



METSIMAHOLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS

for the year ended
30 June 2008

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

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

.....
M Tshabalala
Municipal Manager

Metsimaholo Local Municipality

Approval of Financial Statements:

The annual financial statements set out on pages to were approved by the Municipal Manager and the Chief Financial Officer on 31 August 2008 and presented to and approved by Council on 2008.

Councillors:

FC Coetzer	T Mosai
J du Plessis	D N Motloung
T du Toit	M M Nemalamandwa
JJ Grobbelaar	K J Ngozo
DJ Keyser	DM Oswald
MW Khonto	MR Raboroko
JM Lelahla	AN Radebe
NM Mafika	PE Ramagole
M Mashinini	S I Ramathesele
L S Masuku	SS Sejake
M J Matiseng	LS Semonyo
J Mofokeng	L Smith
DM Mokoena	T L Soetsang
MS Mokoena	MC van der Bergh
S Moreki	

Executive Mayor:

Ms F Ngubentombi

Speaker:

K W Bulwane

.....
MUNICIPAL MANAGER
S Tshabalala

.....
CHIEF FINANCIAL OFFICER
Ms M E Mokoena

INDEX

	Page
Company information	3
Report of the Auditor-General	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Accounting Policies to the Annual Financial Statements	11
Notes to the Annual Financial Statements	29
Appendix A: Schedule of External Loans	54
Appendix B: Analysis of Property, Plant and Equipment	55
Appendix C: Segmental Analysis of Property, Plant and Equipment	57
Appendix D: Segmental Statement of Financial Performance	58
Appendix E: Actual versus Budget (Revenue and Expenditure)	60
Appendix F: Disclosures of Grants and Subsidies in terms of section 123 of the Municipal Finance Management Act, 2003	66

METSIMAHOLO LOCAL MUNICIPALITY

GENERAL INFORMATION

Members of the Executive Mayoral Committee

Executive Mayor	F Ngubentombi
Speaker	KW Bulwane
Councillors	N J Kubekha
	LS Lempe
	RJ Mabefu
	KJ Makhoba
	BJ Malindi
	SZ Matena
	NM Mtimkulu

Members of the Local Municipality

Councillors	FC Coetzer	T Mosai
	J du Plessis	D N Motloung
	T du Toit	M M Nemalamandwa
	JJ Grobbelaar	K J Ngozo
	DJ Keyser	DM Oswald
	MW Khonto	MR Raboroko
	JM Lelahla	AN Radebe
	NM Mafika	PE Ramagole
	M Mashinini	S I Ramathesele
	L S Masuku	SS Sejake
	M J Matiseng	LS Semonyo
	J Mofokeng	L Smith
	DM Mokoena	T L Soetsang
	MS Mokoena	MC van der Bergh
	S Moreki	

Grading of Local Authority

Metsimaholo Local Municipality is a Grade 9 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998

Auditors The Auditor General: Free State

Bankers ABSA Bank

Registered Office Civic Centre
Fichard Street
SASOLBURG

P O Box 60
SASOLBURG
1947

Tel: (016) 976-0029
Fax: (016) 976-3130

Municipal Manager M Tshabalala

Chief Financial Officer ME Mokoena

Attorneys Lebea N J & Associates
Nkaiseng A P
Nkaiseng D
Chenia M
PSN Attorneys
Mollenaar & Griffiths
Ntsoane Attorneys

METSIMAHOLO LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2008

	Note	2008 R	2007 R
ASSETS			
Current Assets			
		196 318 826	164 743 564
Inventory	1	1 985 481	2 242 812
Consumer receivables	2	127 440 686	111 328 283
Other receivables	3	57 768 884	45 173 157
Current portion of long term receivables	4	185 863	488 843
Call investment	5	7 221 019	5 505 154
Cash and cash equivalents	6	1 716 893	5 315
Non-current Assets			
		280 138 755	265 304 000
Property, plant and equipment	7	266 744 137	252 534 886
Intangible assets	8	34 437	98 558
Investments	9	8 255 305	7 605 239
Long-term receivables	4	5 104 876	5 065 317
Total Assets		476 457 581	430 047 564
LIABILITIES			
Current Liabilities			
		142 329 176	126 519 128
Consumer deposits	10	7 143 179	7 091 811
Payables	11	83 997 002	62 720 783
Unspent conditional grants and receipts	12	869 335	5 452 326
VAT payable	13	29 107 128	19 307 270
Bank overdraft	6	3 247 566	15 063 094
Current portion of long term liabilities	14	4 050 364	4 622 627
Current portion of deferred income conditional grant	14	9 658 929	8 994 138
Current portion of capitalised finance liability	15	4 255 673	3 267 079
Non-current Liabilities			
		121 173 082	98 513 925
Long-term liabilities	14	6 957 739	10 840 103
Deferred income conditional grant	14	97 900 760	67 123 193
Finance lease liability	15	16 314 583	20 550 629
Total Liabilities		263 502 258	225 033 053
NET ASSETS			
		212 955 323	205 014 511
Housing development fund	16	14 206 410	4 396 419
Capital replacement reserve		2 335 488	1 893 857
Capitalisation reserve		133 072 323	143 854 284
Accumulated surplus		63 341 102	54 869 951
TOTAL NET ASSETS		476 457 581	430 047 564

METSIMAHOLO LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

Budget 2007 R	Budget 2008 R		Note	Actual 2008 R	Actual 2007 R
REVENUE					
54 839 110	57 437 760	Property rates	17	56 917 298	48 945 745
194 358 000	233 243 510	Service charges	18	215 909 424	154 110 078
5 224 460	5 840 390	Rental of facilities and equipment		7 694 369	9 129 670
7 013 780	6 510 930	Fines		20 384 366	33 414 817
116 332 730	51 543 670	Government grants and subsidies	19	50 725 832	41 582 663
1 000 000	300 000	Interest earned - external investments		1 807 683	1 857 337
11 550 000	12 243 000	Interest earned - outstanding		14 585 301	11 567 172
812 660	1 292 910	Rental income		1 288 598	1 225 827
90 000	90 000	Licenses and permits		63 320	70 954
6 884 050	7 333 990	Other income	20	1 237 186	1 329 999
-	-	Gains on disposal of property, plant and equipment		195 989	873 553
398 104 790	375 836 160	Total Revenue		370 809 366	304 107 815
EXPENDITURE					
91 524 550	101 920 820	Employee related costs	21	93 947 023	84 673 089
6 948 860	8 205 560	Remuneration of councillors	22	7 627 974	8 038 512
17 000 000	27 000 000	Bad debts		65 057 023	17 000 000
1 000 000	26 685 670	Depreciation and amortization		27 101 150	26 773 299
14 627 300	17 952 270	Repairs and maintenance		8 533 073	12 885 091
1 434 590	1 915 200	Interest paid	23	1 429 467	1 566 813
117 188 690	121 858 650	Bulk purchases	24	93 097 767	89 275 615
7 397 960	9 177 730	Contracted services		17 201 356	24 485 018
9 630 000	6 543 600	Grants and subsidies paid	25	11 051 274	12 260 829
50 502 870	64 491 740	General expenses - other	26	45 627 037	42 408 587
(1 009 790)	(6 780)	Increase in provisions		1 170 757	311 673
-	-	Loss on disposal of property, plant & equipment		1 276 272	261 249
-	4 136 290	Capital contribution		1 081 783	-
316 245 030	389 880 750	Total Expenditure		374 201 956	319 939 775
81 859 760	(14 044 590)	SURPLUS/(DEFICIT) FOR THE YEAR		(3 392 590)	(15 831 960)

Refer to Appendix E (1) for explanation of variances.

METSIMAHOLO LOCAL MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 R	2007 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		349 826 669	282 252 586
Cash paid to suppliers and employees		(335 456 960)	(291 586 281)
Cash generated from operations	27.	14 369 709	(9 333 695)
Interest received		16 392 984	13 424 509
Interest paid		(1 429 467)	(1 566 813)
NET CASH FLOW FROM OPERATING ACTIVITIES		29 333 226	2 524 001
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(37 380 958)	(32 674 156)
Proceeds on disposal of property, plant and equipment		(114 297)	564 583
Increase in investments		(650 066)	(950 783)
Decrease in non-current receivables		263 421	-
NET CASH FORM INVESTING ACTIVITIES		(37 881 900)	(33 060 356)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan (repaid) / taken up		(4 454 627)	1 542 515
Increase /(Decrease) in Finance Leases		(3 247 452)	(2 743 062)
Increase in consumer deposits		51 368	17 336
Increase in deferred income conditional grant		31 442 358	19 302 912
NET CASH FLOWS FROM FINANCING ACTIVITIES		23 791 647	18 119 701
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		15 242 973	(12 416 654)
Cash and cash equivalents at the beginning of the year	28	(9 552 626)	2 864 028
Cash and cash equivalents at the end of the year		5 690 346	(9 552 626)

METSIMAHOLO LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Capital Replacment Reserve CRR R	Housing Fund R	Capital Reserve R	Accumulated Surplus/ (Deficit) R	Total R
Opening balance as previously reported	38	10 236 260	4 524 715	156 277 804	45 112 377	216 151 156
Prior period error					(509 687)	(509 687)
Balance at 1 July 2006 as restated		10 236 260	4 524 715	156 277 804	44 602 690	215 641 469
Deficit for the year		-	-	-	(15 831 960)	(15 831 960)
Transfer to capital replacement reserve		(4 175 122)	-	-	-	(4 175 122)
Property, plant and equipment purchased		(1 034 987)	-	-	1 034 987	-
Transfer to Housing Development Fund		-	136 754	-	-	136 754
Offsetting of depreciation		-	-	(12 423 521)	12 423 521	-
Expenditure		(3 132 294)	(265 050)	-	-	(3 397 344)
Transfer from/to funds, provision		-	-	-	4 453 586	4 453 586
Write off - combined systems		-	-	-	79 024	79 024
Write off - loan cost and loans Zamdela		-	-	-	8 364 036	8 364 036
Adjustments previous year		-	-	-	(232 482)	(232 482)
Adjustments auctions previous years		-	-	-	(44 496)	(44 496)
Write off debtor and creditor balances		-	-	-	21 045	21 045
Balance at 30 June 2007		1 893 857	4 396 419	143 854 283	54 869 951	205 014 510
Surplus for the year		-	-	-	(3 392 590)	(3 392 590)
Property, plant and equipment purchased		(1 081 783)	-	-	1 081 783	-
Expenditure		(244 520)	(299 186)	(10 781 958)	10 781 958	(543 706)
Transfer		1 767 932	10 109 177	-	-	11 877 109
Balance at 30 June 2008		2 335 486	14 206 410	133 072 325	63 341 102	212 955 323

**METSIMAHOLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2008**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

BASIS OF PREPARATION

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005.

The standards are summarised as follows:

Standard	Title of Standard
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 6, 7 and 8 have been complied with to the extent that the requirements in these standards relate to the municipality's separate financial statements.	

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The effective Standards of GRAP issued by the Accounting Standards Board replacing the equivalent SA GAAP Statements are as follows:

Standard of GRAP	Replaced Statement of SA GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and SA GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1 Terminology differences:

Standard of GRAP	Replaced Statement of SA GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in net asset
Net assets	Net assets

Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

2 The cash flow statement can only be prepared in accordance with the direct method.

3 Specific information has been presented separately on the Statement of Financial Position such as:

- (a) Receivables from non-exchange transactions, including taxes and transfers
- (b) Taxes and transfers payable
- (c) Trade and other payables from non-exchange transactions

4 Amount and nature of any restrictions on cash balances is required.

The Minister of Finance has, in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007, exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements however the municipality are exempted from the requirements of the following standards:

Standard	Title of Standard
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
IFRS 5 (AC 142)	Non-current Assets held for Sale and Discontinued Operations
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 20 (AC 134)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 36 (AC 128)	Impairment of Assets
IAS 38 (AC 129)	Intangible Assets
IAS 39 (AC 133)	Financial Instruments: Presentation
IAS 32 (AC 125)	Financial Instruments: Recognition and Measurement
SAICA Circular 09/2006	Transactions giving rise to Adjustments to Revenue/Purchases
IAS 40 (AC 135)	Investment Property

A summary of the significant accounting policies, which have been consistently applied, together with an indication of the effects of General Notice 522 of 2007, Government Gazette no. 30013 of 29 June 2007, is disclosed below.

