807 405)	(14 410 421)
61 - 90 days	(15 365 045)	(12 978 749)
> 91 days	(706 945 787)	(601 719 442)
	<b>(752 778 069)</b>	<b>(641 816 861)</b>
<b>Total debtor past due but not impaired</b>		
Current (0 -30 days)	57 026 227	32 247 040
31 - 60 days	12 379 340	13 778 456
61 - 90 days	6 211 707	6 266 668
> 91 days	120 811 343	68 841 162
	<b>196 428 617</b>	<b>121 133 326</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(641 816 861)	(522 427 485)
Contributions to allowance	(111 236 438)	(119 384 073)
Debt impairment written off against allowance	275 230	-
Reversal of allowance	-	(5 303)
	<u>(752 778 069)</u>	<u>(641 816 861)</u>

### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

### Receivables from exchange transactions past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R139 402 390 (2017: R 88 866 286) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	12 379 340	13 778 456
2 months past due	6 211 707	6 266 668
3 months past due	120 811 343	68 841 162

### Receivables from exchange transactions impaired

As of 30 June 2018, receivables from exchange transactions of R 752 778 069 (2017: R641 816 861) were impaired and provided for.

The ageing of the impairment is as follows:

3 to 6 months	15 365 045	12 978 749
Over 6 months	706 945 787	601 719 442

### 6. Receivables from exchange transactions long term

Sale of land	<u>363 681</u>	<u>1 006 496</u>
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None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

The revenue only allocated to Statement of Performance when payment is done by the debtors. The ownership is only transferred to the occupant when the payment is made in full.

### Sale of Land

Current (0 - 30 days)	50 691	5 141
31 - 60 days	82 876	303 133
61 - 90 days	10 323	23 699
> 91 days	6 052 995	5 662 543
Provision for impairment	(5 833 204)	(4 988 020)
	<u>363 681</u>	<u>1 006 496</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Receivables from exchange transactions long term (continued)</b>		
<b>Credit quality of trade and other receivables</b>		
The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.		
None of the financial assets that are fully performing have been renegotiated in the last year.		
<b>7. Receivables from non - exchange transactions</b>		
Traffic fines	9 334 892	15 808 225
Deposits	1 926 115	1 799 798
Allowance for impairment	(174 279 761)	(138 121 583)
Prepaid electricity payments	4 128 615	3 465 894
Receivables	7 513 958	6 417 215
Sundry receivables	108 576 867	92 075 032
Rates	130 338 724	109 878 704
	<b><u>87 539 410</u></b>	<b><u>91 323 285</u></b>

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Receivables from non - exchange transactions (continued)</b>		
<b>Credit quality of receivables from non - exchange transactions</b>		
The credit quality of trade and other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.		
<b>Receivables from non - exchange transactions</b>		
<b>Rates</b>		
Current (0 -30 days)	9 302 723	9 624 912
31 - 60 days	5 578 122	4 945 408
61 - 90 days	14 678 639	2 798 629
> 91days	100 779 240	92 509 755
Less: Allowance for impairment	(74 586 168)	(63 072 614)
	<b>55 752 556</b>	<b>46 806 090</b>
<b>Summary of rates by customer classification</b>		
<b>Household consumers</b>		
Current (0 -30 days)	6 505 355	5 771 314
31 - 60 days	4 048 845	3 959 610
61 - 90 days	12 559 825	2 373 836
> 91days	88 838 566	79 714 207
	<b>111 952 591</b>	<b>91 818 967</b>
<b>Industrial and commercial consumers</b>		
Current (0 -30 days)	2 670 103	3 762 196
31 - 60 days	1 451 800	936 912
61 - 90 days	1 545 603	394 960
> 91days	9 195 376	10 071 599
	<b>14 862 882</b>	<b>15 165 667</b>
<b>National and provincial government</b>		
Current (0 -30 days)	128 190	91 402
31 - 60 days	77 477	48 886
61 - 90 days	573 211	29 833
> 91days	2 743 291	2 723 949
	<b>3 522 169</b>	<b>2 894 070</b>
<b>Total</b>		
Current (0 -30 days)	9 302 723	9 624 912
31 - 60 days	5 578 122	4 945 408
61 - 90 days	14 678 639	2 798 629
> 91days	100 779 240	92 509 755
Less: Allowance for impairment	(74 586 168)	(63 072 614)
	<b>55 752 556</b>	<b>46 806 090</b>
<b>Traffic Fines</b>		
Current (0 -30 days)	157 440	1 233 690
31 - 60 days	311 750	922 400
61 - 90 days	191 910	2 118 700
> 91days	8 673 792	11 533 435
Less: Allowance for impairment	(7 025 858)	(11 162 025)
	<b>2 309 034</b>	<b>4 646 200</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Receivables from non - exchange transactions (continued)</b>		
<b>Sundry receivables</b>		
Current (0 -30 days)	2 400 781	10 245 629
31 - 60 days	1 929 945	617 603
61 - 90 days	1 201 841	1 018 038
> 91 days	103 044 299	82 468 518
Less: Allowance for impairment	(92 667 735)	(66 079 959)
	<b>15 909 131</b>	<b>28 269 829</b>

None of the financial assets that are fully performing have been renegotiated in the last year.

### Receivables from non - exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 89 828 194 (2017: R91 405 026 -) were past due but not impaired.

2 months past due	15 880 480	3 816 667
3 months past due	111 083 669	174 978 273

### Reconciliation of provision for impairment of non-exchange receivables

Opening balance	(138 121 583)	(135 806 669)
Allowance for impairment of other receivable -reversal	-	5 808 871
Amounts written off as uncollectable -traffic fines	8 969 009	17 958 719
Allowance for impairment on traffic fines	(7 025 858)	(16 266 097)
Allowance for impairment on sundry debtors	(26 605 095)	-
Allowance for impairment on rates	(11 550 048)	(10 092 833)
Amounts written off as uncollectable	53 814	276 426
	<b>(174 279 761)</b>	<b>(138 121 583)</b>

### Receivables from non - exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 178 415 927 (2017: R 140 314 598) were impaired and provided for.

3 to 6 months	11 947 883	3 816 667
Over 6 months	163 477 670	161 521 080

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 150	5 150
Bank balances	2 671 048	5 245 991
Short-term deposits	18 366 696	7 376 454
	<b>21 042 894</b>	<b>12 627 595</b>

Cash and cash equivalents held by the municipality that are not available for use by the municipality	1 672 391	7 583 751
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R				
<b>8. Cash and cash equivalents (continued)</b>						
Unspent grants						
- Department of Co-operative Governance R 704 984 (2017: R 704 984)						
- Department of Water and sanitation R 79 057 (2017: R 79 057)						
- Department of Water and sanitation R 293 187 (2017: R 0)						
- Department of Energy 2018 R510 480 (2017: R1 442 951)						
- Public Works Program 2018 R84 773 (2017: R 0)						
- Municipal Infrastructure Grant ( R90) (2017: R5 356 759)						
<b>Cash and cash equivalents pledged as guarantees</b>						
Total financial assets pledged as collateral for Guarantee: Eskom as electricity deposit	990 000	990 000				
Total financial assets pledged as collateral for Guarantee:Post Office as postal deposit	80 000	80 000				
<b>The municipality had the following bank accounts</b>						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Absa Bank Cheque Account	1 278 369	635 473	407 374	1 278 369	635 472	404 974
Absa Bank Revenue Account 520 0000 062	-	-	-	-	-	(3 188)
Standard Bank - current account (primary bank account) 24 034 786 2	6 228 940	4 988 001	4 592 175	1 401 477	4 610 519	1 335 591
Standard Bank - Revenue Account - 33 197 836 9	-	-	-	(8 798)	-	(513 535)
Absa Bank - Call Account 907 840 0708	402 455	1 154 993	1 915 309	1 055 309	1 154 993	1 915 309
Absa Bank - Call Account 907 840 0708	-	-	27 726	-	-	27 726
Absa Bank -Fixed deposit 20-7741-7824	62 772	-	-	-	-	-
Absa Bank -Fixed deposit 20-7741-7072	77 121	-	-	-	-	-
Standard Bank - Call deposit account 228 505 348 005	6 529 042	109 045	5 573 806	12 863 554	109 045	5 573 806
Standard Bank - Call deposit account - 228 505 348 007	6 658 318	323 807	129 530	323 806	323 806	129 530
Nedbank - Call deposit account -788 103 308 000060	11 954	1 073 095	73 095	1 461 328	1 073 095	73 095
Nedbank - Call deposit account -788 103 308 000074	42 128	-	-	-	-	-
Investec -Call account- 1100-523923	2 634 973	4 687 789	6 230 057	2 634 974	4 687 789	6 230 056
Rand merchant Bank CDS - DC02J00005	27 726	27 726	-	27 726	27 726	-
<b>Total</b>	<b>23 953 798</b>	<b>12 999 929</b>	<b>18 949 072</b>	<b>21 037 745</b>	<b>12 622 445</b>	<b>15 173 364</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	86 165 398	(560 462)	85 604 936	88 004 398	(537 442)	87 466 956

### Reconciliation of investment property - 2018

	Opening balance	Transfers to inventories	Depreciation	Total
Land and buildings	87 466 956	(1 839 000)	(23 020)	85 604 936

### Reconciliation of investment property - 2017

	Opening balance	Write off	Transfers received	Restatement of closing balance	Depreciation	Total
Land and buildings	86 389 336	(310 000)	1 412 999	(429)	(24 950)	87 466 956

### Pledged as security

None of the above investment property have been pledged as security.

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.

During the year no repairs and maintenance cost were incurred on investment property.

