



## **Metsimaholo Local Municipality**

**Financial statements  
for the year ended June 30, 2009**

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## General Information

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### Members of the Executive Mayoral Committee Executive Mayor

BT Mahklaku

### Speaker

KW Bulwane

### Mayco

NJ Kubekha  
LS Lempe  
RJ Mabefu  
KJ Makhoba  
TL Soetsang  
SZ Matena  
NM Mtimkulu

### Members of Local Municipality

#### Councillors

FC Coetzer	T Mosai
J du Plessis	DN Motloung
T du Toit	MM Nemalamandwa
JJ Grobbelaar	S Moreki
DJ Keyser	DM Oswald
MW Khonto	MR Raboroko
JM Lelahla	AN Radebe
NM Mafika	PE Ramagole
M Mashinini	SI Ramathesele
LS Masuku	SS Sejake
MJ Matiseng	LS Semonyo
J Mofokeng	TK Mabasa
MS Mokoena	MC van der Bergh

### 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

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## General Information

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**Registered office**

Civic Centre  
Fichard Street  
Sasolburg  
PO BOX 60  
1947

**Postal address**

PO Box 60  
Sasolburg  
1947  
Tel: (016) 976-0029  
Fax: (016) 976-3130

**Bankers**

ABSA Bank

**Auditors**

The Auditor General: Free State

**Chief Financial Officer**

ME Mokoena

**Municipal Manager (Acting)**

XW Msweli

**Attorneys**

Lebea NJ & Associates  
Nkaiseng AP  
Nkaiseng D  
Chenia M  
PSN Attorneys  
Mollenaar & Griffiths  
Ntsoane Attorneys

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

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# **Metsimaholo Local Municipality**

Financial Statements for the year ended June 30, 2009

## **Accounting Officers' Responsibilities and Approval**

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The Accounting Officer is required by the Metsimaholo Local Municipality, 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, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is his responsibility to ensure that the financial statements fairly present the state of affairs of the Municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Generally Recognised Accounting Practice (GRAP). The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

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

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

The Accounting Officer has reviewed the Municipality's cash flow forecast for the year to June 30, 2010 and, in the light of this review and the current financial position, he is satisfied that the Municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements. The financial statements have been examined by the Municipality's external auditors and their report is presented on page 4.

The financial statements set out on pages 5 to 50, which have been prepared on the going concern basis, were approved by the Municipal Manager and Chief Financial Officer on August 31, 2009 and were signed on its behalf by:

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**XW Msweli**

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**Ms M E Mokoena**

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Statement of Financial Position on 30 June 2009

Figures in Rand	Note(s)	2009	2008
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	8	302,498,118	309,761,867
Intangible assets	9	34,437	34,437
Long-term receivables	5	4,953,447	711,881
Investments	10	6,199,683	8,255,305
		<b>313,685,685</b>	<b>318,763,490</b>
<b>Current Assets</b>			
Inventories	2	2,244,459	1,985,481
Current portion of long-term receivables	5	-	185,863
Call Investments	6	8,073,891	7,221,019
Trade and other receivables from exchange transactions	3	92,443,055	127,240,569
Other receivables from non-exchange transactions	4	12,828,723	18,036,577
Cash and cash equivalents	7	6,126,918	6,893
		<b>121,717,046</b>	<b>154,676,402</b>
<b>Total Assets</b>		<b>435,402,731</b>	<b>473,439,892</b>
<b>Net assets and Liabilities</b>			
<b>Net assets</b>			
Net surplus		315,701,099	348,124,278
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Long-term liabilities	14	2,564,743	2,564,743
Finance lease obligation	15	11,038,354	16,314,583
		<b>13,603,097</b>	<b>18,879,326</b>
<b>Current Liabilities</b>			
Current portion of long-term liabilities	14	-	4,050,364
Finance lease obligation	15	5,380,057	4,255,673
Trade and other payables	12	87,611,811	87,867,283
Consumer deposits	11	7,394,644	7,143,179
Unspent conditional grants and receipts	13	5,712,023	465,803
Bank overdraft	7	-	2,653,986
		<b>106,098,535</b>	<b>106,436,288</b>
<b>Total Liabilities</b>		<b>119,701,632</b>	<b>125,315,614</b>
<b>Total Net Assets and Liabilities</b>		<b>435,402,731</b>	<b>473,439,892</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Statement of financial performance

Figures in Rand	Note(s)	2009	2008
<b>Revenue</b>			
Property rates	18	65,199,753	56,917,298
Services charges	19	205,404,613	215,292,559
Government grants and subsidies	17	70,424,030	50,725,832
Fines		338,203	776,553
Rental income		2,590,228	1,288,598
Realisation of deferred income		4,114,774	39,704,898
Interest earned		18,779,543	14,585,301
Interest - external investments		2,924,211	1,826,980
Other income	20	12,973,627	11,445,049
Gains on disposal of property, plant and equipment		70,000	8,805,166
		<b>382,818,982</b>	<b>401,368,234</b>
		-	-
<b>Other income</b>		<b>595,958</b>	<b>2,386,962</b>
<b>Expenses</b>			
Employee costs	21	(105,054,240)	(93,947,023)
Remuneration of Councillors	22	(8,424,341)	(7,627,974)
Bad debts		(81,080,683)	(72,564,515)
Bulk purchases	24	(108,959,093)	(93,097,767)
Depreciation, amortisation and impairments		(26,377,169)	(13,262,023)
Contracted services		(6,475,271)	(5,611,341)
Increase in provisions		(1,494,531)	(931,277)
Income Foregone		(3,384,207)	-
Repairs and maintenance		(16,022,691)	(8,777,593)
Grants and subsidies paid	25	(4,224,152)	(3,543,782)
General Expenditure	26	(49,342,186)	(43,870,042)
Loss with disposal of property, plant and equipment		-	(1,276,265)
		<b>(410,838,564)</b>	<b>(344,509,602)</b>
<b>Surplus before finance cost for the period</b>		<b>(27,423,624)</b>	<b>59,245,594</b>
Finance costs	23	(4,999,555)	(4,154,444)
<b>(Deficit) / Surplus for the period</b>		<b>(32,423,179)</b>	<b>55,091,150</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Statement of Changes in Net Assets