BASIS OF ACCOUNTING

The municipality prepares its financial statements, except for cash flow information, using the accrual basis of accounting.

The financial statements are prepared on the historical cost basis, except where otherwise indicated.

STANDARDS ISSUED NOT YET EFFECTIVE

The following GRAP Standards have been approved but are not yet effective:

Standard of GRAP	Effective Date of Standard (Years beginning on or after)
GRAP 4 - The Effects of Changes in Foreign Exchange Rates	01-Jul-08
GRAP 5 - Borrowing Costs	01-Jul-08
GRAP 6 - Consolidated and Separate Financial Statements	01-Jul-08
GRAP 7 - Investments in Associate	01-Jul-08
GRAP 8 - Interest in Joint Ventures	01-Jul-08
GRAP 9 - Revenue from Exchange Transactions	01-Jul-08
GRAP 10 - Financial Reporting in Hyperinflationary Economies	01-Jul-08
GRAP 11 - Construction Contracts	01-Jul-08
GRAP 12 - Inventories	01-Jul-08
GRAP 13 - Leases	01-Jul-08
GRAP 14 - Events after the Reporting Date	01-Jul-08
GRAP 16 - Investment Property	01-Jul-08
GRAP 17 - Property Plant and Equipment	01-Jul-08
GRAP 18 - Segment Reporting	Unknown
GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets	01-Jul-08
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)	Unknown
GRAP 24 - Presentation of Budget Information in Financial Statements	Unknown
GRAP 100 - Non-current Assets held for Sale and Discontinued Operations	01-Jul-09
GRAP 101 - Agriculture	01-Jul-09
GRAP 102 - Intangible Assets	01-Jul-09

Effect:

The effect of adopting these GRAP Standards when they become effective is not expected to have a significant impact on the financial statements as the principles are similar to those already applied under the equivalent Statements of SA GAAP and GAMAP.

The following amendments to SA GAAP Standards have been approved but are not yet effective:

SA GAAP Standard Amended	Effective Date of Amendment (Years beginning on or after)
IFRS 2(AC 139) IFRS 2 - Share-based Payment: Vesting Conditions and Cancellations	01-Jan-09
IFRS 3(AC 140) Business Combinations	01-Jul-09
IFRS 8(AC 145) Operating Segments	01-Jan-09
IAS 1(AC 101) Presentation of Financial Statements	01-Jan-09
IAS 23(AC 114) Borrowing Costs	01-Jan-09
IAS 27(AC 132) Consolidated and Separate Financial Statements	01-Jul-09
IAS 32(AC 125) and IAS 1(AC 101) Financial Instruments: Presentation and Presentation of financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	01-Jan-09
IFRIC 12(AC 445) Service Concession Arrangements	01-Jan-08
IFRIC 13(AC 446) Customer Loyalty Programmes	01-Jul-08
IFRIC 14(AC 447) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01-Jan-08

Effect:

The effect of adopting these amendments when they become effective is not expected to have a significant impact on the financial statements or is not applicable to the municipality.

PRESENTATION CURRENCY

The financial statements are presented in South African Rand.

SIGNIFICANT JUDGEMENTS

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

Significant judgements include:

Loans and receivables*Requirements of accounting standard:*

The municipality assesses its loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical deficit ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual deficit ratios are applied to loan balances in the portfolio and scaled to the estimated deficit emergence period.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Available-for-sale financial assets*Requirements of accounting standard:*

The municipality follows the guidance of IAS 39 (AC 133) - Financial Instruments: Recognition and Measurement, to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the municipality evaluates, among other factors, the duration and extent to which the fair value of an asset is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Allowance for slow moving, damaged and obsolete inventory

An allowance is made for slow-moving, damaged and obsolete inventory to write the inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation*Requirements of accounting standard:*

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the reporting date. 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 (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. 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.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Impairment testing

Requirements of accounting standard:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment (i.e. carrying amount is less than recoverable amount) may have occurred, estimates are prepared of expected future cash flows for each group of assets.

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.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 11 - Provisions.

INVESTMENT PROPERTY

Requirements of accounting standard:

Investment property represents property held to earn long-term rental yields and/or capital appreciation. Investment property comprises freehold land and building and leasehold land with buildings, but excludes owner-occupied property.

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

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

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.

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

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

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

PROPERTY PLANT AND EQUIPMENT

Requirements of accounting standard:

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

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

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

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

The residual value and the useful life of each asset are reviewed annually.

Where estimates differ from those previously assessed the change is recognised as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately over its estimated useful life. Those items of property, plant and equipment which are of such a nature that they are replaced as a whole and not in terms of component parts, are not broken down into significant components as the useful lives of the components are expected to approximate the useful lives of the items taken as a whole.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Depreciation is provided, using the straight line method, on all property, plant and equipment to write down their cost over their estimated useful lives to their estimated residual values. Where the residual value of an asset item is considered to be insignificant it is also considered to be immaterial in the calculation of the depreciable amount of those assets.

Depreciation is provided as follows:

	Useful lives range (years)
Roads	10-30
Pedestrian malls	20
Electricity	20-30
Water	15-20
Sewerage	15-20
Housing	30
Buildings	30
Recreational facilities	20-30
Security	3-5
Specialist vehicles	10
Other vehicles	3-20
Office equipment	3-5
Furniture and fittings	3-7
Bins and containers	5-10
Specialised plant and equipment	5-15
Other items of plant and equipment	2-5
Landfill sites	15
Quarries	30

The surpluses or deficits arising from derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Donated assets and assets obtained at less than fair value are accounted for at fair value. Donated assets are recognised when either available for use or when the risks and rewards of ownership have transferred. The difference between the fair value and the cash consideration is accounted for using the accounting policy relating to the accounting of non-exchange revenue.

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

Land is not depreciated, except for landfill sites and quarries.

Depreciation commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Application of exemption:

The entity has been exempted from impairment and annual review of useful life and depreciation method of assets in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

NON-CURRENT ASSETS (OR DISPOSAL GROUP) HELD FOR SALE

Requirements of accounting standard:

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) held for sale, are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

IMPAIRMENT OF ASSETS

Requirements of accounting standard:

The municipality assesses at each reporting date whether there is any indication that an 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 intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount
- * tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- * first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- * then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

FINANCIAL INSTRUMENTS

Requirements of accounting standard:

Initial recognition

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the municipality's Statement of Financial

Position when the municipality becomes party to the contractual provisions of the instrument.

Fair value determination

Fair value information for trade and other receivables and payables are determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans to employees

These financial assets are initially recognised at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other income in the Statement of Financial Performance.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Trade and other payables are classified as financial liabilities carried at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value. These are initially recorded at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents are classified as loans and receivables.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings are classified as financial liabilities carried at amortised cost.

Other loans and receivables

Other financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost less any accumulated impairment.

These financial assets are not quoted in an active market and have fixed or determinable payments.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit are financial assets held for trading or designated as such. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

These assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned.

These assets are measured initially and subsequently at fair value, surpluses and deficits arising from changes in fair value are included in surplus or deficit for the period.

Transaction costs are recognised in surplus or deficit. Dividend income is recognised in the Statement of Financial Performance as part of other income when the municipality's right to receive payment is established.

Available for sale financial assets

These financial assets are non-derivatives that are either designated in this category or not classified elsewhere.

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned.

These assets are measured initially and subsequently at fair value. Surpluses and deficits arising from changes in fair value are recognised directly in equity until the security is disposed of or is determined to be impaired.

The municipality assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative deficit - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity and recognised in the Statement of Financial Performance. Impairment losses recognised in the Statement of Financial Performance on equity instruments are not reversed through the Statement of Financial Performance.

Impairment losses recognised in surplus or deficit for equity investments classified as available-for-sale are not subsequently reversed through surplus or deficit. Impairment losses recognised in surplus or deficit for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in surplus or deficit, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and nonmonetary securities classified as available-for-sale are recognised in equity.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the Statement of Financial Performance as part of other income. Dividends on available-for-sale equity instruments are recognised in the Statement of Financial Performance as part of other income when the municipality's right to receive payments is established.

Equity investments for which a fair value is not determinable are held at cost. Impairments on such investments are not reversed.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment

At reporting date, the Municipality determines whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the deficit is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit deficits that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the deficit is recognised in surplus or deficit.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and is settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset to the financial asset that is impaired. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative deficit that had been recognised directly in net assets shall be removed and recognised in surplus or deficit even though the financial asset has not been derecognised.

The amount of the cumulative deficit that is removed from equity and recognised in surplus or deficit are the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit.

Impairment losses recognised in surplus or deficit for an investment in a equity instrument classified as available-for-sale are not reversed through surplus or deficit.

Application of exemption:

The entity has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

INVENTORIES

Requirements of accounting standard:

Inventories are measured at the lower of cost and net realisable value, except where the paragraph mentioned below applies.

Where inventories 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,
- these inventories are measured at the lower of cost and current replacement cost.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The following cost formulas are applied for every inventory class:

<u>Inventory class:</u>	<u>Measurement basis:</u>
Consumable stores	First-in-first out

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.

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 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 is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits of inventories are recognised as an expense in the period the write-down or deficit occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Application of exemption:

The municipality has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007 as far as it relates to immovable capital assets inventory and water inventory.

LEASES

Requirements of accounting standard:

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

Finance leases - lessor

The municipality recognises finance lease receivables on the Statement of Financial Position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

The following situations would normally individually or in combination lead to a lease being classified as a finance lease and have been considered by the municipality:

- * lease transfers ownership of the asset to the lessee by the end of the lease term;
- * the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- * the lease term is for the major part of the economic life of the asset even if title is not transferred;
- * at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset;
- * the leased asset is of such a specialised nature that only the lessee can use them without major modifications;
- * if the lessee can cancel the lease, the lessor's deficits associated with the cancellation are born by the lessee;
- * gains or deficits from the fluctuation in the fair value of the residual accrue to the lessee; and
- * the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

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.

The 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Operating leases - lessor

Operating lease income is recognised as an income 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 income.

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. This liability is not discounted, as it is already carried at fair value.

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

Application of exemption:

The municipality has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007 as far as capitalisation of finance lease assets to be included in the fixed asset register.

INTANGIBLE ASSETS

Requirements of accounting standard:

Metsimaholo Local Municipality classifies assets that are non-monetary without physical substance as intangible assets.

When software is not an integral part of the related hardware, computer software is treated as an intangible asset; otherwise it is treated as property, plant and equipment.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

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

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.

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

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

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

Computer software	3 years
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Application of exemption:

The municipality has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

TAXES

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- * a transaction or event which is recognised, in the same or a different period, directly in equity, or
- * a business combination.

Current tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

EMPLOYEE BENEFITS**Short-term employee benefits**

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

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on a regular basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to reporting date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or deficit exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the Statement of Financial Performance over the expected average remaining service lives of participating employees. Actuarial gains or deficits within the corridor are not recognised.

Gains or deficits on the curtailment or settlement of a defined benefit plan are recognised when the municipality is demonstrably committed to curtailment or settlement.

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 the Statement of Financial Performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and deficits and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial deficits, plus the present value of available refunds and reduction in future contributions to the plan.

Multi-employer plans

A multi-employer plan is classified as either a defined benefit plan or a defined contribution plan. If the plan is a defined benefit plan, an actuarial valuation should be obtained. Normal defined benefit accounting would be applied to the proportionate share of the obligation and assets relating to the municipality. If actuaries are unable to provide the municipality with an actuarial valuation, the municipality accounts for the plan as if it were a defined contribution plan.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 will be required to settle the obligation; and
- * a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The Municipality uses a pre-tax rate that reflects current market assessments of the time value of money and the risks for which future cash flow estimates have been adjusted. The Municipality does not discount the liability where the time value of money is not material.