### Amounts recognised in surplus or deficit

Rental revenue from investment property (Billing of Hostels)	4 497 020	3 527 400
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### 10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	162 277 868	(61 363 700)	100 914 168	153 266 105	(58 341 968)	94 924 137
Furniture and office equipment	24 988 371	(20 279 328)	4 709 043	24 724 114	(18 309 313)	6 414 801
IT equipment	38 429 107	(29 777 570)	8 651 537	38 292 818	(25 978 348)	12 314 470
Infrastructure	1 941 781 710	(1 070 829 129)	870 952 581	1 857 493 409	(1 032 992 339)	824 501 070
Land	221 609 522	-	221 609 522	221 609 522	-	221 609 522
Leased assets	11 889 825	(2 108 551)	9 781 274	11 019 753	(994 762)	10 024 991
Motor vehicles	39 689 021	(25 169 494)	14 519 527	39 196 342	(22 969 055)	16 227 287
Plant and machinery	18 497 364	(11 215 328)	7 282 036	16 501 787	(9 620 062)	6 881 725
<b>Total</b>	<b>2 459 162 788</b>	<b>(1 220 743 100)</b>	<b>1 238 419 688</b>	<b>2 362 103 850</b>	<b>(1 169 205 847)</b>	<b>1 192 898 003</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Additions through donations	Write off	WIP additions	Transfers	Transfer to inventory	Other changes, movements	Depreciation	Total
Buildings	94 924 137	-	-	-	11 093 876	685	(2 082 799)	-	(3 021 731)	100 914 168
Furniture and office and equipmet	6 414 801	422 197	-	(23 884)	-	-	-	-	(2 104 071)	4 709 043
Infrastructure	824 501 070	2 469 110	12 709 990	(390 574)	70 852 715	(685)	-	(236)	(39 188 809)	870 952 581
Land	221 609 522	-	-	-	-	-	-	-	-	221 609 522
Motor vehicles	16 227 287	-	1 825 617	(319 109)	-	-	-	-	(3 214 268)	14 519 527
Plant and machinery	6 881 725	720 587	1 347 848	(10 133)	-	-	-	-	(1 657 991)	7 282 036
IT equipment	12 314 470	227 965	-	(22 493)	-	-	-	-	(3 868 405)	8 651 537
Leased assets	10 024 991	870 070	-	-	-	-	-	-	(1 113 787)	9 781 274
	<b>1 192 898 003</b>	<b>4 709 929</b>	<b>15 883 455</b>	<b>(766 193)</b>	<b>81 946 591</b>	<b>-</b>	<b>(2 082 799)</b>	<b>(236)</b>	<b>(54 169 062)</b>	<b>1 238 419 688</b>

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

	Opening balance	Additions	Additions through donations	Write off	Transfers received	Restatement of closing balance	Depreciation	Total
Buildings	84 962 171	4 403 441	2 187 901	-	7 304 556	(5 922 164)	(2 687 751)	90 248 154
Furniture and office equipment	5 657 067	60 813	-	(108 800)	-	(114 035)	919 756	6 414 801
Infrastructure	793 698 012	75 143 381	-	(354 500)	(8 717 555)	6 011 363	(41 279 631)	824 501 070
Land	223 327 521	-	-	(305 000)	-	(1 412 999)	-	221 609 522
Motor vehicles	11 370 685	1 828 994	1 413 271	(306 964)	-	1 446 144	475 157	16 227 287
Plant and machinery	7 168 597	1 055 939	-	(50 504)	-	(590 820)	(701 487)	6 881 725
IT equipment	10 018 656	557 898	838 175	(49 496)	-	(830 059)	1 779 296	12 314 470
Lease assets	7 992 742	2 923 073	-	-	-	-	(890 824)	10 024 991
	<b>1 144 195 451</b>	<b>85 973 539</b>	<b>4 439 347</b>	<b>(1 175 264)</b>	<b>(1 412 999)</b>	<b>(1 412 570)</b>	<b>(42 385 484)</b>	<b>1 188 222 020</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 10. Property, plant and equipment (continued)

#### Pledged as security

None of the above property, plant and equipment have been pledged as security, other than obligations under finance leases that are secured by lessor's charge over the leased assets - refer to note 15.

#### Assets subject to finance lease (net carrying amount)

Motor vehicles	8 994 187	9 241 705
Office equipment	787 087	783 286
	<b>9 781 274</b>	<b>10 024 991</b>

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	352 758 012	8 427 077	361 185 089
Additions/capital expenditure	70 852 715	11 093 876	81 946 591
Transferred to completed items	(127 840 481)	-	(127 840 481)
	<b>295 770 246</b>	<b>19 520 953</b>	<b>315 291 199</b>

#### Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	300 761 672	7 613 549	308 375 221
Additions/capital expenditure	65 499 812	3 700 180	69 199 992
Other movements [specify]	291 165	(291 165)	-
Transferred to completed items	(13 794 637)	(2 595 487)	(16 390 124)
	<b>352 758 012</b>	<b>8 427 077</b>	<b>361 185 089</b>

#### Expenditure incurred to repair and maintain property, plant and equipment included in the statement of financial performance

Employee related costs	67 689 229	58 977 913
Contracted services	16 520 067	8 973 844
Inventory	6 368 013	9 794 329
	<b>90 577 309</b>	<b>77 746 086</b>

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.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5 088 176	(1 603 505)	3 484 671	5 088 176	(666 891)	4 421 285

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	4 421 285	(936 614)	3 484 671

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions through donations	Amortisation	Total
Computer software	317 626	4 224 855	(121 196)	4 421 285

#### Pledged as security

None of the above intangible assets have been pledged as security.

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.

### 12. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical area	561 000	-	561 000	561 001	-	561 001
Mayoral chain	1	-	1	-	-	-
<b>Total</b>	<b>561 001</b>	<b>-</b>	<b>561 001</b>	<b>561 001</b>	<b>-</b>	<b>561 001</b>

#### Reconciliation of heritage assets 2018

	Opening balance	Reclassify	Total
Historical area	561 001	(1)	561 000
Other Mayoral chain	-	1	1
	<b>561 001</b>	<b>-</b>	<b>561 001</b>

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Historical areas	561 001	561 001

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>12. Heritage assets (continued)</b>		
<b>Heritage assets which fair values cannot be reliably measured</b>		
This is soil used to manufacture bricks that were used to build the Union Buildings in Pretoria (Tshwane).		
<b>Pledged as security</b>		
None of the above heritage assets have been pledged as security :		
<b>13. Payables from exchange transactions</b>		
Accrued bonus	5 090 243	4 637 802
Accrued expenses	104 377 871	110 009 765
Accrued leave pay	17 937 481	16 197 969
Eskom	29 870 978	38 734 074
Unallocated deposits	3 017 454	2 606 905
Insurance	1 248 816	1 056 563
Other payables Auditor General	12 482	-
Payments received in advance	25 141 907	15 930 899
Rand Water	11 833 750	11 135 456
Retentions	17 150 466	14 324 979
Trade payables	6 551 852	8 225 366
	<b>222 233 300</b>	<b>222 859 778</b>
<b>14. VAT payable</b>		
Value added tax payable	3 120 600	6 232 497
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	4 163 802	3 852 875
- in second to fifth year inclusive	7 999 524	11 211 156
	12 163 326	15 064 031
less: future finance charges	(1 729 936)	(2 698 615)
<b>Present value of minimum lease payments</b>	<b>10 433 390</b>	<b>12 365 416</b>
<b>Present value of minimum lease payments due</b>		
- within one year	3 257 767	2 727 836
- in second to fifth year inclusive	7 175 623	9 637 580
	<b>10 433 390</b>	<b>12 365 416</b>
Non-current liabilities	7 175 623	9 637 580
Current liabilities	3 257 767	2 727 836
	<b>10 433 390</b>	<b>12 365 416</b>

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

The average lease terms were 3 and 5 years and the average effective borrowing rate was 10% (2017: 10%).

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>16. Operating lease liability</b>		
Current liabilities	<u>(2 753 122)</u>	<u>(2 361 153)</u>
<b>Government Garage</b>		
Opening balance	2 361 152	1 898 211
Movement for the year	391 970	462 941
	<u><b>2 753 122</b></u>	<u><b>2 361 152</b></u>
<b>Minimum lease payments due</b>		
-within one year	2 107 900	2 847 658
-in second to fifth year inclusive	52 384	1 909 720
	<u><b>2 160 284</b></u>	<u><b>4 757 378</b></u>
Operating lease - Government Garage Operating lease payments represent rentals payable by the municipality for certain of its motor vehicles. Leases for motor vehicle are negotiated for an average of three years and rentals are fixed for the full term of the lease.		
Operating lease - Abrahamsrust Resort Operating lease payments represent rentals payable by the municipality for rental of property situated in Abrahamsrust. The municipality has a 50 year lease that expired on 31 March 2017 and a new lease has been entered into for a period of three years. The new agreement is from 1 April 2017 till 31 March 2019 and amounts to R1 per year.		
<b>17. Consumer deposits</b>		
Water and electricity	<u>20 993 784</u>	<u>19 459 196</u>
<b>18. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Co-operative Governance and Traditional Affairs	704 984	704 984
Department of Energy	510 480	1 442 951
Department of Water Free State	293 187	-
Extended Public Works Programme	84 773	-
Municipal Infrastructure Grant	(90)	5 356 759
Water Demand Management	79 057	79 057
	<u><b>1 672 391</b></u>	<u><b>7 583 751</b></u>
<b>Movement during the year</b>		
Balance at the beginning of the year	7 583 751	833 375
Additions during the year	238 640 976	216 392 751
Income recognition during the year	(244 552 336)	(209 642 375)
	<u><b>1 672 391</b></u>	<u><b>7 583 751</b></u>
See note 26 for reconciliation of grants from National/Provincial Government.		
These amounts are invested in a ring-fenced investment until utilised.		
<b>19. Long term portion - long term loan</b>		
Development Bank of Southern Africa Limited - Non-current portion	<u>1 634 939</u>	<u>3 136 825</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>19. Long term portion - long term loan (continued)</b>		
Development Bank of Southern Africa Limited - Current portion	<u>1 501 886</u>	<u>1 379 692</u>

Terms and conditions

The original loan amount approved was R 19 000 000 but only R 9 000 000 was disbursed in 2012/2013 financial year. The interest on the loan is fixed at 8.67% with capitalisation every 6 months but will be 10.67% on arrear amounts. The interest and capital repayment is made every 6 months in 14 equal instalments of R 871 356 over 7 years. The loan is unsecured but the application of the loan is conditional to specific projects.

### 20. Employee benefit obligations

#### Defined benefit plan

##### Reconciliation of employee benefits obligation - 2018

	Opening Balance	Additions	Total
Employee benefit cost medical	27 293 577	1 993 053	29 286 630
Employee benefits long service awards	13 299 467	1 546 950	14 846 417
	<b><u>40 593 044</u></b>	<b><u>3 540 003</u></b>	<b><u>44 133 047</u></b>

##### Reconciliation of employee benefits obligation - 2017

	Opening Balance	Additions	Total
Employee benefit cost medical	25 140 278	2 153 299	27 293 577
Employee benefits long service awards	14 013 556	(714 089)	13 299 467
	<b><u>39 153 834</u></b>	<b><u>1 439 210</u></b>	<b><u>40 593 044</u></b>

#### Employee benefit cost obligation - medical

##### Carrying value

Present value of the defined benefit obligation-wholly unfunded	27 293 577	25 140 278
Present value of the defined benefit obligation-partly or wholly funded	399 902	456 192
Fair value of plan assets	2 446 487	2 214 237
Fair value of reimbursement rights	849 634	810 178
Expected Contributions	(1 702 970)	(1 327 308)
	<b><u>29 286 630</u></b>	<b><u>27 293 577</u></b>
Non-current liabilities	(40 725 557)	(37 016 968)
Current liabilities	(3 407 490)	(3 576 076)
	<b><u>(44 133 047)</u></b>	<b><u>(40 593 044)</u></b>

#### Continued Medical aid membership

Municipal employees contribute to accredited medical schemes.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>20. Employee benefit obligations (continued)</b>		
<p>The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.</p> <p>Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.</p> <p>Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.</p> <p>In-service members that were employed prior to 2001 are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.</p> <p>Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.</p> <p>The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.</p> <p>An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.</p> <p>The Projected Unit Credit Method has been used to value the liabilities.</p>		
<b>Accrued liability</b>		
<b>Category of member</b>		
In - service members	9 644 734	9 315 745
Continuation member	19 641 896	17 977 832
<b>All members</b>		
Total liability	<u>29 286 630</u>	<u>27 293 577</u>
	<b>29 286 630</b>	<b>27 293 577</b>
<p>Liabilities and experience adjustments are made. The table summarises the accrued liabilities and the plan assets for the current period and the previous period.</p>		
<b>History of liabilities and assets</b>		
Present value of accrued liability	<u>29 286 630</u>	<u>27 293 577</u>
<p>The experience adjustments for the current period is summarised below. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.</p>		
<b>History of experience adjustments: Gains and losses</b>		
<b>Experience adjustments</b>		
Liabilities: (gain) / loss	849 634	810 178
Assets: gain / (loss)	-	-
	<u>849 634</u>	<u>810 178</u>
<b>Best estimate of benefits payments expected in next annual period</b>		
<b>2018/2019 (comperatives are for 2017/2018)</b>		
Opening accrued liability	29 286 630	27 293 577
Current service cost	381 625	399 902
Interest cost	2 632 763	2 446 487
Benefit vestings	(1 936 751)	(1 702 970)
<b>Total annual expense</b>	<u>30 364 267</u>	<u>28 436 996</u>
History of liabilities and assets (R millions)		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 20. Employee benefit obligations (continued)

Liability History	30/06/2014	30/06/2015	30/06/2016	30/06/2017	30/06/2018
Accrued liability	24.076	25.989	25.140	27.294	29.287

#### Key financial assumptions

The table summarises the financial assumption used.