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

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

NON-EXCHANGE REVENUE

Requirements of accounting standard:

Metsimaholo Local Municipality classifies revenue received from taxes and transfers (whether cash or non-cash, including grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind) as non-exchange revenue.

Revenue from non-exchange transactions is measured at fair value.

Revenue from property rates is recognised when the legal entitlement to this revenue arises.

Collection charges are recognised when such amounts are legally enforceable.

Penalty interest on unpaid rates is recognised on a time proportion basis which should only be recognised when leviable in terms of the law.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Donations are recognised on a cash receipt basis or when the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use. Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.

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

Application of exemption:

The municipality has been exempted from initial measurement of revenue at fair value in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

EXCHANGE REVENUE

Requirements of accounting standard:

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

- * the municipality has transferred to the buyer 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 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.

Revenue comprises of amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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 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 shall be 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 reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- * the initial amount of revenue agreed in the contract; and
- * variations in contract work, claims and incentive payments:
 - * to the extent that it is probable that they will result in revenue; and
 - * they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business.

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

Royalties are recognised on the accrual basis in accordance with the substance of the relevant agreements.

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

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

Application of exemption:

The municipality has been exempted from initial measurement of revenue at fair value in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

GOVERNMENT GRANTS

Requirements of accounting standard:

Government grants are recognised when there is reasonable assurance that:

- * the municipality will comply with the conditions attaching to them; and
- * the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or deficits already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs is recognised as income in the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the Statement of Financial Position by setting up the grant as deferred income which is released to the Statement of Financial Performance as the assets are depreciated i.e. as the cost are incurred which the grant is intended to compensate.

Grants related to income are presented as a credit in the Statement of Financial Performance (separately).

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by reducing the deferred income balance by the amount repayable.

Application of exemption:

The municipality has been exempted from the release of the deferred government grant to the Statement of Financial Performance in accordance with the depreciation of the related asset in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted; expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state; and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, the Municipal Systems Act and the Public Office Bearers Act or any other applicable legislation, or in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

The Municipality recognises the expenditure relating to unauthorised, irregular or fruitless and wasteful expenditure as expenses in the Statement of Financial Performance in the year that the expenditure was incurred and classify the expenditure in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

COMPARATIVE FIGURES

Where necessary, comparative figures has been adjusted to conform to changes in the presentation in the current financial year. Refer to note 37.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
1 INVENTORY		
Consumable stores	1 766 249	2 026 246
Unsold properties	66 122	66 122
Water reservoir	153 110	150 444
Total	1 985 481	2 242 812

Inventory is net of allowances for impairment.

The Municipality has recognised purchased water stock on hand on 30 June 2008. This amount has been estimated using water in reservoirs and water networks and the different purchase prices of water.

The municipality is in the process of phasing in the calculations of water stock in accordance with the exemption granted in General Notice 522, in Government Gazette no. 30013 of 29 June 2007.

2 CONSUMER RECEIVABLES

	Gross balances R	Provision for bad debt R	Net balances R
As at 30 June 2008			
Service receivables	301 476 633	(174 100 324)	127 376 309
Rates	66 895 198	-	66 895 198
Electricity	42 930 886	-	42 930 886
Water	144 005 096	-	144 005 096
Sewerage	16 048 085	-	16 048 085
Refuse	31 597 368	-	31 597 368
Provision for bad debts	-	(174 100 324)	174 100 324
Housing rentals	64 377	-	64 377
Total	301 541 010	(174 100 324)	127 440 686

As at 30 June 2007			
Service receivables	219 377 576	(108 113 670)	111 263 906
Rates	55 978 936	-	55 978 936
Electricity	32 135 287	-	32 135 287
Water	87 607 078	-	87 607 078
Sewerage	14 260 201	-	14 260 201
Refuse	29 396 074	-	29 396 074
Provision for bad debts	-	(108 113 670)	(108 113 670)
Housing rentals	64 377	-	64 377
Total	219 441 953	(108 113 670)	111 328 283

Rates - Ageing

Current	10 476 168	6 594 576
1 - 30 days	3 133 457	1 698 220
31 - 60 days	1 646 230	1 251 530
61 - 90 days	1 458 455	1 075 445
91 - 120 days	1 292 191	899 360
120 + days	48 888 697	44 459 805
Total	66 895 198	55 978 936

Services (Electricity, Water, Sewerage and Refuse) Ageing

Current	87 290 996	47 450 581
1 - 30 days	23 135 247	6 709 359
31 - 60 days	10 098 693	4 543 987
61 - 90 days	16 471 554	6 668 491
91 - 120 days	5 364 602	5 973 945
120 + days	92 284 720	92 052 277
Total	234 645 812	163 398 640

Housing Rentals - Ageing

+ 365 days	64 377	64 377
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METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R	
<u>SUMMARY OF RECEIVABLES BY CUSTOMER CLASSIFICATION</u>			
	Consumers R	Industrial Commercial R	
		National and Provincial Government R	
30 June 2008			
Current	86 002 157	11 536 034	164 606
1 - 30 days	22 278 493	3 817 314	172 897
31 - 60 days	7 635 664	3 995 873	113 376
61 - 90 days	15 744 221	2 104 063	81 725
91 - 120 days	4 616 523	2 017 796	22 474
120 + days	120 326 741	20 566 587	344 466
Sub-total	256 603 799	44 037 667	899 544
Less: Provision for bad debt	(174 100 324)	-	-
Total	82 503 475	44 037 667	899 544

SUMMARY OF RECEIVABLES BY CUSTOMER CLASSIFICATION

30 June 2007			
Current	47 490 625	6 436 758	117 774
1 - 30 days	7 085 615	1 259 805	62 159
31 - 60 days	4 428 882	1 339 923	26 717
61 - 90 days	7 126 599	568 848	48 489
91 - 120 days	6 314 374	545 575	13 356
120 + days	125 358 445	11 193 755	24 254
Sub-total	197 804 540	21 344 664	292 749
Less: Provision for bad debt	(108 113 670)	-	-
Total receivables by customer classification	89 690 870	21 344 664	292 749

Reconciliation of bad debt provision

Balance at beginning of year	108 113 670	82 284 775
Contributions to provision	34 507 492	26 304 642
Bad debts written off against provision	(6 577 861)	(475 747)
Balance at end of year	136 043 301	108 113 670

3 OTHER RECEIVABLES

Sundry receivables - general	9 026 937	6 817 342
Traffic	41 000 000	27 000 000
Claims and subsidies	2 144 033	4 882 400
Input VAT / capital receivable	2 987 908	3 682 387
Sundry receivables	2 610 006	2 791 027
Total	57 768 884	45 173 157

4 LONG-TERM RECEIVABLES

Staff housing loans	16 507	18 846
Car loans	225 366	475 671
Housing selling scheme loans	656 235	667 012
Housing loans RDP houses	4 392 631	4 392 631
	5 290 739	5 554 160
Less: Current portion transferred to current receivables	(185 863)	(488 843)
Staff housing loans	(183 420)	(2 324)
Car loans	(2 443)	(318 519)
Housing loans RDP houses	-	(168 000)
Total	5 104 876	5 065 317

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
STAFF HOUSING LOANS		
The loan was granted to a staff member in 1984 at an interest rate of 5% according to the housing scheme that was then applicable. The loan will be fully redeemed in 2014.		
CAR LOANS		
Senior staff are entitled to car loans which attract interest at 8,5% per annum and which are repayable over a maximum period of 6 years. The scheme is the old Bargaining Council's motor scheme.		
HOUSING SELLING SCHEME LOANS		
These loans were granted to the public by the former Development Board. The loans are in the process to be written off according to the R7,500 discount scheme by the government.		
RDP HOUSES LOANS		
Loan are granted for the purchase of the land (stands).		
5 CALL INVESTMENT		
30 day deposits	<u>7 221 019</u>	<u>5 505 154</u>
Deposits amounting to R93,460 (2006 - R7,012,488) have been ring fenced for the purpose of the Capital Replacement Reserve and an amount of R5,411,694 have been ring fenced for the purpose of payables obligations as set out in Note 12.		
6 CASH AND CASH EQUIVALENTS		
The Municipality have the following bank accounts:		
<u>Current Account (primary bank account)</u>		
ABSA Account No. 520 000 038		
Cash book balance at beginning of year	<u>(14 274 808)</u>	<u>(4 153 775)</u>
Cash book balance at end of year	<u>(3 247 566)</u>	<u>(14 274 806)</u>
Bank statement balance at beginning of year	<u>(4 088 977)</u>	<u>2 408 182</u>
Bank statement balance at end of year	<u>2 574 534</u>	<u>(4 088 977)</u>
<u>Transmission Account</u>		
ABSA Account no. 520 000 062		
Cash book balance at beginning of year	<u>(788 288)</u>	<u>-</u>
Cash book balance at end of year	<u>-</u>	<u>(788 288)</u>
Bank statement balance at beginning of year	<u>800 853</u>	<u>-</u>
Bank statement balance at end of year	<u>-</u>	<u>800 853</u>
Total cash book balance at beginning of year	<u>(15 063 096)</u>	<u>(4 153 775)</u>
Total cash book balance at end of year	<u>(3 247 566)</u>	<u>(15 063 094)</u>
<u>Cash on hand</u>		
Balance at beginning of year	<u>5 315</u>	<u>5 315</u>
Balance at end of year	<u>6 893</u>	<u>5 315</u>
Pledge cash and cash equivalents	<u>1 710 000</u>	<u>-</u>
Included in the cash balance is an amount of R1,710,000 representing a guarantee (payment) to attorneys for the purchase of a farm.		
Total cash and cash equivalents	<u>1 716 893</u>	<u>5 315</u>
Guarantee: Eskom as electricity deposit	<u>990 000</u>	<u>-</u>

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

7 Property, plant and equipment

30 June 2008

Reconciliation of Carrying Value	Land and buildings	Infra-structure	Community	Heritage	Other	Housing	Total
Carrying values at 1 July 2007	19 784 070	164 073 497	9 473 322	180 595	34 339 494	24 683 908	252 534 886
Cost	24 855 355	278 331 978	14 870 184	180 870	58 024 554	27 104 302	403 367 243
Accumulated depreciation	(5 071 285)	(114 258 481)	(5 396 862)	(275)	(23 685 060)	(2 420 394)	(150 832 357)
Acquisitions	-	39 871 027	-	-	2 341 238	-	42 212 265
Depreciation	(1 036 102)	(14 285 521)	(797 265)	(65)	(10 513 708)	(404 367)	(27 037 028)
Carrying value of disposals	(169 090)	(196)	(833 704)	-	37 004	-	(965 986)
Cost	(236 132)	(279)	(1 451 600)	-	(2 920)	-	(1 690 931)
Accumulated depreciation	67 042	83	617 896	-	39 924	-	724 945
Carrying values at 30 June 2008	18 578 878	189 658 807	7 842 353	180 530	26 204 028	24 279 541	266 744 137
Cost	24 619 223	318 202 726	13 418 584	180 870	60 362 872	27 104 302	443 888 577
Accumulated depreciation	(6 040 345)	(128 543 919)	(5 576 231)	(340)	(34 158 844)	(2 824 761)	(177 144 440)

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

30 June 2007

Reconciliation of Carrying Value	Land and buildings	Infra-structure	Community	Heritage	Other	Housing	Total
Carrying values at 1 July 2006	20 835 689	152 239 381	10 086 671	180 660	25 933 568	25 093 120	234 369 089
Cost	24 857 711	249 656 929	14 764 114	180 870	33 539 124	27 104 302	350 103 050
Accumulated depreciation	(4 022 022)	(97 417 548)	(4 677 443)	(210)	(17 369 005)	(2 011 182)	(125 497 410)
Prior year	-	-	-	-	9 763 449	-	9 763 449
Acquisitions	181 544	28 675 049	143 940	-	23 521 116	-	52 521 649
Depreciation	(1 049 263)	(16 840 933)	(719 419)	(65)	(6 657 121)	(409 212)	(25 676 013)
Carrying value of disposals	(183 900)	-	(37 870)	-	(8 458 069)	-	(8 679 839)
Cost	(183 900)	-	(37 870)	-	(8 799 135)	-	(9 020 905)
Accumulated depreciation	-	-	-	-	341 066	-	341 066
Carrying values at 30 June 2007	19 784 070	164 073 497	9 473 322	180 595	34 339 494	24 683 908	252 534 886
Cost	24 855 355	278 331 978	14 870 184	180 870	58 024 554	27 104 302	403 367 243
Accumulated depreciation	(5 071 285)	(114 258 481)	(5 396 862)	(275)	(23 685 060)	(2 420 394)	(150 832 357)

The Municipality did not review the useful life or the depreciation method used on the assets recognised in the annual financial statements for the 2007/2008 financial year in terms of General Notice 522, in Government Gazette no. 30013 of 29 June 2007. Furthermore, in line with the exemption the municipality did not consider impairment.