Discount rates	9,29 %	9,25 %
Health care cost inflation rate	7,23 %	7,58 %
Net effective discount rate	1,92 %	1,55 %

The next contribution rate increase is assumed to occur at 1 January 2018.

Average retirement age	65
Continuation of membership at retirement	70%
Proportion assumed married at retirement	70%
Mortality during employment	SA 85-90
Mortality post-retirement	PA 90-1 ultimate

Withdrawal from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	>55	2%	2%

Number of in service members	47
Number of pensioners	44

#### Summarised results of the sensitivity analysis.

##### Sensitivity analysis on the accrued liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central assumptions		9.645	19.642	29.287	
Health care inflation	1%	10.153	20.284	30.438	4
	-1%	8.844	18.791	27.635	(6)
Post-retirement mortality	-1 yr	9.909	20.367	30.276	3
Average retirement age	-1 yr	10.306	19.642	29.945	2

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 4% higher than that shown.

#### Long term service awards

Balance at beginning of the year	13 299 467	14 013 556
Current-service cost	1 687 032	1 813 650
Interest cost	1 037 468	1 126 312
Actuarial (gain) / loss	695 556	(2 230 149)
Employer benefit payments	(1 873 106)	(1 423 902)
	<u>14 846 417</u>	<u>13 299 467</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>20. Employee benefit obligations (continued)</b>		
<b>Employer benefit payments</b>		
Value of long-service awards	14 620 350	13 086 284
Retirement gifts	226 067	213 183
	<b>14 846 417</b>	<b>13 299 467</b>
<b>Best estimate of benefits payments expected in next annual period</b>		
<b>2018/2019 (comparatives are for 2017/2018)</b>		
Opening accrued liability	14 846 417	13 299 467
Current service cost	1 771 282	1 687 032
Interest cost	1 195 058	1 037 468
Actuarial (Gain)/Loss	-	695 556
Benefit vesting	(1 470 739)	(1 873 106)
<b>Total annual expense</b>	<b>16 342 018</b>	<b>14 846 417</b>

### Long service awards

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

	Female	Male	Total
Number of eligible employees	211	520	731
Average annual salary	204 476	191 541	195 275
Salary-weighted average age	45.2	45.8	45.6
Salary-weighted average past service	11.1	8.9	9.5

Metsimaholo Local Municipality offers employees long service awards for every 5 years of services completed. There are two policies in place.

Completed service (in years)	Long service bonuses % annual salary	Description
5	4.0%	$(5/250 + 2\%) \times$ annual salary
10	7.0%	$(10/250 + 3\%) \times$ annual salary
15	10.0%	$(15/250 + 4\%) \times$ annual salary
20	11.0%	$(15/250 + 5\%) \times$ annual salary
25,30,35,40,45	12.0%	$(15/250 + 6\%) \times$ annual salary

733 Employees benefit from this policy

### Special leave pay

44 of the employees receive an additional six days of annual leave once they reach their five years of service.

### Retirement gifts

84 employees are entitled to receive a retirement gift of 2% of annual salary at retirement. Employees must have at least 20 years of service to be eligible for the benefit.

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

### Key Financial assumptions

The table summarised the financial assumptions used.

Discount rates	8,46 %	8,38 %
General Salary Inflation (long term)	6,09 %	6,20 %
Net effective discount rate	2,23 %	2,05 %

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 20. Employee benefit obligations (continued)

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.12%.  
The next salary increase was assumed to take place in July 2018.

Average retirement age	65		
Mortality during employment	SA 85-90		
Withdrawal from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	>55	2%	2%

### Sensitivity analysis on the accrued liability (R Millions)

Assumption	Change	Liability	% change
Central assumptions		14.846	
General salary inflation	+1%	15.738	6%
	-1%	14.037	-5%
Average retirement age	-2 yrs	13.503	-9%
	+2 yrs	16.113	9%
Withdrawal rates	-50%	16.928	14%

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6% higher than that shown.

### History of liabilities and assets

Liability History	30/06/2014	30/06/2015	30/06/2016	30/06/2017	30/06/2018
Accrued Liability	15 818 226	15 537 619	14 013 556	13 299 467	14 846 417

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 21. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	31 850 938	1 580 404	33 431 342

#### Reconciliation of provisions - 2017

	Opening Balance	Reduction due to re- measurement or settlement without cost to entity	Total
Environmental rehabilitation	49 618 678	(17 767 740)	31 850 938

#### Provision for landfill closure

The landfill rehabilitation and closure are created for the rehabilitation and closure of the current operational sites which are evaluated at each year-end to reflect the best estimate at reporting date. The sites under consideration are the Sasolburg, Oranjeville and Deneysville landfill sites. The valuation for the landfill sites were performed by Mrs Sandra Mutangadura from One Pangaea Financial CC. Mrs Mutangadura is a professional engineer and a member of the South African Institute of Civil Engineers (SAICE).

Key financial assumptions used in this calculation were as follows:

Assumption	Sasolburg landfill	Oranjeville landfill	Deneysville landfill
CPI	6.12%	6.12%	6.12%
Discount rate	9.60%	9.60%	9.60%
Net effective discount rate	3.63%	3.63%	3.63%

The 2018 amount of the discounted landfill closure provision of R33 431 342 represents a increase of R1 580 404 over the provision of R31 850 380 in the previous financial year. Composition of this change relate to changes in the CPI, discount rate and unit costs.

The 2018 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2018. The size of the landfill sites used up until now and estimate remaining useful lives are as follows:

	Sasolburg landfill	Oranjeville landfill	Deneysville landfill
Approximate size used until 30 June 2018	15.135 ha	1.273 ha	5.112 ha
Remaining useful lives	approximately 3 years	approximately 16 years	approximately 8 years

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>22. Service charges</b>		
Sale of electricity	261 352 493	251 742 095
Sale of water	321 161 123	230 671 611
Solid waste	30 149 761	28 834 186
Sewerage and sanitation charges	26 522 197	22 086 552
	<b>639 185 574</b>	<b>533 334 444</b>
<b>Forgone income (free portion)</b>		
Electricity	(4 918 588)	(6 374 068)
Sewerage and sanitation	(5 349 819)	(7 983 760)
Solid waste	(8 962 192)	(9 638 097)
Water	(9 727 805)	(25 349 662)
	<b>(28 958 404)</b>	<b>(49 345 587)</b>
<b>23. Operational revenue</b>		
Billboards	43 365	376 759
Building plan fees	583 093	243 703
Cemetery fees	408 568	502 209
Clearance certificates	541	324 135
Entrance fees	1 286 371	1 022 961
Lost library books	22	1 518
Private telephone calls	240 116	238 077
Sundry income	5 634 134	3 953 555
Fire services	612 798	449 307
	<b>8 809 008</b>	<b>7 112 224</b>
<b>24. Investment revenue</b>		
<b>Dividend revenue</b>		
Dividends	106 973	98 858
<b>Interest revenue</b>		
Interest received	3 535 282	2 129 812
	<b>3 642 255</b>	<b>2 228 670</b>
<b>25. Property rates</b>		
<b>Rates revenue</b>		
Commercial	10 766 176	10 547 254
Heavy Industries	29 559 856	31 782 029
Residential	89 134 324	82 358 569
Small holdings and farms	10 197 045	10 123 827
State	11 829 425	11 015 323
Less: Income forgone	(16 987 420)	(16 846 733)
	<b>134 499 406</b>	<b>128 980 269</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>25. Property rates (continued)</b>		
<b>Valuations</b>		
5 year: Tax Holiday	33 747	35 763
Churches	97 425	108 010
Commercial	905 349	912 839
Heavy/light industries	975 810	937 635
Municipal	441 951	437 691
Public Benefit Organisation/Service Infrastructure	49 898	51 834
Residential	8 094 698	8 044 044
Small holdings and farms	2 993 361	2 974 530
State	688 496	687 996
Allocated, unregistered stands	208 126	228 696
	<b>14 488 861</b>	<b>14 419 038</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2018.

Rebates up to R35 000 (2017: R35 000) are granted to residential and state property owners.

Rates are levied on a monthly basis, except farmland that is levied on an annual basis. Interest at prime plus 1% per annum is levied on rates outstanding after due date for payment.

The following properties are exempted from property rates:

- Properties owned by a religious body or organisation and residential property occupied by a minister of religion in full time service of the church
- Road reserves
- Railway reserves

### Tariff structure (cents per Rand)

Business	0,01692	0,01590
Industries	0,04233	0,03978
Residential	0,00845	0,00794
State-owned property	0,01692	0,01590
<b>Farmland</b>		
Residential	0,00423	0,00397
Business	0,00845	0,00794
Industries	0,02119	0,01993
Private owned towns, Body Corporates/Sectional Titles	0,00423	0,00397
Mining	0,02121	0,01992
Agricultural	0,00212	0,00199

### 26. Transfers and subsidies

#### Operating grants

Equitable Share	142 708 999	125 968 334
Expanded Public Works Programme Intergrated Grant	915 227	1 060 000
Financial Management Grant	1 700 000	1 625 000
Government grant (operating) National Treasury - audit fees	1 828 112	-
Contribution COGTA	873 956	2 000 000
Government grant Municipal Infrastructure Grant	1 966 250	-
Government grant (operating) Auditor General	224 412	-
Sector Education Training Authority Grant	333 728	516 899
	<b>150 550 684</b>	<b>131 170 233</b>

#### Capital grants

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and subsidies (continued)</b>		
Department of Energy Grant	9 490 470	16 956 125
Department of Water Affairs Grant	9 052 316	9 249 776
Regional Bulk Infrastructure	35 401 267	-
Municipal Infrastructure Grant	40 057 599	52 266 241
	<u>94 001 652</u>	<u>78 472 142</u>
	<u>244 552 336</u>	<u>209 642 375</u>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	89 740 271	81 674 041
Unconditional grants received	142 708 999	125 968 334
	<u>232 449 270</u>	<u>207 642 375</u>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

A Council Resolution was taken to use some of the grant for free basic services to residents. Equitable share is also used to allocate and basic sewer per month to all households. Indigent households are allocated 6kl of water, 50 kWh of electricity, additional sewer, refuse, and R50 per month on Rates.