Included in land and buildings are items that may meet the definition of investment property but have been included as property, plant and equipment in terms of General Notice 522, in Government Gazette no. 30013 of 29 June 2007.

Immovable capital assets inventory is included in property, plant and equipment in terms of General Notice 522, in Government Gazette no. 30013 of 29 June 2007.

A register with detail of the entity's land is available for inspection at the business address of the municipality.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R

8 INTANGIBLE ASSETS

30 June 2008

Reconciliation of carrying value	Computer Software	Total
Carrying values at 1 July 2007	98 558	98 558
Cost	1 817 522	1 817 522
Accumulated depreciation	(1 718 964)	(1 718 964)
Depreciation	64 121	64 121
Carrying values at 30 June 2008	34 437	34 437
Cost	1 817 522	1 817 522
Accumulated depreciation	(1 783 085)	(1 783 085)

30 June 2007

Reconciliation of carrying value	Computer Software	Total
Carrying values at 1 July 2006	145 364	145 364
Cost	1 805 126	1 805 126
Accumulated depreciation	-1 659 762	-1 659 762
Acquisitions	19 200	19 200
Depreciation	66 006	66 006
Carrying value of disposals	-	-
Cost	-6 804	-6 804
Accumulated depreciation	6 804	6 804
Carrying values at 30 June 2007	98 558	98 558
Cost	1 817 522	1 817 522
Accumulated depreciation	-1 718 964	-1 718 964

9 INVESTMENTS

Listed

Sanlam Ltd - Moneymarket (2008: 419 098,64 units @ 100 cents; 2007: 306 600,94 units @ 100 cents)
 Sanlam Ltd - Term annuity investment
 Sanlam Ltd - Investment policies

	419 099	306 601
	1 379 743	1 641 869
	6 425 905	5 626 948
	8 224 747	7 575 418

Financial instruments

Other deposits (Collateral housing deposits)

	30 558	29 821
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Total cash investments

	30 558	29 821
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Total investments

	8 255 305	7 605 239
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Council valuation of listed investments

Sanlam Ltd

	8 224 747	7 575 418
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Allocation of external investments

In terms of legislation, surplus cash is invested until used for specific purposes. Investments are allocated on the following basis:

Repayment of fixed period external loans

	8 224 747	7 575 418
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Total

	8 224 747	7 575 418
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METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
10 CONSUMER DEPOSITS		
Electricity and water	7 143 179	7 091 811
Guarantees in lieu of electricity and water deposits.	45 300	45 300
11 PAYABLES		
Trade payables	13 201 112	16 860 108
Other payables	40 442 360	34 791 546
Leave accrual	5 962 634	5 119 739
Annual bonus accrual	2 076 187	1 748 326
Payments received in advance	22 314 709	4 201 064
Total	83 997 002	62 720 783
12 UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
Conditional grants from other spheres of government	825 088	5 408 079
Municipal Infrastructure Grant	(931 314)	1 572 584
Department of Minerals and Energy	481 602	2 692 048
District Municipality - Fezile Dabi	66 695	66 694
Department of Water Affairs and Forestry	403 531	403 531
Financial Management Grant	171 984	40 632
Provincial Government	632 590	632 590
Other Conditional Receipts	44 247	44 247
SETA	1 186	1 186
Public Contribution - Sasol Chemical Industries	43 061	43 061
Total unspent conditional grants and receipts	869 335	5 452 326
See Note 19 for reconciliation of grants from National/Provincial government.		
These amounts are invested in a ring-fenced investment until utilised.		
13 VAT payable		
VAT payable	29 107 128	19 307 270
VAT is payable on the cash basis. Vat is only paid over to SARS once payment is received from receivables.		
14 LONG-TERM LIABILITIES		
Annuity loans	6 615 108	11 069 735
Less: Current portion transferred to current liabilities	(4 050 364)	(4 454 627)
Total external loans	2 564 744	6 615 108
Refer to Appendix A and note 29 for more detail on long-term liabilities.		
Other		
Loan to RDP house owners	4 392 995	4 392 995
Less: Current portion transferred to current liabilities	-	(168 000)
Total other	4 392 995	4 224 995
Deferred conditional grant		
Conditional grant	107 559 689	76 117 331
Less: Current portion of conditional grant	(9 658 929)	(8 994 138)
Total deferred conditional grant	97 900 760	67 123 193
Total long-term liabilities	104 858 499	77 963 296

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R	
15 Finance lease liability			
2008			
	Minimum lease payment	Future finance charges	Present value of minimum lease payments
Amounts payable under finance leases			
Within one year	6 557 173	2 247 463	4 255 673
Within two to five years	19 243 721	2 929 137	16 314 583
	<u>25 800 894</u>	<u>5 176 600</u>	<u>20 570 256</u>
Less: Amount due for settlement within 12 months			<u>(4 255 673)</u>
			<u>16 314 583</u>

The average lease term is 2-5 years and the average effective borrowing rate is 11.91%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate between 10%-15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

	Minimum lease payment	Future finance charges	Present value of minimum lease payments
2007			
Amounts payable under finance leases			
Within one year	6 018 259	2 751 180	3 267 079
Within two to five years	25 779 507	5 228 878	20 550 629
	<u>31 797 766</u>	<u>7 980 057</u>	<u>23 817 708</u>
Less: Amount due for settlement within 12 months			<u>(3 267 079)</u>
			<u>20 550 629</u>

The average lease term is 2-5 years and the average effective borrowing rate is 11.91%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate between 10%-15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

16 HOUSING DEVELOPMENT FUND

Housing development fund	14 206 410	4 396 419
Unappropriated surplus	<u>14 206 410</u>	<u>4 396 419</u>

The housing development fund is represented by the following:

Investments	14 206 410	4 396 419
Total	<u>14 206 410</u>	<u>4 396 419</u>

The Housing Development Fund was established in terms of the Housing Act, (Act No 107 of 1997). The proceeds of erven sold were allocated to the Erven Trust Fund. The funds are transferred from Erven Trust Fund to Housing Development Fund with the implementation of GAMAP. Moneys standing credit to the fund can be used for the acquisition, planning and surveying of land.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
17 PROPERTY RATES		
Actual		
Residential	33 907 775	26 942 629
Commercial	5 745 693	5 201 574
Light Industries	1 974 827	1 676 903
Heavy Industries	13 641 016	13 657 934
State	1 647 987	1 466 705
Total assessment rates	56 917 298	48 945 745
	June 2008 R000's	June 2007 R000's
Valuations		
Residential	347 894	343 054
Commercial	68 678	38 592
Light industries	9 479	34 657
Heavy industries	29 232	31 457
State	17 301	17 301
Municipality	77 994	46 127
Total property valuations	550 578	511 188

Valuations on land are performed every five years. The last valuation came into effect on 1 July 2002. In terms of the Property Rates Act the new valuation roll must be in place not later than 1 July 2009. The new valuation roll will be implemented from 1 July 2008. Interim valuations are processed monthly to take into account changes in individual property values due to alterations and subdivisions. Rebates of 20% are granted to State property owners. Rates are levied on a monthly basis. Interest is levied after 30 days at prime rate plus 1%.

Sasolburg / Zamdela		
Residential:		
- Sasolburg	10.73	cents per Rand
- Zamdela	13.82	cents per Rand
Commercial	14.35	cents per Rand
Light Industries	21.4	cents per Rand
Heavy Industries	48	cents per Rand
State	14.35 (-20%)	cents per Rand

Deneysville / Refenggotso		
Residential:		
- Deneysville	14.00	cents per Rand
- Refenggotso	5.00	cents per Rand
Businesses	23.22	cents per Rand
State	23.22 (-20%)	cents per Rand

Oranjeville / Metsimaholo		
Residential:		
- Oranjeville	7.56	cents per Rand
- Metsimaholo	5.00	cents per Rand
Businesses	8.82	cents per Rand
State	8.82 (-20%)	cents per Rand

18 SERVICE CHARGES

Sale of electricity	73 310 409	61 905 938
Sale of water	117 730 942	69 047 708
Refuse removal	12 324 137	10 536 874
Sewerage and sanitation charges	12 543 936	12 619 558
Total service charges	215 909 424	154 110 078

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

		2008 R	2007 R
19 GOVERNMENT GRANTS AND SUBSIDIES			
Equitable share	19.1	38 890 859	32 095 254
Financial Management Grant	19.2	368 649	413 270
Provincial Government	19.3	537 500	80 000
District Municipality: Fezile Dabi	19.4	-	4 080 468
Department Minerals & Energy	19.5	14 210 445	5 397 648
Sasol Chemical Industries	19.8	1 229 760	60 399
Provincial Government Municipal Infrastructure Grant	19.9	21 435 080	18 693 804
Financial Management Grant	19.10	-	50 917
Sector Education Training Authority	19.11	-	13 814
Municipal Systems Improvement Grant	19.12	734 000	-
Total government grants and subsidies		<u>77 406 293</u>	<u>60 885 574</u>
19.1 Equitable Share			
In terms of section 214(1) of the Constitution (Act No. 108 of 1996), the grant is used to subsidise the provision of free basic services to all households (6kl water, 50 kWh electricity and basic sewer) and approved indigents, that receive R60,00 per month plus 4kl water, additional sewer and refuse.			
		<u>254</u>	<u>167</u>
19.2 Financial Management Grant			
Balance unspent at beginning of year		40 633	4 820
Current year receipts		500 000	500 000
Conditions met - transferred to revenue		-368 649	-464 187
Conditions still to be met - transferred to liabilities		<u>909 282</u>	<u>969 007</u>
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.			
19.3 Provincial Government			
Balance unspent at beginning of year		-	-
Current year receipts		537 500	80 000
Conditions met - transferred to revenue		-537 500	-80 000
Conditions still to be met - transferred to liabilities		<u>0</u>	<u>0</u>
Funds received from Provincial Government to assist with spatial framework.			
19.4 District Municipality: Fezile Dabi			
Balance unspent at beginning of year		66 695	66 695
Current year receipts		4 225 502	4 080 468
Conditions met - transferred to revenue		(4 225 502)	(4 080 468)
Conditions still to be met - transferred to liabilities		<u>66 695</u>	<u>66 695</u>
Capital projects (infrastructure) financed by the District Municipality:Fezile Dabi.			
19.5 Department of Minerals & Energy			
Balance unspent at beginning of year		2 692 048	589 696
Current year receipts		12 000 000	7 500 000
Conditions met - transferred to revenue		(14 210 445)	(5 397 648)
Conditions still to be met - transferred to liabilities		<u>481 603</u>	<u>2 692 048</u>
Installation of electricity in the Municipality's area, financed by the Department of Mineral & Energy.			