### Financial Management Grant

Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

The municipality received the Financial Management Grant from National Treasury. It is used for capacity building and assistance to financial services to improve service delivery.

### Expanded Public Works Programme Integrated Grant

Balance unspent at beginning of year	-	49 334
Current-year receipts	1 000 000	1 060 000
Conditions met - transferred to revenue	(915 227)	(1 060 000)
Funds withheld by National Treasury	-	(49 334)
Unspent funds	(84 773)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

Appointment of workers on the Extended Public Works Program. The workers continue in July 2018 and were paid with the unspent remaining grant of 30 June 2018.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and subsidies (continued)</b>		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	5 356 759	-
Current-year receipts	36 667 000	57 623 000
Conditions met - transferred to revenue	(42 023 849)	(52 266 241)
	<u>(90)</u>	<u>5 356 759</u>
Conditions still to be met - remain liabilities (see note 18).		
Funds received for installation of infrastructure.		
<b>Department of Water Affairs Grant</b>		
Current-year receipts	9 345 503	9 249 776
Conditions met - transferred to revenue	(9 052 316)	(9 249 776)
	<u>293 187</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
The municipality received funds from the Department of Water Affairs for water purification.		
<b>Department of Energy Grant</b>		
Balance unspent at beginning of year	1 442 951	-
Current-year receipts	10 000 000	18 399 076
Conditions met - transferred to revenue	(9 490 470)	(16 956 125)
Withheld	(1 442 001)	-
	<u>510 480</u>	<u>1 442 951</u>
Conditions still to be met - remain liabilities (see note 18).		
Installation of electricity network and connections, Amelia, in the municipality's area, financed by the Department of Energy.		
<b>Department of Co operative and Traditional Affairs</b>		
Balance unspent at beginning of year	<u>704 984</u>	<u>704 984</u>
Conditions still to be met - remain liabilities (see note 18).		
Funds received for the installation of infrastructure.		
<b>Department of Co-operative Government and Traditional Affairs</b>		
Current-year receipts	873 955	2 000 000
Conditions met - transferred to revenue	(873 955)	(2 000 000)
	<u>-</u>	<u>-</u>
Grant from COGTA to pay a consultant that assisted the municipality.		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Transfers and subsidies (continued)</b>		
<b>Sector Education Training Authority Grant</b>		
Current-year receipts	333 728	516 899
Conditions met - transferred to revenue	(333 728)	(516 899)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18).

The municipality received funds from Sector Education Training Authority for excellence performance by human resources division. The funds must be utilised towards training. In the previous year the process in appointing service providers to provide training was delayed.

### Housing Development Agency

#### Water Demand Management (Free State Province)

Balance unspent at beginning of year	<u>79 057</u>	<u>79 057</u>
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Conditions still to be met - remain liabilities (see note 18).

Grant from Free State Province to assist with water demand management.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 53 of 2000), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

## 27. Public contributions and donations

Department of Sport, Arts and Culture (Library)	-	1 750 750
Rejuvenation	15 883 454	6 081 666
Public contributions and donations	-	2 582 537
	<u>15 883 454</u>	<u>10 414 953</u>

#### Reconciliation of conditional contributions

Current-year receipts	15 883 454	10 414 953
Conditions met - transferred to revenue	(15 883 454)	(10 414 953)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 18)

The following were donated by Sasol in the 2017/2018 financial year: Rapid Intervention vehicle(R1 604 279),Mobile unit (R221 338) , Emmission Testing machine (R450 196), equipment (R897 652), construction of Refenkgotso Road (1 988 989) and Heron Banks 8KV overhead line (10 721 000) .

The funds transferred in 2016/2017 were received from the Provincial Department of Sport, Arts and Culture for the payment of salaries for library staff. The following were donated in the 2016/2017 financial year: Computers were donated by SASOL to Financial Services (R 88 175). Two mobile maintenance units were donated by SASOL to Technical Services R 1 413 271). A new financial system was sponsored by SASOL (R 4 974 855). A creche in Refenkgotso was donated by Mission Point Trading 41 Pty (Ltd) and S.Bothma & son transport Pty (Ltd) ( R2 187 901).

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>28. Employee related costs</b>		
Basic	144 676 648	138 515 354
13th Cheques and other bonuses	11 408 721	11 250 782
Contribution post retirement	1 143 419	1 343 121
Defined contribution plans	24 524 190	23 253 762
Group Insurance	235 681	216 260
Housing benefits and allowances	3 674 052	1 207 565
Industrial council levy contributions	72 732	70 395
Leave pay accrual	983 626	2 475 750
Leave pay provision	2 191 953	1 860 491
Long-service awards	851 394	1 516 060
Medical aid - company contributions	17 692 419	16 025 861
Overtime payments	18 444 062	15 032 871
Standby allowance	3 365 902	3 046 334
UIF	1 282 856	1 262 218
Actuarial (gain)/loss	1 545 190	(1 419 971)
Acting allowances	2 046 366	1 879 083
Car allowance	16 266 374	15 003 799
Cell phone allowance	1 084 951	1 045 124
Uniforms and protective clothes	1 026 661	1 228 637
	<b>252 517 197</b>	<b>234 813 496</b>
<b>Remuneration of S M Molala - Municipal Manager</b>		
Annual Remuneration	1 564 752	1 674 635
Car Allowance	240 000	240 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Travel, motor car, accomodation, subsistance and other allowances	-	2 396
Telephone allowance	36 000	36 000
Acting allowance to Directors	190 661	-
Entertainment allowance	118 112	38 081
	<b>2 151 310</b>	<b>1 992 897</b>
<b>Remuneration of A Lambat - Chief Financial Officer</b>		
Annual Remuneration	1 912 471	1 781 362
Car Allowance	24 000	24 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
Travel, motor car, accomodation, subsistance and other allowances	-	8 482
Telephone allowance	30 000	30 000
Entertainment	2 144	269
	<b>1 970 400</b>	<b>1 845 898</b>
<b>Remuneration of I S Mokgatle - Director Technical Service and Infrastructural Services</b>		
Annual Remuneration	938 639	1 049 149
Car Allowance	341 076	409 290
Contributions to UIF, Medical and Pension Funds	1 487	1 785
Telephone allowance	25 000	30 000
Leave Pay	207 251	-
Acting allowance by Managers	59 414	-
	<b>1 572 867</b>	<b>1 490 224</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>28. Employee related costs (continued)</b>		
<b>Remuneration of M L M Maseola - Director Organisational Development and Corporate Services</b>		
Annual Remuneration	692 150	1 289 402
Car Allowance	60 000	120 000
Contributions to UIF, Medical and Pension Funds	892	1 785
Housing subsidy	60 000	120 000
Telephone allowance	15 000	30 000
Leave	172 207	-
Acting allowance by Managers	378 904	-
	<b>1 379 153</b>	<b>1 561 187</b>
<b>Remuneration of S J Lempe - Director Social Services</b>		
Annual Remuneration	863 221	1 206 064
Car Allowance	126 667	190 000
Contributions to UIF, Medical and Pension Funds	1 189	1 785
Housing subsidy	80 000	120 000
Transport claims	-	2 702
Telephone allowance	20 000	30 000
Leave	179 930	-
Acting allowance as Municipal Manager	-	13 870
Acting allowance by Managers	266 235	-
Entertainment allowance	-	5 335
	<b>1 537 242</b>	<b>1 569 756</b>
<b>Remuneration of S J Monyaki - Director Economic Development</b>		
Annual Remuneration	814 513	1 138 012
Car Allowance	180 000	270 000
Contributions to UIF, Medical and Pension Funds	1 189	1 785
Housing subsidy	66 667	100 000
Transport claims	-	8 766
Telephone allowance	20 000	30 000
Leave	23 018	-
Acting allowance as Municipal Manager	-	53 662
Acting allowance by Managers	226 936	-
Entertainment allowance	-	12 089
	<b>1 332 323</b>	<b>1 614 314</b>
Total Employee related cost	<b>262 460 492</b>	<b>244 887 772</b>

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of Councillors</b>		
Executive Mayor	470 281	793 561
Council Whip	362 847	596 338
Mayoral Committee Members	2 386 989	4 773 900
Speaker	384 333	640 449
Councillors	5 963 470	8 967 929
Administrator's allowance	428 890	-
	<b>9 996 810</b>	<b>15 772 177</b>

### Remuneration per councillor

#### Executive Mayor

Mahlaku BT (till 9 August 2016)	-	98 001
Hlasa R S (since 22 August 2016)	-	705 992
Tshongwe S L (from 21 December 2017)	470 281	-

#### Council Whip

Nyembe B V (Council Whip from 21 December 2017)	362 847	-
Makhoba KJ (Council Whip from 25 November 2015)	-	65 806
Radebe LW (Council Whip since 22 August 2016)	-	530 532

#### Mayoral Committee Members

Khonto MW (till 9 August 2016)	-	65 806
Kubheka NJ (till 9 August 2016)	-	65 806
Mabasa KT (till 9 August 2016 and 23 February 2017 to 30 June 2017)	-	279 981
Mabefu RJ (till 9 August 2016)	-	65 806
Radebe AN (till 9 August 2016)	-	65 806
Semonyo LS (till 9 August 2016 and from 28 January 2018)	296 494	65 806
Tshongwe SL (till 9 August 2016)	-	65 806
Mtshali NM (MAYCO member 25 November 2015 till 9 August 2016 and 4 March 2017 to 30 June 2017)	-	265 675
Mofokeng TH (22 August 2016 to 22 February 2017)	-	314 314
Mothibe MB (22 August 2016 to 22 February 2017)	-	314 314
Mohapi P (22 August 2016 to 22 February 2017)	-	314 314
Gaigher L (22 August 2016 to 22 February 2017)	-	314 314
Motlhale SM (22 August 2016 to 22 February 2017)	-	314 314
Grobbelaar JJ (22 August 2016 to 22 February 2017)	-	314 314
Mthembu S (22 August 2016 to 30 June 2017)	-	530 532
Burger GS (22 August 2016 to 3 March 2017)	-	331 072
Mosia TE (23 February 2017 to 30 June 2017)	-	217 627
Mosokweni F (23 February 2017 to 30 June 2017; 18 January 2018)	296 494	214 175
Fisher L (23 February 2017 to 30 June 2017; 18 January 2018)	296 494	214 175
Mokoena NP (23 February 2017 to 30 June 2017; 18 January 2018)	296 494	214 175
Radebe TL (23 February 2017 to 30 June 2017)	-	214 175
Makhefu LA (from 18 January 2018)	296 494	-
Malindi MJ (from 18 January 2018)	296 494	-
Nyaku DJ (from 18 January 2018)	296 494	-
Poho MS (from 18 January 2018)	296 494	-

#### Speaker

Matena SZ (Speaker till 9 August 2016)	-	70 673
Du Plooy (Speaker since 22 August 2016)	-	569 776
Mabasa KT (Speaker from 21 December 2017)	384 333	-

#### Councillors

Barnard JJ (from 1 December 2017)	178 459	-
Burger GS (from 10 August 2016 MAYCO member 22 August 2016 to 3 March 2017: 1 December 2017)	178 459	97 405
Chebase LR (till 9 August 2016)	-	28 881
Coetzer FC (till 9 August 2016)	-	28 881
Du Plessis J (till 9 August 2016)	-	28 881

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of Councillors (continued)</b>		
Du Plooy (Speaker since 22 August 2016; 1 December 2017)	178 459	8 610
Du Toit T	178 459	270 331
Dywili NN (from 10 August 2016; 1 December 2017)	178 459	241 450
Fisher L (from 10 August 2016; MAYCO member from 23 February 2017 to 30 June 2017; 1 December 2017 and MAYCO member 128 January 2018)	46 800	146 556
Gaigher L (from 10 August 2016 and MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017 to 31 March 2018)	101 967	102 607
Geyser JJ	-	270 331
Gouws EJ (from 10 August 2016)	-	241 450
Grobbelaar JJ (MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178 459	131 488
Hlasa R S (Executive Mayor since 22 August 2016 till 30 June 2017)	-	8 610
Khonto MW (MAYCO member till 9 August 2016 resigned as Councillor 8 December 2016)	-	89 871
Kobo SS (from 10 August 2016; 1 December 2017)	178 459	241 450
Kubheka NJ (MAYCO member Committee till 9 August 2016)	-	241 450
Khunou SB (till 9 August 2016)	-	28 881
Lelahla JM (till 9 August 2016)	-	28 881
Leotlela MG (from 1 Decemebr 2017)	178 459	-
Mabasa KT(MAYCO member till 9 August 2016 and from 23 February 2017 to 30 June 2017; 1 December 2017 Speaker from 21 December 2017)	-	146 556
Machafa MF (till 9 August 2016)	-	28 881
Madia RM (from 10 August 2016)	-	241 450
Mahlangu PJ (till 9 August 2016)	-	28 881
Mahlaela PM (from 1 Decemebr 2017)	178 459	-
Mahlaku BT (Executive Mayor till 9 August 2016)	-	241 450
Majadibodu KC (from 10 August 2016)	-	241 450
Makhata L (from 10 August 2016)	-	241 450
Makhefu L A (from 1 February 2017; 1 December 2017; MAYCO 18 January 2018)	46 800	112 115
Malindi MJ (1 December 2017; MAYCO 18 January 2018)	46 800	-
Mare AK	178 459	270 331
Maseko ME (from 1 December 2017)	178 459	-
Maseko VJ (till 9 August 2016)	-	28 881
Matena SZ (Speaker till 3 August 2016)	-	241 450
Mdola NL (till 9 August 2016)	-	28 881
Mofokeng D (from 10 August 2016)	-	241 450
Mofokeng SS (till 9 August 2016)	-	28 881
Mofokeng TH (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178 459	102 607
Mofokeng TJ (till 9 August 2016)	-	28 881
Mokoena DE (till 9 August 2016)	-	28 881
Mohapi P (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017; 1 Decemebr 2017)	178 459	102 607
Mokoena MP (from 10 August 2016; 1 December 2017)	178 459	241 450
Mokoena NP (from 10 August 2016; MAYCO member from 23 February 2017 to 30 June 2017; 1 December 2017; MAYCO 18 January 2018)	46 800	146 556
Mokoena TS (from 1 December 2017)	178 459	-
Molawa M (from 10 August 2016; 1 December 2017; MPAC chairperson 25 January 2018))	326 829	241 450
Moolman HJ (till 9 August 2016)	-	28 881
Moreki S (till 9 August 2016)	-	28 881
Mosia MM (till 9 August 2016)	-	28 881
Mosia TE (Chairperson MPAC till 9 August 2016 and MAYCO member from 23 February 2017 to 30 June 2017)	-	210 503
Mosokweni F (from 10 August 2016; MAYCO member from 23 February 2017 to 30 June 2017; 1 December 2017; MAYCO member 18 January 2018)	46 800	146 556
Motaung TA (from 10 August 2016) MPAC chairperson from 28 September 2016; 1 December 2017)	178 459	491 654

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of Councillors (continued)</b>		
Mothibe MB (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017 ;Resigned February 2017)	-	8 610
Motjeane S (from 10 August 2016) Ethics chairperson from 28 September 2016; 1 December 2017)	178 459	491 654
Motlhale SM (from 10 August 2016 MAYCO member 22 August 2016 to 22 February 2017; 1 December 2017)	178 459	102 607
Motlounge TM (from 1 December 2017)	178 459	-
Mthembu S (from 10 August 2016 MAYCO member 22 August 2016 to 30 June 2017)	-	8 610
Mtshali NM (MAYCO member 25 November 2015 till 9 August 2016 and from 4 March 2017 to 30 June 2017; 1 December 2017)	178 459	154 987
Nhlapo LL (from 1 December 2017)	178 459	-
Nkheloane M (from 1 December 2017)	178 459	-
Nnune GB	178 459	-
Nnune MS	-	270 331
November N ( from 10 August 2016)	-	241 450
Nteso SJ (from 10 August 2016)	178 459	241 450
Nthebe MD (till 9 August 2016)	-	28 881
Ntoane MG (till 9 August 2016)	-	28 881
Nyaku DJ (1 December 2017; MAYCO member 18 January 2018)	46 800	-
Oswald DM (till 9 August 2016)	-	28 881
Poho MS (till 9 August 2016; 1 December 2017; MAYCO member 28 January 2018)	46 800	28 881
Rampala AM (till 9 August 2016)	-	28 881
Radebe LW (Council Whip since 22 August 2016 till 30 June 2017)	-	8 610
Radebe LW (Council Whip since 22 August 2016 till 30 June 2017)	-	146 556
Sejaki MN (till 9 August 2016)	-	28 881
Semonyo LS ( till 9 August 2016 ; 1 December 2017 MAYCO member 18 January 2018)	46 800	-
Soetsang TL (Council Whip till 31 October 2015; (till 9 August 2016)	-	28 881
Taats TJ (from 1 December 2017)	178 459	-
Tamane MA (till 9 August 2016)	-	28 881
Telane MM (from 10 August 2016; 1 December 2017)	178 459	241 450
Tsotetsi L (from 10 August 2016)	178 459	241 450
Van der Merwe FJ (from 1 December 2017)	178 459	-
Van der Walt MC (till 9 August 2016)	-	28 881
Viljoen JD (till 30 June 2017)	-	270 331
Zwane ZJ (from 23 February 2017; 1 December 2017)	178 459	95 156
Administrator (1 July 2017 to 30 November 2017)	428 890	-
	<b>9 996 810</b>	<b>15 772 177</b>

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in Section 219 of the Constitution.

### 30. Depreciation and amortisation

Intangible assets	936 617	121 196
Investment property	23 020	24 950
Property, plant and equipment	54 169 062	42 385 483
	<b>55 128 699</b>	<b>42 531 629</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

		2018 R	2017 R		
<b>31. Finance costs</b>					
Non-current borrowings		363 019	475 478		
Trade and other payables		2 096 198	907 967		
Finance leases		1 250 550	1 243 172		
Bank		314 172	548 801		
		<b>4 023 939</b>	<b>3 175 418</b>		
<b>32. Debt impairment</b>					
Contributions to debt impairment allowance		160 445 391	139 338 673		
Receivables from exchange transactions		111 236 438	119 384 074		
Receivables from non-exchange transactions		49 208 953	19 954 599		
		<b>160 445 391</b>	<b>139 338 673</b>		
<b>33. Bulk purchases</b>					
Electricity		206 554 078	202 158 748		
Water		131 789 428	122 687 794		
		<b>338 343 506</b>	<b>324 846 542</b>		
<b>2018</b>	Total sales (units)	Less total purchases (units)	(Loss)/gain (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	196 494 984	216 903 112	(19 598 127)	(9)%	15 686 341
Water	15 194 362	17 150 919	(1 956 556)	(11)%	16 307 842
	<b>211 689 346</b>	<b>234 054 031</b>	<b>(21 554 683)</b>		<b>31 994 183</b>
<b>2017</b>	Total sales (units)	Less total purchases (units)	(Loss)/gain (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	203 883 464	212 558 246	(8 674 782)	(4)%	6 741 619
Water	13 352 412	18 188 555	(4 836 143)	(27)%	36 578 138
	<b>217 235 876</b>	<b>230 746 801</b>	<b>(13 510 925)</b>		<b>43 319 757</b>
Unaccounted consumption can be a result of:					
<ul style="list-style-type: none"> <li>- Distributions losses;</li> <li>- Internal use that is not metered and not read;</li> <li>- Illegal connections and theft.</li> <li>- Supply to informal areas that have not yet been formalised.</li> </ul>					
<b>34. Contracted services</b>					
<b>Outsourced Services</b>					
Administrative and Support Staff				3 565 011	2 878 459
Cleaning Services				2 963 986	2 631 264
Connection/Dis-connection				1 035 395	1 309 619
Traffic Fines Management				508 898	1 501 971
Transport Services				195 007	91 891

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>34. Contracted services (continued)</b>		
<b>Consultants and Professional Services</b>		
Business and Advisory	6 552 263	10 869 924
Infrastructure and Planning	575 322	-
Legal Cost	12 661 426	8 410 900
<b>Contractors</b>		
Artists and Performers	-	32 600
Catering Services	270 694	328 966
Employee Wellness	1 153	73 350
Maintenance of Buildings and Facilities	4 386 663	108 973
Maintenance of Equipment	9 188 207	157 019
Maintenance of Unspecified Assets	2 391 635	8 707 852
Traffic and Street Lights	292 373	-
Safeguard and Security	14 855 952	14 268 940
Sewerage Services	18 415 683	16 800 035
Stage and Sound Crew	19 750	448 346
	<b>77 879 418</b>	<b>68 620 109</b>
<b>35. Operating expenditure</b>		
Advertising	1 122 904	954 196
Auditors remuneration	6 406 051	6 326 106
Bank charges	553 154	466 655
Licence fees SAMRO	-	304 223
Commission paid	8 904 426	8 488 037
Entertainment	92 853	80 066
Hire	7 855 953	6 052 404
Insurance	2 718 368	2 441 079
IT expenses	3 344 307	5 133 876
Levies	2 130 748	2 001 366
Postage and courier	1 968 160	1 667 763
Printing and publications	9 163	59 452
Royalties and license fees	532 352	379 801
Subscriptions and membership fees	3 019 051	2 370 117
Telephone	2 269 722	2 254 651
Travel - local	1 542 139	1 568 209
Inventory consumables	14 033 632	18 033 915
Ward committee remuneration	1 103 000	567 565
Bursaries	318 139	208 129
Other expenses	518 826	39 934
	<b>58 442 948</b>	<b>59 397 544</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>36. Cash generated from operations</b>		
Surplus	131 340 604	57 358 652
<b>Adjustments for:</b>		
Depreciation and amortisation	55 128 699	42 531 629
Loss/(gain) on sale of inventory	458 063	43 538
Loss/(gain) on inventory stands	85 000	471 000
Fair value adjustments	1 545 190	(1 419 971)
Loss on the write off/transfer of property, plant and equipment	(34 801)	(266 419)
Fair value shares	(242 994)	(204 724)
PPE and intangible assets donated	(15 883 455)	(8 664 203)
Debt impairment	160 445 391	139 338 673
Movements in operating lease assets and accruals	391 969	462 942
Movements in retirement benefit assets and liabilities	1 994 813	2 859 181
Movements in land fill closure provisions	1 580 404	(17 767 740)
Current leave and bonus accrual	2 191 953	1 860 491
<b>Changes in working capital:</b>		
Inventories	202 567	(421 386)
Receivables from exchange transactions long term	(202 368)	45 745
Receivables from exchange transactions	(186 531 733)	(109 928 358)
Receivables from non-exchange transactions	(44 579 895)	(38 009 712)
Payables from exchange transactions	(2 818 426)	6 710 488
VAT	(3 111 897)	(4 683 471)
Unspent conditional grants and receipts	(5 911 360)	6 750 376
Consumer deposits	1 534 588	1 432 203
	<b>97 582 312</b>	<b>78 498 934</b>