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
19.6 Department of Water Affairs and Forestry		
Balance unspent at beginning of year	403 531	299 043
Current year receipts	-	104 488
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	<u>403 531</u>	<u>403 531</u>
Funds for waterworks at Deneysville.		
19.7 Provincial Government		
Balance unspent at beginning of year	632 590	632 590
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	<u>632 590</u>	<u>632 590</u>
Funds for waterworks at laboratory.		
19.8 Sasol Chemical Industries		
Balance unspent at beginning of year	43 061	43 061
Current year receipts	1 229 760	60 399
Conditions met - transferred to revenue	<u>(1 229 760)</u>	<u>(60 399)</u>
Conditions still to be met - transferred to liabilities	<u>43 061</u>	<u>43 061</u>
Equipment for library Zamdela (06/07) and Chairs Theatre (07/08).		
19.9 Provincial Government Municipality Infrastructure Grant		
Balance unspent at beginning of year	1 572 585	1 344 448
Current year receipts	18 931 181	18 921 941
Conditions met - transferred to revenue	<u>(21 435 080)</u>	<u>(18 693 804)</u>
Conditions still to be met - transferred to liabilities	<u>(931 314)</u>	<u>1 572 585</u>
Funds received for installation of infrastructure.		
19.10 Financial Management Grant		
Balance unspent at beginning of year	-	-
Current year receipts	-	50 917
Conditions met - transferred to revenue	-	<u>(50 917)</u>
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>
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.		
19.11 Sector Education Training Authority Grant		
Balance unspent at beginning of year	1 186	-
Current year receipts	-	15 000
Conditions met - transferred to revenue	-	<u>(13 814)</u>
Conditions still to be met - transferred to liabilities	<u>1 186</u>	<u>1 186</u>
The Municipality received funds from Sector Education Training Authority for excellence performance by human resources division.		
19.12 Municipal Systems Improvement Grant		
Balance unspent at beginning of year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	<u>(734 000)</u>	<u>-</u>
Conditions still to be met - transferred to liabilities	<u>(734 000)</u>	<u>-</u>

To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.

Changes of levels in Government Grants

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
Based on the allocations set out in Division of Revenue Act (Act no 53 of 2000) no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
20 OTHER INCOME		
Other income	1 237 186	1 329 999
Total	1 237 186	1 329 999

21 EMPLOYEE RELATED COSTS

Salaries and wages	60 375 796	58 187 102
Council contributions - UIF, pension, medical, group Ins.	15 063 079	12 713 968
Travel, motor car, accommodation, subsistence and other allowance	5 749 430	4 934 654
Housing benefits and allowance	660 644	454 152
Overtime payments	7 657 095	6 634 887
Annual bonuses	4 440 979	1 748 326
Total	93 947 023	84 673 089

There was no advances to employees.
Loans to employees are set out in note 4.

Remuneration of the Municipal Manager

Annual remuneration	574 018	364 646
Car allowance	150 617	199 455
Contributions - UIF, pension, medical, group insurance.	26 687	84 359
Travel, motor car, accommodation, subsistence and other allowance.	15 167	27 120
Total	766 489	675 580

Remuneration of Chief Financial Officer

Annual remuneration	653 535	334 008
Car allowance	157 300	178 107
Contributions - UIF, pension, medical, group insurance.	49 578	55 424
Travel, motor car, accommodation, subsistence and other allowance.	16 053	21 241
Total	876 466	588 780

Included in remuneration of Chief Financial Officer is an amount of R 352 652 for early termination of contract with regard to previous Chief Financial Officer.

Remuneration of Directors - 2008

	Technical Services	Corporate Services	Social Services	Economic Development
Annual remuneration	264 249	407 735	361 557	172 846
Car allowance	95 583	173 487	193 483	78 518
Contributions - UIF, pension, medical, group insurance.	40 115	75 931	59 540	28 991
Travel, motor car, accommodation, subsistence and other allowance.	9 632	17 658	19 263	28 139
Total	409 579	674 811	633 843	308 494

Remuneration of Directors - 2007

	Technical Services	Corporate Services	Social Services	Economic Development
Annual remuneration	313 937	354 772	271 640	350 683
Car allowance	180 050	175 322	134 245	182 110
Contributions - UIF, pension, medical, group insurance.	76 360	79 348	32 119	63 685
Travel, motor car, accommodation, subsistence and other allowance.	21 241	22 535	16 429	21 526
Total	591 588	631 977	454 433	618 004

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
22 REMUNERATION COUNCILLORS		
Executive Mayor	304 786	319 276
Speaker	229 724	251 827
Mayoral Committee Members	1 533 688	1 588 234
Councillors	2 454 610	2 746 539
Councillors' pension contribution	642 004	583 375
Councillors' medical contribution	117 573	146 664
Telephone allowance	380 359	313 940
Traveling allowance	1 965 230	2 088 657
Total Councillors' remuneration	7 627 974	8 038 512
<i>In-kind benefits</i>		
<p>The Executive Mayor, Speaker and Mayoral Committee Members are full-time employees of the municipality. Each is provided with an office and secretarial support at the cost of Council.</p> <p>The Executive Mayor has use of a council owned vehicle for official duties and a bodyguard.</p>		
23 INTEREST PAID		
Long term liabilities	987 973	927 515
Bank overdraft	111 569	81 251
Rand water	242 588	558 047
Eskom	87 337	-
Total Interest on external borrowings	1 429 467	1 566 813
24 BULK PURCHASES		
Electricity	42 306 893	39 035 991
Water	50 790 874	50 239 624
Total bulk purchases	93 097 767	89 275 615
25 GRANTS AND SUBSIDIES PAID		
Grant to community chess	20 000	17 544
Equitable share	11 031 274	12 243 285
Total grants and subsidies	11 051 274	12 260 829

Council contributes annually to the community chess. One of the Mayoral Committee members sits on the Governing body of the Community Chess.

Equitable share is used to subsidise registered indigents.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
26 GENERAL EXPENSES		
Audit fees	1 699 270	1 479 566
Bank charges	1 150 595	863 197
Financial Management Grant	190 744	166 124
Insurance premium	1 731 726	1 602 136
Insurance aggregate	65 121	86 187
Regional Services Levy	-	424
Skills development levy	778 879	682 890
Advertising	213 713	215 766
Bursaries	67 140	14 494
Conference and delegations	350 158	281 183
Connection charges	1 535 850	983 409
Entertainment	111 469	198 878
Fuel and oil vehicles	3 571 064	2 867 733
Membership fees	307 021	278 426
Postage	938 836	945 101
Printing and stationary	895 223	614 356
Professional fees	4 905 707	3 871 683
Rental: external equipment	2 236 198	1 852 876
Sewerage treatment charges	8 618 059	7 620 600
Stocks and material	1 171 096	1 197 506
Telephone	2 116 024	2 214 996
Training	580 338	585 747
Uniforms and overalls	340 299	265 106
Legal expenses	1 578 074	3 064 063
Transport claims	154 815	233 658
Departmental consumption	2 446 521	4 547 291
License fees vehicles	141 717	119 727
Valuation cost	2 153 555	2 478 076
Finance charges	2 724 976	1 821 974
Other	2 852 849	1 255 414
	45 627 037	42 408 587

27 CASH GENERATED BY OPERATIONS

Net deficit for the year	(3 392 590)	(15 831 960)
Adjustment for:		
Depreciation	27 101 150	26 773 299
Inventory written off	-	(47 927)
Loss on disposal of property, plant and equipment	1 276 272	261 249
Surplus on disposal of property, plant and equipment	(195 989)	(873 553)
Contributions to provisions	1 170 757	311 673
Capital contributions	1 081 783	-
Interest received	(16 392 984)	(13 424 509)
Interest paid	1 429 467	1 566 813
Account for reserve accounting	(12 750 444)	-
Operating surplus before working capital	(672 578)	(1 264 915)
(Increase) / Decrease in inventory	257 331	(621 862)
(Increase) / Decrease in consumer receivables	887 597	4 499 475
Increase in other receivables	(12 595 727)	(28 784 413)
Increase in payables	21 276 219	5 226 161
Increase / (Decrease) in conditional grants	(4 582 991)	1 451 283
Decrease in non-current receivables	-	505 230
Increase in VAT	9 799 858	2 654 093
Increase in provisions	-	1 748 326
Decrease in other funds	-	(1 591 308)
Appropriation transactions - previous year	-	6 844 235
Cash Generated by/(utilized in) Operations	14 369 709	(9 333 695)

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
28 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents included in the Cash Flow Statement comprise the following:		
Bank balance / cash	1 716 893	5 315
Call investment deposit	7 221 019	5 505 154
Bank overdraft	(3 247 566)	(15 063 094)
Total in cash and cash equivalents	5 690 346	(9 552 625)
29 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term liabilities (Note 15)	6 615 108	5 394 250
Used to finance property, plant and equipment	-6 615 108	(5 394 250)
Cash set aside for repayment of long-term liabilities	4 050 364	4 454 627
Cash invested for repayment of long- term liabilities	4 050 364	4 454 627
30 ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
30.1 Contributions to SALGA		
Opening balance		
Council subscriptions	301 140	266 186
Amount paid - current year	(301 140)	(266 186)
Balance unpaid (included in payables)	-	-
30.2 Audit fees		
Opening balance	-	-
Current year audit fee	1 699 270	1 479 565
Amount paid - current year	(1 671 040)	(1 479 565)
Amount paid - previous year		
Balance unpaid (included in payables)	28 230	-
30.3 VAT		
VAT payable is shown in note 12.		
All VAT returns have been submitted by the due date throughout the year.		
30.4 PAYE and UIF		
Opening balance		-
Current year payroll deductions	11 097 434	9 994 188
Amount paid - current year	(11 097 434)	(9 994 188)
Amount paid - previous year		
Balance unpaid (included in payables)	-	-
30.5 Pension and Medical Aid Deductions		
Opening balance	-	-
Current year payroll deductions	23 981 915	21 263 735
Amount paid - current year	(23 981 915)	(21 263 735)
Balance unpaid (included in payables)	-	-
30.6 Councillor's arrear accounts		
No Councillors had arrear accounts outstanding for more than 90 days at the reporting date or during the year.		

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
31 COMMITMENTS		
31.1 Capital commitments		
- Commitments in respect of capital expenditure		
- Approved and contracted for:		
- Infrastructure	696 164	5 411 694
Total	696 164	5 411 694
 This expenditure will be financed from:		
- Government grants	696 164	5 411 694
	696 164	5 411 694

31.2 At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee (Abrahamsrust)

Within one year	1	1
In the second to fifth year inclusive	5	5
After five years	3	4
Total	9	10

Operating lease payments represent rentals payable by the entity for rental of property situated on Abrahamsrust.

The entity has a 50 year lease option that expires on 31 March 2017.

Operating leases – as lessor (property rentals)

Minimum lease payments due

Within one year	228 440	208 049
In second to fifth year inclusive	997 684	914 700
	1 226 124	1 122 749

Lease agreements can be terminated with one month's notice and have terms from month to month. There are no contingent rents receivable.

Operating Leases consists of the following:

- Economical housing - The tenant must be older than 60 years. Rental per month is R350. The tenants pay for water, electricity and refuse removal.
- Council housing - Rentals vary depending on the house or flat . Tenants must be an employee of the municipality and applications are done via the Human Resource department. The leases are open ended and one month's notice is given. There is an escalation of 8% per annum on the rental. Tenants pay for water, electricity and refuse removal.
- Containers taxi rank - The municipality lease empty containers to lessee's. The lease is open ended and one month's notice can be given. There is an 10% escalation on rental. Due to economical factors the Municipality decided not to escalate the rental amount.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
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32 RETIREMENT BENEFIT INFORMATION

32.1 Defined contribution plan

The following are defined contribution plans: Municipal Councilors Pension Fund, Free State Municipal Pension Fund, Free State Municipal Provident Fund and SAMWU Provident Fund. Employees can contribute to the Free State Municipal Pension Fund, Free State Municipal Provident Fund and SAMWU Provident Fund. These Funds are classified as defined contribution plans. These contributions have been expensed.

32.2 Defined benefit plan

The defined benefit plans are the SALA Pension Fund and the Government Employment Pension Fund. These are not treated as defined benefit plans as defined by IAS19 (AC 116), but as a defined contribution plans. According to the actuaries it is not possible to report separately for each municipality on the fund, thus the reason for treating them as defined contribution plans in terms of IAS 19 (AC116) par. 30.