## 37. Financial instruments disclosure

### Categories of financial instruments

#### 2018

#### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	3 230 858	-	3 230 858
Receivables from non - exchange transactions	-	87 539 410	87 539 410
Receivables from exchange transactions	-	196 428 617	196 428 617
Cash and cash equivalents	-	21 042 894	21 042 894
Other financial assets	-	30 641	30 641
	<b>3 230 858</b>	<b>305 041 562</b>	<b>308 272 420</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease obligation	3 257 767	3 257 767
Operating lease liability	2 753 122	2 753 122
Payables from exchange transactions	222 233 300	222 233 300
Consumer deposits	20 993 784	20 993 784
Employee benefit obligation	3 407 490	3 407 490
Short term portion - long term loan	1 501 886	1 501 886
Unspent conditional grants	1 672 391	1 672 391
	<b>255 819 740</b>	<b>255 819 740</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R	
<b>Financial instruments disclosure (continued)</b>			
<b>2017</b>			
<b>Financial assets</b>			
	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	121 133 326	121 133 326
Cash and cash equivalents	-	12 627 595	12 627 595
Other financial assets	2 987 863	-	2 987 863
Receivables from non - exchange transactions	-	91 323 285	91 323 285
Other financial assets	-	30 641	30 641
	<b><u>2 987 863</u></b>	<b><u>225 114 847</u></b>	<b><u>228 102 710</u></b>
<b>Financial liabilities</b>			
		At amortised cost	Total
Payables from exchange transactions		222 859 778	222 859 778
Short term portion - long term loan		1 379 692	1 379 692
Operating lease liability		2 361 153	2 361 153
Consumer deposits		19 459 196	19 459 196
Employee benefit obligation		3 576 076	3 576 076
Unspent conditional grants		7 583 751	7 583 751
Finance lease obligation		2 727 836	2 727 836
		<b><u>259 947 482</u></b>	<b><u>259 947 482</u></b>
<b>38. Commitments</b>			
<b>Authorised capital expenditure</b>			
<b>Already contracted for but not provided for</b>			
• Property, plant and equipment		<u>128 437 928</u>	<u>176 811 123</u>
<b>Total capital commitments</b>			
Already contracted for but not provided for		<u>128 437 928</u>	<u>176 811 123</u>
<b>Authorised operational expenditure</b>			
<b>Total commitments</b>			
<b>Total commitments</b>			
Authorised capital expenditure		<u>128 437 928</u>	<u>176 811 123</u>

This committed expenditure relates to contracts and will be financed by available bank facilities, accumulated surpluses, existing cash resources and funds internally generated.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>39. Contingencies</b>		
<b>Housing loans</b>		
Guarantees for housing loans to employees at financial institutions	-	30 161
<b>Various attorneys</b>		
Ukwazi Force CC / Metsimaholo Municipality	6 500 000	6 500 000
Nkadimeng & Mofokeng / Metsimaholo Municipality	100 000	100 000
Steven Murray & Associates	-	41 034
SAMRO NPC / Metsimaholo Municipality	714 957	714 957
Edge Forensic and Risk Consultants / Metsimaholo Municipality	1 899 703	1 899 704
Isak A van der Watt/Metsimaholo LM	47 265	-
J M Fusstenburg / Metsimaholo Municipality	16 519	19 680
A.G.A Transport Co (Pty)Ltd	-	45 435
C van Wynsgaard/Metsimaholo Municipality	-	9 124
Nkadimeng M R & Mofokeng M O / Metsimaholo Municipality	100 000	-
<b>Mkwanazi Melato Inc</b>		
Metsimaholo Municipality / I A van der Walt	-	58 000
Metsimaholo Municipality / J Schoultz	58 364	58 365
Dreyer Albertus JP /Metsimaholo Municipality	571 300	5 713 000
Metsimaholo Municipality / Saaiman R	100 000	100 000
Metsimaholo Municipality / Fouche Quinton	-	13 930
<b>Ponoane Attorneys</b>		
Ernest L Lehani / Metsimaholo Local Municipality	233 368	400 000
Erwee Andries / Metsimaholo Local Municipality	-	38 645
<b>Adolff Attorneys</b>		
Metsimaholo Municipality / Van der Vyver C	-	13 186
Metsimaholo Municipality / Van Zyl J	-	12 135
Metsimaholo Municipality / Calitz ACJ	-	11 182
<b>Internal Legal Division</b>		
Le Roux JM / Metsimaholo Local Municipality	12 937	18 937
	<b>10 354 413</b>	<b>15 797 475</b>

### Unlicensed landfill site

The municipality managed three landfill sites without the required licences in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed. Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>40. Related parties</b>		
Relationships		
Accounting Officer		Refer to accounting officer's report note
Phepheng Lelahla JM		Grey Construction (Civil & Mechanical)
Nthebe MD		Alaska One Enterprise (Pty) Ltd
Maseko VJ		Living Fountains (Church)
Grobbelaar JJ		In his footprints (Non-profitable Charity organisation)
Soetsang T L		Nyakaza Mfazi Primary co-operative limited
Mofokeng TJ		Asazi funeral parlour
		Asazi Inn
Mosia TE		Soxi Electronics and IT Centre
Mahlangu PJ		Kgutlo Thako Funeral Services
Radebe AN		Maitshokolla Cooperative
Makhoba KJ		Paballo Ya Bomme
Du Plessis J		SanJohan private trust (trustee)
Viljoen JD		Principal of Vaalpark Primary School
Mabefu RJ		Directorship: Skyho Sands
Mosokweni F		Sibusisiwe (Pty) (Ltd) Construction
Semonyo L S		MATLA Dynamics
		Taxi Industry
Nyembe B V		Victor's Comprehensive Development (PTY) LTD
		Victor's Communications Entertainment
Tshongwe SL		WHIPHOLD
		Amaqusi-Amantimand Amahle Trading and Projects (PTY)(LTD)
		Flavius Mareka TVET College -Ministerial appointee
Molala SM		Afriscapes CC (Capacity building)
Maseola M		Khumase CC (Construction and transport)
		Wealthprosp(General Trading)
Monyaki SJ		Raleoa Trading cc (Tourism retail)
		Bold Moves 198 Pty (Ltd) (Properties, tourism, retail)
Lambat A		New Redruth Motors CC
		Roshgold Investment Holdings Limited
		Roshgold Technologies Limited
		Roshgold Ventures Limited
		Roshmeadow Properties Limited
		Top Share Equities (Pty) Ltd
		Directorship: Albaraka Bank Limited
Ndaba M D		MTN shares
Post employment benefit plan for employees		Refer to note 19
Members of key management		Refer to note 27
Executive Council Members		Refer to note 28

### 41. Prior period errors

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

			2018 R	2017 R
<b>41. Prior period errors (continued)</b>				
<b>Statement of financial performance</b>	Balance as previously reported	Prior period error	Reclassified (note 42)	Total
<b>Revenue</b>				
Service charges	524 105 868	(149 835)	9 378 411	533 334 444
Levies refuse dump yard	626 620	-	(626 620)	-
Rental of facilities and equipment	6 068 776	-	-	6 068 776
Interest received - trading	25 071 512	-	-	25 071 512
Interest received - investments	2 107 597	22 216	-	2 129 813
Dividends	98 858	-	-	98 858
Non- payment fees	5 601 620	-	(5 601 620)	-
Licence and permits	116 954	-	-	116 954
Fines	17 272 057	(1 167 733)	180 419	16 284 743
Connection fees	3 167 363	-	(3 167 363)	-
Property rates	128 980 269	-	-	128 980 269
Government grants and subsidies	209 642 375	-	-	209 642 375
Public contributions and donations	10 414 953	-	-	10 414 953
Operational Revenue	7 275 452	-	(163 227)	7 112 225
Income legal cost	3 593 305	-	-	3 593 305
	<b>944 143 579</b>	<b>(1 295 352)</b>	<b>-</b>	<b>942 848 227</b>
<b>Expenses</b>				
Employee related cost	(244 980 573)	(42 760)	135 561	(244 887 772)
Remuneration of councillors	(15 757 133)	(15 043)	-	(15 772 176)
Depreciation and amortisation	(39 336 244)	(3 195 385)	-	(42 531 629)
Debt Impairment	(140 049 611)	710 937	-	(139 338 674)
Finance cost	(3 175 419)	-	-	(3 175 419)
Repairs and maintenance	(18 129 239)	-	18 129 239	-
Bulk purchases	(324 861 874)	15 332	-	(324 846 542)
Contracted services	(31 384 039)	(1 218 245)	(36 017 825)	(68 620 109)
Operating expenditure	(77 786 839)	(783 702)	19 172 998	(59 397 543)
Operating Lease	(4 637 354)	(6 698)	-	(4 644 052)
	<b>(900 098 325)</b>	<b>(4 535 564)</b>	<b>1 419 973</b>	<b>(903 213 916)</b>
Gain/loss on disposal of assets	(1 876 969)	-	-	(1 876 969)
Actuarial gain / (loss)	1 419 971	-	(1 419 971)	-
Sale of stands (Loss on sale)	294 457	1 457 226	-	1 751 683
(Loss)/Gain on inventory	(19 020)	(24 517)	-	(43 537)
Fair value of listed equities	204 724	-	-	204 724
Library inventory transfer write-downs	(79 295)	-	-	(79 295)
Rehabilitation of land fill sites	17 767 740	-	-	17 767 740
	<b>17 711 608</b>	<b>1 432 709</b>	<b>(1 419 971)</b>	<b>17 724 346</b>
<b>Statement of financial position</b>				
<b>Current assets</b>	Balance as previously reported	Prior period error	Reclassification (note 42)	Total
Inventory	15 060 882	164 431	-	15 225 313
Receivables from exchange transactions	142 215 392	3 405 519	(24 487 585)	121 133 326
Receivables from non-exchange transactions	77 930 642	(11 094 941)	24 487 585	91 323 286
Cash and cash equivalents	12 627 595	-	-	12 627 595
Other financial assets	3 018 504	-	-	3 018 504
	<b>250 853 015</b>	<b>(7 524 991)</b>	<b>-</b>	<b>243 328 024</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