Some employees of various municipalities belongs to the SALA Pension Fund. The latest actuarial valuation of SALA Pension Fund was on 1 July 2007. These valuations indicate that the funds are in a sound financial position. The estimated liability of the fund is R5,580.30 million which adequately financed by assets of R6,138.70 million.

Some employees of various municipalities belongs to the Government Employment Pension Fund. The latest actuarial valuation of Government Employment Pension Fund was on 31 March 2006. These valuations indicate that the funds are in a sound financial position. The estimated liability of the fund is R447,474 million which adequately financed by assets of R545,563 million.

33 EVENTS AFTER THE REPORTING DATE

Key management are not aware of any matter or circumstance arising since the end of the financial year to date of this report, not otherwise dealt with in the financial statements, which significantly affect the financial position of the entity or the results of its operations that would require adjustments to or disclosure in the annual financial statements.

34 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure E(1) and E(2).

35 DISCLOSURE OF RELATED PARTIES

35.1 Relationships between parents and subsidiaries

Controlled Entities:

Relationships

Parent	Metsimaholo Local Municipality
Municipal entity	Mayoral Trust

35.2 Key management personnel remuneration

See note 21 and 22 for remuneration of key management personnel and Council.

No loans were granted to key personnel.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
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35.3 Related party transactions

The following related party transactions occurred. These transactions entails sales of goods and rendering of services.

	2008	2007
Councillor N M Mtimkulu : Letsema Civil Works	48 239	-
Councillor N M Mtimkulu : Letsema Cleansing Services	519 817	529 914
Mr. Mqwathi : MKS Management Services CC	194 769	517 633
Mr M Penkin : CT Computers	-	-
Councillor S I Ramathesele : Mamohato Construction	-	46 535

Mr Mqwathi is a member of Mitoro Management Consulting CC. MKS Management Services CC was appointed as a service provider.

Council contributed R20,000 (R17,544 - 2007) to the community chess.

36 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

36.1 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	3 904 377	-
Fruitless and wasteful expenditure current year	1 704 257	2 699 572
Condoned by Council	64 715	171 284
Fruitless and wasteful expenditure	5 673 349	2 870 856

Incident	Actions taken		
Interest on Rand Water	Payment was made	242 588	558 047
Interest on Eskom	Payment was made	87 337	
Interest on Bank overdraft	Overdraft facility was cancelled	111 569	
Interest charged by Ikangeng Catering since funds to make payment was delayed	None taken	-	1 950
Payments made to Promptvest 26 (Pty) Ltd for a GAMAP compliant fixed asset register not completed in full.	Contract cancelled	(11 107)	164 059
Telephone system	Damage in fire, to be paid by Insurers	323 556	683 625
Upgrading of stadium	Investigation still pending	-	906 000
Suspended Employees - Salaries (refer to note 21)	Disciplinary hearing was held and one of the employees was dismissed.	950 314	385 891
		1 704 257	2 699 572

Incident	Actions taken		
Purchases without an order	Condoned by Council	64 715	22 525
Purchases without an order and not budgeted for	Condoned by Council	-	148 759
		64 715	171 284

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
36.2 Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	5 718 052	-
Irregular expenditure current year	684 439	5 718 052
	<u>6 402 491</u>	<u>5 718 052</u>

Incident	Actions taken		
Inadequate quotation obtained for payments/ tender procedures made to Jacobsco.	Supply Chain Officer will take control over procurement procedures	684 439	95 952
Computer service no tender	Service terminated	386 414	831 417
Photocopiers tender procedure not follow	Investigation in process	1 133 969	4 291 418
Valuation Roll additional appointment that not form part of contract	Investigation to follow for legal action	-	499 265
		<u>684 439</u>	<u>5 718 052</u>

37 RESTATEMENT OF COMPARATIVE INFORMATION

Provision for leave and bonuses have been reclassified as accruals. The effect of the restatement is summarised below:

Statement of Financial Position:

Provisions	6 868 065
Accruals - leave	(5 119 739)
Accruals - bonuses	(1 748 326)
	<u>-</u>

38 PRIOR PERIOD ERROR

38.1 Lease

Office equipment leased was incorrectly treated as an operating lease instead of a finance lease. The financial statements of 2006/7 has been restated to correct this error. The effect of the restatement is summarised below:

Net Assets:	<u>509 687</u>
Statement of Financial Position:	
Accrued interest	(229 381)
Input VAT - Capital receivable	3 682 388
Accumulated depreciation	(2 289 166)
Finance lease liability	(23 817 709)
Finance lease asset	21 211 551
	<u>(1 442 317)</u>
Statement of Financial Performance:	
Lease expense	(4 411 749)
Input VAT - expense	510 928
Depreciation	3 320 447
Finance charges	1 821 974
Surplus on release of finance lease obligation	(308 970)
	<u>932 630</u>

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
39 CONTINGENT LIABILITY		
39.1 Housing Loans		
Guarantees for housing loans to employees at financial institutions.	30 558	29 821

39.2 The following pending litigation claims existed at the reporting date:

- Sekete M I B : Arbitration hearing
- Moabi N E : Arbitration hearing
- Seshea PP : Arbitration hearing
- Penkin M P : Disciplinary hearing
- H Kriel and others : Disciplinary hearing

No reliable estimate can be made for the contingent liability.

40 DEVIATION FROM SUPPLY CHAIN MANAGEMENT POLICY

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. The entity complied with the supply chain management policy.

41 RISK MANAGEMENT

Liquidity risk

The Council's risk to liquidity is a result of the funds available to cover future commitments.

The Council manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared monthly and adequate utilised borrowing facilities are monitored. The Council has a R 5 million overdraft facility with ABSA Bank to ensure adequate borrowing facilities are available. The cash flow of the Council is managed on a daily basis and any problems are communicated to the management in time to ensure arrangements with major suppliers can be reached. The cash flow of the Council was placed under pressure due to an unforeseen problem in the form of a sudden abnormal level of unaccounted for water. The situation was managed and Council took drastic action to improve the matter.

The general liquidity of the Council is managed by a bank and investment policy with properly defined duties and responsibilities supported by adequate delegated authority by the Council.

The exposure of Council's risk to liquidity due to the non payment of receivables are managed by ensuring that adequate deposits are required by consumers.

The Council has the following financial instruments that can be cashed in on a very short notice to relieve cash flow matters that cannot be addressed in the normal course of business.

- Paid up annuity
- Shares Sanlam Ltd
- Non paid up annuity
- Approved additional credit facility available

The above instruments are available if the current funds are not enough to cover the future commitments and are sufficient to cover any normal liquidity risk of the Council.

The Council is empowered to perform tariff adjustments and budget for any unforeseen operational changes in the nature of the Council's business subject to applicable regulations.

METSIMAHOLO LOCAL MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
Risk from environmental assets		
<p>The Council is not exposed to financial risks arising from changes in any purchased biological bulk services.</p> <p>The Council operates two water purification plants as well as two sewer purification plants in Oranjeville and Deneysville which is considered an ecologically sensitive and national key resource area. (upper and lower Vaal Dam). The Council has established a disaster management committee and forum to ensure any disaster can be managed. The main bulk services for the area is purchased and these resources are negotiated through a national negotiation forum that ensures that bulk service purchase price increases are fair. The sewer purification for the Sasolburg and Zamdela services is purchased from SASOL group. The annual price increase is forwarded to the consumers to ensure that financial risks is managed. No joint or separate responsibility for sewer outfall exists on the Sasolburg and Zamdela plant.</p> <p>The Council reviews its water and sewer purification prices annually, considering the need for active financial risk management.</p> <p>The Council operates seven cemeteries. The Council is in process to procure adequate land for these cemeteries to ensure the major financial risk relating to cemeteries are catered for.</p> <p>The Council operates three demarcated refuse removal sites. The operation of these sites are considered adequate and current studies are underway to ensure that the sustainability, operation and rehabilitation of these sites are adequate. These studies will ensure that adequate financial risks is identified and managed.</p> <p>The financial risk for storm water is managed through the non acceptance of any risk for down flow storm water in title deeds and the inclusion of operational and financial risk controls in the title deeds of all stands and the town planning scheme.</p> <p>Adequate (R100 million) public liability insurance is secured annually from the insurers of the Council.</p>		
Interest rate risk		
<p>Deposit attract interest at rate that vary with prime. The entity's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on surplus / deficit.</p> <p>At year end, financial instruments exposed to interest rate risk were as follows.</p> <p>Call deposits Notice deposits Long term annuity Development Bank of South Africa loan ABSA overdraft</p>		
Credit risk		
<p>Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The Council only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Only approved major financial institutions are utilised. An extensive investment policy and delegated authority is approved by Council and is adhered to.</p> <p>Minimal cash on hand is kept in the form of receipts, petty cash and cashier floats. The income is daily collected by a collection service and sufficient categories of safes and strong rooms are utilised to keep cash until collection.</p> <p>Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The collection of arrears is a priority. The credit control and debt collection policy is reviewed annually to ensure the credit risk is managed. The Council budgets for adequate working capital and a bad debt write off policy is being developed. Deposits are levied with new connections to protect the Council from non payment. The indigent register is regularly reviewed and updated. A credit collection section is functioning and any arrear accounts duly followed up. Action is taken timeously against defaulters. For unsuccessful action accounts are handed over to attorneys for collection. Proceeds of the sale of property is attached for amounts owed during the transfer of properties by issuing clearance certificates as required.</p> <p>Cash, fidelity and money handlers insurance are taken out annually to ensure adequate risk cover exist.</p>		

METSIMAHOLO LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2008

Loan Number	Redeem-able	Balance at 1 July 2007	Received during period	Redeemed/ Written off during the period	Balance at 30 June 2008	Carrying Value of property plant and equipment	Other costs in accordance with MFMA
<u>Long Term loans</u>							
<u>Annuity loans</u>							
Development Bank of South Africa @ 15,3%	10	30/6/2007	37 344	-	37 344	-	-
Development Bank of South Africa @ 15,6%	11	30/6/2008	17 474	-	11 204	6 270	-
Development Bank of South Africa @ 13,5%	1	31/3/2008	734 891	-	734 891	-	-
INCA	2	30/6/2009	5 447 442	-	2 599 892	2 847 550	889 817
INCA	3	30/4/2011	4 832 584	-	1 071 296	3 761 288	1 229 287
TOTAL			11 069 735	-	4 454 627	6 615 108	2 119 104

It was not a requirement in the past to link loans and assets.
 Due to a lack of information, the loans, except Development Bank of South Africa loans cannot be linked.
 Development Bank of South Africa loans were for infrastructure in the Deneysville/Refengkgotso Council.