			2018 R	2017 R
<b>41. Prior period errors (continued)</b>				
<b>Non-current assets</b>				
Investment property	86 054 386	-	1 412 570	87 466 956
Property, plant and equipment	1 197 505 958	(3 195 385)	(1 412 570)	1 192 898 003
Intangible assets	4 421 285	-	-	4 421 285
Heritage assets	561 001	-	-	561 001
Receivables from exchange transactions	-	1 006 496	-	1 006 496
	<b>1 288 542 630</b>	<b>(2 188 889)</b>	<b>-</b>	<b>1 286 353 741</b>
<b>Current liabilities</b>				
Operating lease liabilities	2 339 748	21 405	-	2 361 153
Finance lease liability	2 727 836	-	-	2 727 836
Payables from exchange transactions	221 585 738	1 274 040	-	222 859 778
VAT payable	6 234 447	(1 950)	-	6 232 497
Consumer deposits	19 459 196	-	-	19 459 196
Employee benefit obligations	-	-	3 576 076	3 576 076
Unspent conditional grants	7 583 751	-	-	7 583 751
Short term portion -Long term loan	1 379 692	-	-	1 379 692
	<b>261 310 408</b>	<b>1 293 495</b>	<b>3 576 076</b>	<b>266 179 979</b>
<b>Non-current liabilities</b>				
Long term loan	3 136 825	-	-	3 136 825
Finance lease obligation	9 637 580	-	-	9 637 580
Employee benefit obligations	40 593 044	-	(3 576 076)	37 016 968
Landfill closure provision	31 850 938	-	-	31 850 938
	<b>85 218 387</b>	<b>-</b>	<b>(3 576 076)</b>	<b>81 642 311</b>
<b>Net assets</b>				
Accumulated surplus - opening balance	1 192 866 850	(6 609 164)	-	1 186 257 686
(Surplus) / deficit for the year	-	(4 398 210)	-	(4 398 210)
	<b>1 192 866 850</b>	<b>(11 007 374)</b>	<b>-</b>	<b>1 181 859 476</b>

### 1. Expenses not accrued in prior years

Some general expenses, bulk purchase, contracted services and operating leases were incorrectly accrued in 2015/2016 and 2016/2017 years. These have been corrected and the 2015/2016 amounts restated accordingly.

#### Statement of financial position

Adjustment against the opening accumulated surplus 1 July 2016	-	(258 406)
Increase in Payables	-	(1 328 457)
Decrease in Inventory	-	(1)
Increase in receivables from non exchange transactions	-	33 003
	<b>-</b>	<b>(1 553 861)</b>

#### Statement of financial performance

Increase in general expenditure	-	350 947
Increase in contracted services	-	1 218 246
Decrease in bulk purchases	-	(15 332)
	<b>-</b>	<b>1 553 861</b>

### 2. Debtor's revenue correction in the prior years

Correction of discounting of interest on debtors and profit on sale of land prior 2015/2016 year. These have been corrected and the 2015/2016 amounts restated accordingly.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>41. Prior period errors (continued)</b>		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	5 732 800
Decrease in receivables from non exchange transactions	-	(5 732 800)
Increase in long term receivables	-	819 783
	<u>-</u>	<u>819 783</u>
<b>Statement of financial performance</b>		
Increase on profit of sale of land	-	(819 783)
	<u>-</u>	<u>(819 783)</u>
3. Adjustment of repair and maintenance.		
Repair and maintenance were corrected in 2016/2017 and prior 2016/2016 financial year. These have been corrected and restated in 2016/2017 year accordingly.		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	124 481
Increase in inventory	-	188 949
Increase in payables	-	(752 883)
	<u>-</u>	<u>(439 453)</u>
<b>Statement of financial performance</b>		
Increase in repair and maintenance	-	439 453
	<u>-</u>	<u>439 453</u>
4. Adjustment of employee cost		
Salaries adjustments and Councillor's allowance were made for the 2015/2016 year and prior 2015/2016. These have been corrected and restated accordingly.		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	231 996
Decrease In payables	-	(320 653)
Increase in receivables from non exchange transactions	-	30 854
	<u>-</u>	<u>(57 803)</u>
<b>Statement of financial performance</b>		
Increase in employee benefits	-	42 760
Increase in Allowance of councillors	-	15 043
	<u>-</u>	<u>57 803</u>
5. Inventory balance corrected		
Stock written off have been corrected for 2016/2017 year. These have been corrected and the years have been restated accordingly.		
<b>Statement of financial position</b>		
Decrease in Inventory	-	(24 517)
	<u>-</u>	<u>(24 517)</u>
<b>Statement of financial performance</b>		
Increase in stock written off	-	24 517
	<u>-</u>	<u>24 517</u>
6. Service charges adjusted		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>41. Prior period errors (continued)</b>		
It was identified that electricity billing as well as other income and interest on investments be adjusted in 2016/2017 and prior 2015/2016 financial year. These have been corrected and the electricity debtor and sundry debtors restated accordingly.		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	337 617
Decrease in receivables from non exchange transactions	-	(131 895)
Decrease in receivables from exchange transactions	-	(335 292)
Decrease in payables	-	1 951
	<u>-</u>	<u>(127 619)</u>
<b>Statement of financial performance</b>		
Decrease in other income	-	151 617
Increase in interest on investments	-	(22 216)
Increase on electricity income	-	(1 782)
	<u>-</u>	<u>127 619</u>
7. Adjustment on consumer billing Corrections were made on prior year billing, sundry debtors, sale of land and credit balances prior 2015/2016		
<b>Statement of financial position</b>		
Adjustment against the opening accumulated surplus 1 July 2016	-	501 596
Increase in receivables from exchange transactions	-	2 905 276
Increase in receivables from non current exchange transactions	-	683 188
Increase in payables	-	(13 253)
Decrease in receivables from non exchange transactions	-	(4 076 807)
	<u>-</u>	<u>-</u>
8 Traffic fines. Correction of traffic fines		
<b>Statement of financial position</b>		
Accumulated surplus	-	221 403
Receivables Traffic fines	-	(81 740)
	<u>-</u>	<u>139 663</u>
<b>Statement of financial performance</b>		
Impairment of traffic fines	-	(1 307 396)
Traffic fines	-	1 167 733
	<u>-</u>	<u>(139 663)</u>
9. Depreciation The calculation for depreciation as infrastructure -work in progress (electricity was completed).		
<b>Statement of financial position</b>		
Increase in accumulated depreciation	-	(3 195 385)

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>41. Prior period errors (continued)</b>		
<b>Statement of financial performance</b>		
Increase in depreciation	-	3 195 385
9. Fruitless and wasteful expenditure		
Sheriff payment amended from R97 069 to R57 950, interest of Rand Water amended from R238 242 to R275 435 and interest for University of Free State added R84.		
10. Fruitless Expenditure		
MPAC adjusted the register by R22 649 for the 2009/2010 and R15 570 for the 2012/2013 financial year.		
11 Sale of land long term debtor.		
Housing suspense no longer set off against sale of land debtors.		
<b>Statement of financial position</b>		
Accumulated Surplus	-	965 512
Receivable -housing suspense	-	(5 994 515)
Receivables long term debtors	-	4 988 020
	-	<b>(40 983)</b>
<b>Statement of financial performance</b>		
Impairment provision	-	(596 460)
Sale of stands	-	637 443
	-	<b>40 983</b>

## 42. Change in estimate

### Property, plant and equipment

No changes in the 2017/2018 financial year that related to previous years. The useful lives of some of the assets were amended during the financial year.

The change in the estimate of the useful lives were done after investigation that found that the assets are still in good condition and can be at least used for further two years. The difference in the depreciation for the current year is R549 937

## 43. Comparative figures

Reclassification of certain accounts were made in order to comply with the requirements of Municipal Standard Chart of Accounts (mSCOA). The reclassifications have no impact on the net assets value of the municipality.

The effects of the reclassification are set out in note 41.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 44. Risk management

##### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (cash flow interest rate risk), credit risk and liquidity risk.

##### Liquidity risk

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

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

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loan	1 501 886	1 634 939	-	-
Unspent conditional grants	1 672 391	-	-	-
Trade and other payables	222 233 300	-	-	-
Consumer deposits	20 993 784	-	-	-
Finance lease obligation	3 257 767	-	7 175 623	-

  

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	19 459 196	-	-	-
Finance lease obligation	2 727 836	-	9 637 580	-
Unspent conditional grants	7 583 751	-	-	-
Payables from exchange transactions	222 859 778	-	-	-
Other financial liabilities	1 379 692	-	3 136 825	-

##### Credit risk

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

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

Financial instrument	2018	2017
Receivables from exchange transactions	196 428 617	121 133 326
Receivables from non - exchange transactions	87 539 410	91 323 285
Cash and cash equivalents	21 042 894	12 627 595
0	3 261 499	3 018 504

##### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 44. Risk management (continued)

##### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position at fair value.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

#### 45. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 1 313 200 079 (2017: R1 181 859 475) and that the municipality's total assets exceed its liabilities by R 1 313 200 079 (2017: R1 181 859 475). The current assets exceed the current liabilities by R67 733 563. In 2017 the current liabilities exceeded current assets by R 22 851 955.

The municipality has experienced some financial difficulties, as indicated below:

not all suppliers were not paid within the legislative 30 days

The gross debtors book has grown from R 951 591 273 to R 1 217 222 742 at June 2018. The debt impairment provision has increased for the year by R 147 964 630 compared to R123 396 912 for the previous year. This is indicative of challenges in reducing the debtors book, requiring more stringent debt collection measures.;

The average payment level for the year was 78.9% compared to a budgeted collection level of 82

The municipality also faced challenges in meeting the minimum maintenance of Property Plant and Equipment as prescribed by National Treasury

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 ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is the continued funding of capital expenditure through MIG, increased allocations of equitable share, including revenue enhancement and cost cutting and cost containment measures.

#### 46. Events after the reporting date

No events took place after the reporting date.

#### 47. Unauthorised expenditure

Opening balance	19 380 908	19 380 908
-----------------	------------	------------

Nothing noted for 2017/2018 financial year.