METSIMAHOLO LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	Cost / Revaluation				Accumulated Depreciation						Budget Additions 2008	
	Opening Balance	Additions	Transfer Balance	Disposals	Closing Balance	Opening Balance	Additions	Transfer	Disposals	Closing Balance		Carrying Value
<u>Land and Buildings</u>												
Land											-	
Buildings	24 855 355	-	-	236 132	24 619 223	5 071 285	1 036 102		67 042	6 040 345	18 578 878	9 908 400
	24 855 355	-	-	236 132	24 619 223	5 071 285	1 036 102		67 042	6 040 345	18 578 878	9 908 400
<u>Infrastructure</u>												
Stormwater	23 312 856	6 142 943	-		29 455 799	6 786 278	1 395 443			8 181 721	21 274 078	5 000 000
Roads	72 002 604	-	-	279	72 002 325	47 145 316	5 177 432		83	52 322 665	19 679 660	7 863 450
Sewerage mains & purification	69 381 806	10 227 033	-		79 608 839	15 901 467	3 746 974			19 648 441	59 960 398	8 807 000
Electricity mains	56 985 360	15 370 446	-		72 355 806	23 598 516	3 434 911			27 033 427	45 322 379	17 408 000
Electricity peak load equipment	1 531 860	-	-		1 531 860	579 434	105 489			684 923	846 937	-
Water mains & purification	53 295 974	8 130 605	-		61 426 579	18 898 972	397 169			19 296 141	42 130 438	11 900 000
Reservoirs - water	1 821 518	-	-		1 821 518	1 348 498	28 103			1 376 601	444 917	-
Water meters						-				-	-	
Refuse dumps	-		-		-	-				-	-	1 500 000
	278 331 978	39 871 027	-	279	318 202 726	114 258 481	14 285 521		83	128 543 919	189 658 807	52 478 450
<u>Community Assets</u>												
Parks	3 195 840	-	-		3 195 840	2 425 990	319 447			2 745 437	450 403	-
Libraries	-				-	-				-	-	-
Stadiums	4 070 312				4 070 312	826 126	179 926			1 006 052	3 064 260	-
Halls	3 531 365				3 531 365	793 375	122 855			916 230	2 615 135	1 192 000
Theatre	-				-	-				-	-	-
Swimming pools	1 128 024				1 128 024	446 514	114 576			561 090	566 934	-
Recreation facilities	566 445				566 445	123 828	27 912			151 740	414 705	-
Clinics	1 510 821			1 451 600	59 221	630 756	2 566		617 896	15 426	43 795	-
Cemetery	867 377				867 377	150 273	29 983			180 256	687 121	-
	14 870 184	-	-	1 451 600	13 418 584	5 396 862	797 265		617 896	5 576 231	7 842 353	1 192 000

**METSIMAHOLO LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT**

	Cost / Revaluation				Accumulated Depreciation						Budget Additions 2008	
	Opening Balance	Additions	Transfer Balance	Disposals Closing Balance	Opening Balance	Additions	Transfer Disposals	Closing Balance	Carrying Value			
<u>Heritage</u>												
Paintings,sculptures,ect	180 870	-	-	180 870	275	65	-	340	180 530	-		
	180 870	-	-	180 870	275	65	-	340	180 530	-		
<u>Other Assets</u>												
Landfill sites												
Furniture	3 703 687	1 466 857	-	989	5 169 555	2 656 336	619 196	-	2 701	3 272 831	1 896 724	1 000 000
Office equipment	997 416	174 220	-	1 931	1 169 705	831 766	96 206	-	-	927 972	241 733	490 280
Emergency equipment	-	-	-	-	-	-	-	-	-	-	-	-
Motor vehicles	12 175 391	-	-	-	12 175 391	5 527 315	1 254 991	-	-	6 782 306	5 393 085	708 700
Fire engines	2 188 843	-	-	-	2 188 843	225 244	109 442	-	-	334 686	1 854 157	-
Refuse trucks	6 619 171	-	-	-	6 619 171	4 129 625	785 832	-	-	4 915 457	1 703 714	3 000 000
Computer equipment	4 366 896	392 009	-	-	4 758 905	2 662 693	606 601	-	-	3 269 294	1 489 611	1 409 000
Councillor's regalia	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	6 761 599	278 957	-	-	7 040 556	5 362 915	2 799 554	-	37 223	8 125 246	-1 084 690	1 402 000
Leases	21 211 551	29 195	-	-	21 240 746	2 289 166	4 306 008	-	-	6 595 174	14 645 572	-
	58 024 554	2 341 238	-	2 920	60 362 872	23 685 060	10 577 830	-	39 924	34 222 966	26 139 906	8 009 980
<u>Housing</u>												
Hostels	25 656 292	-	-	-	25 656 292	2 152 324	348 447	-	-	2 500 771	23 155 521	-
Housing rental	1 448 010	-	-	-	1 448 010	268 070	55 920	-	-	323 990	1 124 020	-
	27 104 302	-	-	-	27 104 302	2 420 394	404 367	-	-	2 824 761	24 279 541	-
Total	403 367 243	42 212 265	-	1 690 931	443 888 577	150 832 357	27 101 150	-	724 945	177 208 562	266 680 015	71 588 830

Problems are experienced with the asset register to be in line with GAMAP.

1. Depreciation is done with implementation of Asset Register, but further adjustments will be made to correct depreciation on the assets taken up
2. Loans redeemed and other capital receipts were allocated to accumulated depreciation, as well as loan redemption fund.

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METSIMAHOLO LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	COST				ACCUMULATED DEPRECIATION						
	Opening Balance	Additions	Transfer Balance	Disposals	Closing Balance	Opening Balance	Additions	Transfer	Disposals	Closing Balance	Carrying Value
Office of the municipal manager	755 828	299 129	0	0	1 054 957	485 312	100 471		0	585 783	469 174
Corporate services	45 660 983	42 802	0	2 032	45 701 753	11 237 776	5 707 544	0	1 476	16 943 844	28 757 909
Information technology	1 469 051	433 187	0	0	1 902 238	1 342 487	68 075	0	0	1 410 562	491 676
Health services	2 034 176	0	0	1 640 944	393 232	955 586	35 641	0	679 308	311 919	81 313
Cleansing services	6 358 647	4 377	0	0	6 363 024	3 303 883	757 874		0	4 061 757	2 301 267
Public safety	7 493 459	2 489	0	0	7 495 948	2 699 531	622 185		0	3 321 716	4 174 232
Parks and recreation	2 385 230	29 405	0	0	2 414 635	1 231 451	215 255	0	0	1 446 706	967 929
Pleasure resorts	681 181	48 840	0	0	730 021	411 722	80 973		0	492 695	237 326
Community centres	1 019 867	1 229 760	0	0	2 249 627	358 390	235 228		0	593 618	1 656 009
Stadiums	5 422 943	0	0	0	5 422 943	1 030 918	198 088		0	1 229 006	4 193 937
Swimming pools	670 718	0	0	300	670 418	219 176	35 335		218	254 293	416 125
Cemeteries	1 225 757	0	0	0	1 225 757	448 713	52 977		0	501 690	724 067
Libraries	936 096	0	0	800	935 296	551 397	82 627		581	633 443	301 853
Technical services	246 527	0	0	0	246 527	201 992	15 276	0	0	217 268	29 259
Electricity	58 132 446	15 424 978	0	0	73 557 424	18 462 464	4 000 451	0	0	22 462 915	51 094 509
Mechanical workshop	400 066	0	0	0	400 066	261 340	37 876		0	299 216	100 850
Streets and stormwater	95 852 099	6 146 404	0	0	101 998 503	53 825 781	6 713 186	0	0	60 538 967	41 459 536
Buildings	286 836	1 135	0	0	287 971	180 336	40 226		0	220 562	67 409
Sewerage	72 331 903	10 411 081	0	0	82 742 984	17 178 232	3 883 929	0	0	21 062 161	61 680 823
Water	49 775 890	8 130 605	0	0	57 906 495	20 508 555	2 530 561	0	0	23 039 116	34 867 379
Financial services	5 435 759	8 073	0	400	5 443 432	3 159 041	755 285	0	290	3 914 036	1 529 396
Economical development and planning	46 196	0	0	0	46 196	13 748	6 599		0	20 347	25 849
Housing administration	7 265 097	0	0	0	7 265 097	7 253 686	5 953		0	7 259 639	5 458
Property administration	968 708	0	0	0	968 708	703 073	86 690		12 771	776 992	191 716
Urban planning	36 511 780	0	0	46 455	36 465 325	4 807 767	896 966		30 301	5 674 432	30 790 893
TOTAL	403 367 243	42 212 265	0	1 690 931	443 888 577	150 832 357	27 165 271	0	724 945	177 272 683	266 615 894

APPENDIX D

METSIMAHOLO LOCAL MUNICIPALITY
SEGMENTAL INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2008

2007 Actual Income	2007 Actual Expenditure	2007 Surplus/ (Deficit)	2008 Actual Income	2008 Actual Expenditure	2008 Surplus/ (Deficit)	2008 Budget Surplus/ (Deficit)
149 431 830	169 031 342	-19 599 512	144 932 750	215 737 451	-70 804 701	-78 677 070
115 954 173	116 686 319	-732 146	105 647 029	158 270 227	-52 623 198	-58 140 620
30 000	1 706 956	-1 676 956	30 000	3 366 618	-3 336 618	-3 601 330
0	246 723	-246 723	0	255 398	-255 398	-317 480
0	10 534	-10 534	0	0	0	-31 530
0	1 642 920	-1 642 920	0	1 547 643	-1 547 643	-2 003 720
0	3 374 445	-3 374 445	0	3 070 043	-3 070 043	-3 351 280
4 557	4 339 999	-4 335 442	0	4 054 184	-4 054 184	-4 002 930
0	1 973 168	-1 973 168	0	9 540 258	-9 540 258	-4 786 710
0	196 788	-196 788	0	164 035	-164 035	-428 170
0	105 696	-105 696	0	122 967	-122 967	-738 560
0	11 328	-11 328	0	0	0	1 020
0	323 584	-323 584	0	230 657	-230 657	-1 136 940
21 710	2 866 785	-2 845 075	19 998	2 516 066	-2 496 068	-4 331 340
328 712	1 325 289	-996 577	217 610	1 247 148	-1 029 538	-1 487 890
0	951 860	-951 860	0	778 872	-778 872	-1 001 870
77 583	3 154 219	-3 076 636	77 582	2 991 239	-2 913 657	-2 444 260
0	158 212	-158 212	0	208 834	-208 834	-187 970
109 906	1 641 182	-1 531 276	276 139	1 955 049	-1 678 910	-2 012 380
38 161	1 256 191	-1 218 030	0	979 872	-979 872	-2 360 620
0	442 923	-442 923	0	675 841	-675 841	-605 460
0	265 555	-265 555	0	71 783	-71 783	-317 360
0	2 379 799	-2 379 799	0	3 972 606	-3 972 606	-3 482 170
33 818 607	24 773 436	9 045 171	20 762 628	16 897 498	3 865 130	-1 666 290
73 624	9 127 901	-9 054 277	36 915	9 347 981	-9 311 066	-11 218 930
0	193 270	-193 270	0	382 458	-382 458	-2 383 310
19 635	1 800 327	-1 780 692	18 028	1 559 723	-1 541 695	-2 054 830
56 571	980 577	-924 006	46 068	1 992 533	-1 946 465	-1 312 340
4 157 865	15 965 854	-11 807 989	3 128 528	14 771 482	-11 642 954	-6 544 980
945	2 914 813	-2 913 868	0	2 786 531	-2 786 531	-3 700 150
0	264 407	-264 407	0	254 209	-254 209	-620 320
23 726 528	26 280 334	-2 553 806	20 188 750	65 874 657	-45 685 907	-42 640 340
984 584	351 798	632 786	19 677	1 284 201	-1 264 524	-803 430
51 794 403	0	51 794 403	59 700 333	0	59 700 333	59 848 200
0	885 743	-885 743	0	580 106	-580 106	-1 629 510
0	557 757	-557 757	0	492 599	-492 599	0
28	1 083 708	-1 083 680	12 799	1 013 925	-1 001 126	-2 317 650
710 754	2 251 857	-1 541 103	1 109 134	2 816 068	-1 706 934	-741 770
0	832 883	-832 883	2 840	467 143	-464 303	-1 583 700
0	47 498	-47 498	0	0	0	-70 400
0	0	0	0	0	0	-71 920