#### 48. Fruitless and wasteful expenditure

Opening balance	3 788 470	2 890 282
Incurred in the current year	2 255 167	898 188
Interest waived by Auditor General 2016/2017	(139 808)	-
Interest waived by Auditor General 2017/2018	(84 604)	-
	<u>5 819 225</u>	<u>3 788 470</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 48. Fruitless and wasteful expenditure (continued)

##### Analysis of expenditure

Telkom- payment of telephone accounts. Interest charged on the late payment of accounts	9 138	11 089
Sheriff Sasolburg - payment of interest	153 620	57 950
Compensation Commissioner	-	82 231
Arbitration ward to employee	78 859	-
Auditor General - interest on late payment	138 430	161 554
Rand Water - interest on the late payment of water account	-	275 435
Edge Forensics - interest on late payment	269 361	-
ESKOM - interest paid on the late payments of electricity accounts	5 273	285 670
Free State Provincial Government - late payment of licence fees	-	18 973
Standard Bank Financing - interest on late payment	-	4 624
University of Free State - interest	-	87
Department of Water - interest on late payment	1 510 985	-
BCX - interest on late payment	35 660	-
SARS -interest on VAT	53 841	575
	<b>2 255 167</b>	<b>898 188</b>

#### 49. Irregular expenditure

Opening balance	241 672 119	227 253 976
Add: Irregular Expenditure - current year	13 386 293	18 302 949
Add: Restatement of 2015/2016 prior year irregular	-	1 697 619
Less: Investigated and found not to be irregular in 2015/2016	-	(5 582 425)
	<b>255 058 412</b>	<b>241 672 119</b>

##### Analysis of expenditure awaiting condonation per age classification

Unauthorised sole supplier	542 227	2 021 090
Tax clearance not submitted	-	1 304 727
Supplier not on the accredited prospective providers list and the listing requirements not met	-	256 592
Not submitting the minimum quotations for acquiring goods and services	974 511	3 822 535
No supporting documentation (payment vouchers and/or tender documentation	-	2 018 954
Other	2 595 000	3 806 286
Contract / SLA expired ie exceeds three years, no valid approval for extension	9 274 555	1 202 766
Competitive bidding process not followed	-	1 495 141
Bid specifications did not specify the minimum threshold for local production and content as required by PPR9	-	1 621 874
2015/2016:Not submitting the minimum quotations for acquiring goods and services	-	1 248 167
2015/2016:No supporting documentation (payment vouchers and/or tender documentation	-	449 452
Regulation 32 Non- compliance	-	752 984
	<b>13 386 293</b>	<b>20 000 568</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

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

##### Contributions to organised local government (SALGA)

Current year subscription / fee	2 933 729	2 726 900
Amount paid - current year	(2 933 729)	(2 726 900)
	-	-

##### Audit fees

Opening balance	1 466 991	-
Current year subscription / fee	6 267 622	7 373 315
Amount paid - current year	(7 734 613)	(5 906 324)
	-	<b>1 466 991</b>

##### PAYE and UIF

Current year subscription / fee	41 440 057	38 049 143
Amount paid - current year	(41 440 057)	(38 049 143)
	-	-

##### Pension and medical aid deductions

Current year subscription / fee	66 081 804	60 292 927
Amount paid - current year	(66 081 804)	(60 292 927)
	-	-

##### VAT

The nett VAT output payable and VAT input receivable is shown in note 14.

All VAT returns have been submitted by the due date throughout the year.

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding more than 90 days R	Total R
Dywilli N N (Acc no 108921)	13 923	13 923
Kobo SS (Acc no 526816 )	17 371	17 371
Leotlela P R (Acc no 536637 and 592959)	18 978	18 978
Mohapi P (Acc no 569717)	2 880	2 880
Mahlaela M D (Acc no 108353)	977	977
Malindi M J (Acc no 566943 and 595729)	8 191	8 191
Mofokeng T H (Acc no 33750)	2 211	2 211
Maseko M E (Acc no 109049 and 590648)	43 277	43 277
Mokoena N (Acc no 596487, 791179,594135 and 611209)	49 988	49 988
Molawa J M (Acc no 564125)	554	554
Motlhale S (Acc no 12921)	8 493	8 493
Mokoena P M (Acc no 553206)	5 622	5 622
Mokoena TS (Acc no 590215)	46 980	46 980
Mosokweni FD (Acc no 108066 3)	42 111	42 111
Motaung TA (Acc no 537934 and 595856)	9 422	9 422
Motjeane SM (Acc no 106180 )	46 379	46 379

# Metsimaholo Local Municipality

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## Notes to the Annual Financial Statements

### Figures in Rand

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

Mtshali B P (Acc no 103466)	30 641	30 641
Nkheloane N E (Acc no 108037 and 592910)	39 613	39 613
Nyembe V B (Acc no 569354)	12 412	12 412
Poho M S (Acc no 512681)	14 183	14 183
Semonyo L S (Acc no 830532)	5 465	5 465
Telane P (Acc no 512521)	38 272	38 272
Tsotetsi P (Acc no 511192)	30 840	30 840
	<b>488 783</b>	<b>488 783</b>

30 June 2017

	Outstanding more than 90 days R	Total R
Dywilli N (Acc no 108921 and 562734)	7 887	7 887
Fisher L (Acc no 554069 and 580028)	12 920	12 920
Hlasa S (Acc no 6012058)	58 116	58 116
Mohapi P (Acc no 569717)	2 220	2 220
Madia R (Acc no 570682)	500	500
Makhata L (Acc no 569911)	422	422
Mofokeng D (Acc no 536668 and 593307)	9 228	9 228
Mokoena NP (Acc no 565105 and 791179)	12 294	12 294
Molawa M (Acc no 106880 and 564125)	3 075	3 075
Mothale S (Acc no 12921)	2 022	2 022
Mokoena MP (Acc no 553206 and 568419)	4 706	4 706
Mosokweni FD (Acc no 108066 and 830353)	28 895	28 895
Motaung TA (Acc no 537934, 574795 and 595856)	7 732	7 732
Motjeane SM (Acc no 106180 and 562151)	22 666	22 666
Mtshali NM (Acc no 562315)	30 498	30 498
Kobo SS (Acc no 526816 and 830352)	11 534	11 534
Nteso JR (Acc no 103104)	81 044	81 044
Radebe TL (Acc no 567293)	17 267	17 267
November N (Acc no 511459)	126 180	126 180
Telane MM (Acc no 512521 and 566245)	29 180	29 180
Tsotetsi L (Acc no 511192)	24 444	24 444
	<b>492 830</b>	<b>492 830</b>

#### Supply chain management regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been condoned by the Accounting Officer.

#### Incident

Emergency	1 663 672	2 875 144
Other	150 108	429 697
Accommodation	170 415	721 324
Exceptional/ impractical	2 103 107	1 087 561
Sole suppliers	315 739	1 262 157
	<b>4 403 041</b>	<b>6 375 883</b>

The full extent of the current year's deviations expenditure which could potentially result in irregular expenditure is still in the process of being determined.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### Figures in Rand

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#### 51. Deviation from supply chain management regulations

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

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

The 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 expenses incurred as listed hereunder have been approved by the Accounting Officer:

#### 52. Budget differences

##### Material differences between budget and actual amounts

1. Service charges - Electricity sales were less than the budgeted. Water restrictions contribute in lower revenue on water as well as certain areas that used water without they were billed. Lower income at from the dumping sites than budget.
  2. Interest received - Interest on investments was increased in the adjustment budget based on prevailing circumstances.
  3. Licences and permits - The money collected on licences and street trading was slightly more than the budget.
  4. Fines - The fines allocated in terms of GRAP exceeded the budget. Not finalised due to system problems
  5. Income legal cost - Less actions were taken against consumers than anticipated with the budget.
  6. Property Rates - Assessment rates billed were less than budgeted.
  7. Private Telephone Calls - Collection for telephone calls exceeded the budget due to better cost control.
  8. Government grants and subsidies -less than the budget due to the donation for the sportscomplex did not materialised and with held of R8 million from he Municipal Infrastructure Grant.
  9. Cemetery fees were less than budgeted.
  10. Entrance fees at the facilities are less than budget due to the condition of the facilities.
  11. The contribution for employee benefits was than anticipated and does not exceed the budget .
  12. The councillors' actual expenditure lower than the budget as councillors did not receivethe budget increase
  13. Finance cost - Interest on overdue accounts were not budgeted for. The finance lease was not implemeted in full due to non-delivery of vehicles
  14. Lease rental on operating lease - Government Garage expenditure allocation in terms of mSCOA.
  15. Water purchased lower than budgeted due to a refund from Rand Water
  16. Computer services did not exceed the budget.
  17. Provision for impairment exceeded the budget as the non-payment of consumers increase.
  18. Due to high insurance claims the excess payments were higher .
  19. Dividends on shares were not budgeted for.
  20. Commission of electricity sales exceeded the budget as more consumers converted to pre-paid electricity meters and various levels of consumption.
  21. Dividends on shares were not budgeted for.
-

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Figures in Rand

#### 52. Budget differences (continued)

22. Not all the donations were made by the public for infrastructure that was part of the budget.

23. The insurance claims on electricity network were turned down, the cost for repairs were carried by the municipality.

24. The implementation of mSCOA resulted in over and under expenditure in contracted services and inventory.

#### 53. Auditors' remuneration

Fees	6 406 051	6 326 106
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#### 54. Repairs and maintenance

##### Contracted services

Roads and stormwater	3 874 880	3 330 470
Sewer network and pumpstations	2 301 024	3 544 731
Water network	350 839	156 448
Electricity network and substations	7 186 256	1 676 203
Buildings and sites	89 982	108 973
Equipment	819 755	157 019
Vehicles	1 897 331	-
	<b>16 520 06</b>	<b>8 973 84</b>

##### Materials

Electricity section	715 391	4 229 130
Vehicle maintenance section	1 392 702	3 192 473
Roads and storm water section	1 230 890	112 387
Building maintenance section	311 936	317 255
Sewer maintenance section	1 228 794	1 046 925
Water maintenance section	1 177 268	431 396
Equipment	311 032	464 763
	<b>22 888 080</b>	<b>18 768 173</b>

**Metsimaholo Local Municipality**

**Appendix A**

June 2018

**Schedule of external loans as at 30 June 2018**

Loan Number	Redeemable	Balance at Friday, 30 June 2017	Received during the period	Redeemed written off during the period	Balance at Saturday, 30 June 2018	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
<b>Development Bank of South Africa</b>							
Loan 61006825	9000000	4 516 517	-	1 379 692	3 136 825	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>4 516 517</b>	<b>-</b>	<b>1 379 692</b>	<b>3 136 825</b>	<b>-</b>	<b>-</b>
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
<b>Lease liability</b>							
Standard Banh Finance Facility		12 365 417	943 029	2 875 055	10 433 391	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>12 365 417</b>	<b>943 029</b>	<b>2 875 055</b>	<b>10 433 391</b>	<b>-</b>	<b>-</b>
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
<b>Total external loans</b>							



Metsimaholo Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2018

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun			
Local Government Financial Governmet Grant	National Treasury	1 700	-	-	-	-	205	148	86	1 261	-	-	-	-	-	-	-	Yes	
Regional Bulk Infrastructure Grant	National Treasury	13 672	4 339	10 181	7 210	-	13 672	4 339	10 181	-	-	-	-	-	-	-	-	Yes	
Expanded Public Works Programme Integrated Grant	National Treasury	250	-	750	-	-	227	226	230	232	-	-	-	-	-	-	-	Previous year funds	Yes
Water Services Infrastructur Grant	National Treasury	7 500	1 845	-	-	-	-	-	-	9 052	-	-	-	-	-	-	-	Previous year funds	Yes
Municipal Infrastructure Grant	National Treasury	13 083	14 854	-	8 730	-	4 556	7 383	3 923	20 805	-	-	-	-	-	-	-	Yes	
Integrated National electrification programme Grant	National Treasury	10 000	-	-	-	-	-	-	966	8 524	-	-	-	-	-	-	-	Yes	
Equitable Share SETA	National Treasury LGSETA	59 463	46 127	35 677	-	-	-	-	-	-	-	-	1 442	-	-	-	-	Yes	
		-	193	68	73	-	-	193	68	73	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		05 668	67 358	46 676	16 013	-	18 660	12 289	15 454	39 947	-	-	1 442	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.