APPENDIX D

METSIMAHOLO LOCAL MUNICIPALITY
SEGMENTAL INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2008

2007 Actual Income	2007 Actual Expenditure	2007 Surplus/ (Deficit)		2008 Actual Income	2008 Actual Expenditure	2008 Surplus/ (Deficit)	2008 Budget Surplus/ (Deficit)
1 042 255	14 316 049	-13 273 794	<u>Subsidised Services</u>	1 309 389	14 830 832	-13 521 443	-14 802 380
0	5 421 732	-5 421 732	Fire Protection Services	6	6 054 928	-6 054 922	-4 661 230
693 642	1 199 691	-506 049	Etienne Rousseau Theatre	985 471	985 748	-277	-946 920
70	0	70	Zamdela Arts and Culture Centre	838	0	838	-20 770
1 214	3 763	-2 549	Refengkgotso Hall	70	0	70	4 030
12 638	18 659	-6 021	Metsimaholo Hall	12 638	13 735	-1 097	17 340
11 333	281 785	-270 452	Zamdela Community Hall	11 498	377 706	-366 208	-555 080
63 896	1 737 175	-1 673 279	D P de Villiers Stadium	48 930	2 126 092	-2 077 162	-1 885 100
789	352 994	-352 205	Moses Kotoane Stadium	0	445 018	-445 018	-661 040
0	7 484	-7 484	Refengkgotso Stadium	0	1 795	-1 795	-18 440
0	4 000	-4 000	Metsimaholo Stadium	0	5 103	-5 103	-53 540
35 579	1 004 398	-968 819	Penny Heyns Swimming pool	47 718	960 232	-912 514	-1 399 010
5 000	641 796	-636 796	Zamdela Swimming pool	5 000	371 922	-366 922	-460 140
70 350	438 002	-367 652	Sasolburg Cemetery	64 212	147 274	-83 062	-317 000
20 606	254 076	-233 470	Zamdela Cemetery	12 620	152 440	-139 820	-379 540
0	51 850	-51 850	Deneyville Cemetery	0	58 672	-58 672	-13 910
0	2 599	-2 599	Oranjeville Cemetery	0	0	0	-11 880
90 098	2 195 686	-2 105 588	Sasolburg Library	85 702	2 209 087	-2 123 385	-2 333 810
37 040	433 414	-396 374	Zamdela Library	34 686	506 337	-471 651	-404 910
0	263 221	-263 221	Deneyville Library	0	340 764	-340 764	-291 500
0	3 724	-3 724	Oranjeville Library	0	61 157	-61 157	-68 180
0	0	0	Refengkgotso Library	0	12 822	-12 822	-341 750
32 435 402	38 028 974	-5 593 572	<u>Economical Services</u>	37 976 332	42 636 392	-4 660 060	-5 734 070
13 724 396	15 057 605	-1 333 209	Cleansing Services	15 949 358	17 945 152	-1 995 794	-3 536 430
1 363 834	2 520 321	-1 156 487	Abrahamsrust Holiday Resort	1 777 022	2 046 999	-269 977	-2 000 780
0	26 732	-26 732	Deneyville Shore facility	69 070	10 672	58 398	80 030
0	1 233	-1 233	Oranjeville Shore facility	42 146	846	41 300	86 890
17 347 172	20 423 083	-3 075 911	Sewerage	20 138 736	22 632 723	-2 493 987	-363 780
363 599	1 640 926	-1 277 327	<u>Housing Services</u>	389 367	2 187 620	-1 798 253	-3 074 740
363 599	1 640 926	-1 277 327	Housing Administration	389 367	2 187 620	-1 798 253	-3 074 740
154 003 416	148 025 917	5 977 499	<u>Trading Services</u>	225 487 249	156 276 885	69 210 364	71 843 510
69 515 463	56 698 155	12 817 308	Electricity : Administration	84 615 337	57 749 898	26 865 439	6 739 300
980 760	15 322 296	-14 341 536	Electricity : Distribution	1 209 528	15 635 302	-14 425 774	-12 233 110
70 496 223	72 020 451	-1 524 228	Electricity	85 824 865	73 385 200	12 439 665	-5 493 810
83 507 193	76 005 466	7 501 727	Water Service	139 662 384	82 891 685	56 770 699	77 337 320
303 798 845	318 698 185	-14 899 340	Total	370 809 366	374 201 956	-3 392 590	-9 908 300

METSIMAHOLO LOCAL MUNICIPALITY					APPENDIX E(1)
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2008					
	2008	2008	2008	2008	Explanation of significant variance greater than 10% versus budget
	Actual (R)	Budget (R)	Variance (R)	Variance (%)	
Revenue					
Property rates	56 917 298	57 437 760	(520 462)	(1)	
Service charges	215 910 287	233 243 510	(17 333 223)	(7)	
Tariff charges	7 694 369	5 840 390	1 853 979	32	1*
Fines	20 384 366	6 510 930	13 873 436	213	2*
Government grant and subsidies	41 066 903	40 773 000	293 903	1	
Interest earned - external investments	1 807 683	300 000	1 507 683	503	3*
Interest earned - outstanding debtors	14 585 301	12 243 000	2 342 301	19	4*
Rental facilities and equipment	1 288 598	1 292 910	(4 312)	(0)	
Licenses and permits	63 320	90 000	(26 680)	(30)	5*
Profit sale of assets	183 218	-	183 218	100	6*
Other income	1 237 186	7 333 990	(6 096 804)	(83)	7*
Capital grants and subsidies	9 658 929	10 770 670	(1 111 741)	(10)	8*
Total revenue	370 797 458	375 836 160	(5 038 702)	(1)	
Expenditure					
Employee related costs	93 947 023	101 920 820	(7 973 797)	(8)	
Remuneration of Councillors	7 627 974	8 205 560	(577 586)	(7)	
Bad debts	27 000 000	27 000 000	-	-	
Collection cost	27 101 150	26 685 670	415 480	2	
Depreciation	27 101 150	26 685 670	415 480	2	
Repairs and maintenance	8 533 073	17 952 270	(9 419 197)	(52)	9*
Interest on external borrowings	1 429 467	1 915 200	(485 733)	(25)	10*
Bulk purchases	-	121 858 650	(121 858 650)	(100)	11*
Contracted services	17 201 356	9 177 730	8 023 626	87	12*
Grants and subsidies paid	11 051 274	6 543 600	4 507 674	69	13*
General expenses - Other	44 899 325	64 491 740	(19 592 415)	(30)	14*
Contributions to/(transfers from) provisions	1 170 757	(6 780)	1 177 537	100	15*
Loss on disposal of property, plant and equipment	297 508	-	297 508	100	16*
TOTAL EXPENDITURE	267 062 549	412 430 130	(145 367 581)	(35)	
	103 734 909	(36 593 970)	140 328 879		
Net surplus / (deficit) for the year	1 081 783	4 136 290	-	-	
Less : Capital Grants					
	102 653 126	(40 730 260)	140 328 879		
Net surplus / (deficit) for the year	1 081 783	4 136 290	-	-	

METSIMAHOLO LOCAL MUNICIPALITY
Explanation of Significant Variance greater than 10% Versus Budget

1 Tariff charges

More consumers were cut due to non payment and many developments took place where connection fees are payable.

2 Fines

Provision was made for outstanding traffic fines since 2001 as Council has a contract with a service provider.

3 Interest earned - external investments

The interest rate increased and the overdraft was reduced and monies were invested on call accounts from which withdrawals can be made easily.

4 Interest earned - outstanding receivables

The interest rates increased and given the outstanding receivables it will have an influence on interest earned.

5 Licences and permits

Lesser traders applied and received licences than anticipated.

6 Surplus on sale of assets

Money received for equipment damaged in fire incident during October 2007.

7 Other income

Contributions from the public did not materialise as anticipated and fundraising also did not materialise.

8 Capital srants and subsidies

No allocation was received from Department of Public Works. Roads and Transport.

9 Repairs and maintenance

Due to cash flow problems repairs and maintenance expenditure were limited. No maintenance was performed on road infrastructure.

10 Interest on external borrowings

The amount budget was not sufficient.

11 Bulk purchases

For electricity too much provision was made for price increase by Eskom. The reticulation networks did not expand as envisaged.

12 Contracted services

Provision was made for outstanding traffic fines (50%) to a service provider.

13 Grants and subsidies paid

Allocation of unspent equitable share was made to provision for bad debt.

14 General expenses - Other

Due to serious cash flow problems lesser monies were committed to expenditure.

15 Contributions to / transfers

Contributions to leave accruals and bonus accruals were made in order to avoid understatement.

16 Loss on disposal of property, plant and equipment

Annual verification revealed shortages.

APPENDIX E(2)

METSIMAHOLO LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2007

	2008 Actual	2008 Under construction	2008 Total additions	2008 Budget	2008 Variance (R)	2008 Variance (%)	Explanation of significant variances greater than 5% versus budget
Land and buildings							
Land							
Buildings	-		-	9 908 400	(9 908 400)	(100)	1*
	-	-	-	9 908 400	(9 908 400)	(100)	
Infrastructure							
Stormwater	6 142 943		6 142 943	5 000 000	1 142 943	23	2*
Roads	-		-	7 863 450	(7 863 450)	(100)	1*
Sewerage mains & purification	10 227 033		10 227 033	8 807 000	1 420 033	16	2*
Electricity mains	15 370 446		15 370 446	17 408 000	(2 037 554)	(12)	3*
Electricity peak load equipment	-		-	-	-		
Water mains & purification	8 130 605		8 130 605	11 900 000	(3 769 395)	(32)	2*
Reservoirs - water	-		-	-	-		
Water meters	-		-	-	-		
Refuse dumps	-		-	1 500 000	(1 500 000)	(100)	1*
	39 871 027	-	39 871 027	52 478 450	(12 607 423)	(24)	
Community Assets							
Parks	-		-	-	-		
Libraries	-		-	-	-		
Stadiums	-		-	-	-		
Halls	-		-	1 192 000	(1 192 000)	(100)	2*
Theatre	-		-	-	-		
Swimming pools	-		-	-	-		
Recreation facilities	-		-	-	-		
Cemeteries	-		-	-	-		
	-	-	-	1 192 000	(1 192 000)	(100)	

APPENDIX E(2)

METSIMAHOLO LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2007

	2008 Actual	2008 Under construction	2008 Total additions	2008 Budget	2008 Variance (R)	2008 Variance (%)	Explanation of significant variances greater than 5% versus budget
<u>Heritage</u>							
Paintings				-	-		
	-	-	-	-	-		
<u>Other Assets</u>							
Landfill sites			-				
Furniture	1 466 857		1 466 857	1 000 000	466 857	47	4*
Office equipment	174 220		174 220	490 280	(316 060)	100	4*
Emergency equipment	-		-	-	-	-	
Motor vehicles	-		-	708 700	(708 700)	(100)	2*
Fire engines	-		-	-	-	-	
Refuse Trucks	-		-	3 000 000	(3 000 000)	-	2*
Computer equipment	392 009		392 009	1 409 000	(1 016 991)	100	4*
Councillor's regalia	-		-	-	-	-	
Other Assets	278 957		278 957	1 402 000	(1 123 043)	(80)	4*
	2 312 043	-	2 312 043	8 009 980	(5 697 937)	(71)	
<u>Housing</u>							
Hostels	-		-	-	-	-	
Housing rental	-		-	-	-	-	
	-	-	-	-	-		
<u>Investment properties</u>							
Investment properties			-			-	
	-	-	-	-	-		
Total	42 183 070	-	42 183 070	71 588 830	(29 405 760)	(41)	

METSIMAHOLO LOCAL MUNICIPALITY
Explanation of Significant Variance greater than 5% Versus Budget

- 1 Funds were not secured therefore assets was not acquired. Projects funded by District Municipality amounts to R4 225 502 as projects budgeted for R13,6 million. Projects to be funded by Anglo Coal, R3,8 million and SCI, R1,5 million did not realise. Provision was made for projects / items to be financed via new Loans, R6,3 million and no new loans were taken up.
- 2 Funds were redistributed from MIG to accommodate more fully service even.
- 3 Electricity project on Network Strengthening of R1 700 000 from own funds were not done.
- 4 Due to severe cashflow problems only real essential property, plant and equipment were aquired.

**METSIMAHOLO LOCAL MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

GRANTS AND SUBSIDIES RECEIVED FOR YEAR ENDED 30 JUNE 2008

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	
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June			Yes/No
Financial Management Grant		500 000						49 324	319 328							
Municipal Infrastructure Grant		1 148 000	11 025 000			740 000	391 000							Unspent	Yes	
Department of Minerals & Energy			12 173 000				6 775 000									
Department of Water Affairs and Forestry					358 000				358 000							
Municipal System Improvement Grant		367 000			367 000				734 000							

APPENDIX F

Reason for non-compliance