Figures in Rand	Capital Replacement Reserve CRR	Housing Development Fund	Capital Reserve	Total reserves	Accumulated surplus/(deficit)	Total Net Assets
Opening balance as previously reported	- 1,893,857	4,396,419	143,854,283	150,144,559	47,355,168	197,499,727
Adjustments						
Prior period adjustments	- -	- -	- -	- -	95,533,401	95,533,401
<b>Balance at July 1, 2007 as restated</b>	<b>- 1,893,857</b>	<b>4,396,419</b>	<b>143,854,283</b>	<b>150,144,559</b>	<b>142,888,569</b>	<b>293,033,128</b>
Changes in Net Assets						
Property, plant and equipment purchased	- (1,081,783)	- -	- -	(1,081,783)	1,081,783	-
Expenditure	- (244,520)	(299,186)	(10,781,956)	(11,325,662)	11,325,662	-
Transfer	- 1,767,934	8,609,177	- -	10,377,111	(10,377,111)	-
Sub total	- 441,631	8,309,991	(10,781,956)	(2,030,334)	2,030,334	-
Profit for the year	- -	- -	- -	- -	55,091,150	55,091,150
Total recognised income and expenses for the year	- 441,631	8,309,991	(10,781,956)	(2,030,334)	57,121,484	55,091,150
Transfers to accumulated surplus	- (2,335,488)	(12,706,410)	(133,072,327)	(148,114,225)	148,114,225	-
Total changes	- (1,893,857)	(4,396,419)	(143,854,283)	(150,144,559)	205,235,709	55,091,150
Opening balance as previously reported	- -	- -	- -	- -	92,743,753	92,743,753
Adjustments						
Prior period adjustments	- -	- -	- -	- -	255,380,525	255,380,525
<b>Balance at July 1, 2008 as restated</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	<b>348,124,278</b>	<b>348,124,278</b>
Changes in Net Assets						
Loss for the year	- -	- -	- -	- -	(32,423,179)	(32,423,179)
Total changes	- -	- -	- -	- -	(32,423,179)	(32,423,179)
<b>Balance at June 30, 2009</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	<b>315,701,099</b>	<b>315,701,099</b>

Note(s)

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# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Cash Flow Statement

Figures in Rand	Note(s)	2009	2008
<b>Cash flows from operating activities</b>			
Cash receipts from customers		357,526,412	344,395,439
Cash paid to suppliers and employees		(325,141,426)	(272,453,682)
Cash from operating activities	27	32,384,986	71,941,757
Finance costs		(4,999,555)	(4,154,444)
<b>Net cash from operating activities</b>		<b>27,385,431</b>	<b>67,787,313</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(19,114,669)	(43,712,265)
Proceeds from sale of Property, Plant and Equipment	8	-	965,986
Sale of financial assets		(4,055,703)	-
Sale of investments		2,055,622	(650,066)
Sale of other receivables from non-exchange transactions		5,207,854	4,656,416
<b>Net cash from investing activities</b>		<b>(15,906,896)</b>	<b>(38,739,929)</b>
<b>Cash flows from financing activities</b>			
Repayment of long-term liabilities		(4,050,364)	(8,847,623)
Movement in consumer deposits		251,465	51,368
Movement in unspent conditional grants and receipts		5,246,220	(4,592,991)
Finance lease payments		(4,151,845)	(3,247,452)
<b>Net cash from financing activities</b>		<b>(2,704,524)</b>	<b>(16,636,698)</b>
<b>Total cash movement for the year</b>		<b>8,774,011</b>	<b>12,410,686</b>
Cash at the beginning of the year		(2,647,093)	(15,057,779)
<b>Total cash at end of the year</b>	7	<b>6,126,918</b>	<b>(2,647,093)</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1. Basis of preparation of Financial Statements

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

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

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

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

The accounting policies are applied consistently with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The standards included in the GRAP reporting framework, as determined in Directive 5 issued by the Accounting Standards Board, are summarised as follows:

<b>Standard</b>	<b>Title of Standard</b>
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IFRS 3 (AC 140)	Business Combinations
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19 (AC 116)	Employee Benefits
IAS 32 (AC 125)	Financial Instruments: Presentation
IAS 36 (AC 128)	Impairment of Assets
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, as detailed above, have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

### STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

Standard	Details of amendment and anticipated impact thereof	Annual periods beginning on or after
GRAP 18 – Segment Reporting	New standard of GRAP dealing with presentation and disclosure requirements in respect of segment reporting. Will require significant new disclosures	To be determined by the Minister of Finance (issued March 2005)
GRAP 21 – Impairment of Non-cash-generating Assets	New standard of GRAP dealing with the requirements around determining impairments of non-cash generating assets	To be determined by the Minister of Finance (issued March 2009)
GRAP 23 – Revenue from Non-exchange transactions	New standard of GRAP dealing with revenue from non-exchange transactions, including grant income, levies and taxes. This is likely to change the way that grants are accounted as the new standard eliminates the matching principal and focuses only on the conditions as a factor for determining the recognition of grant revenue.	To be determined by the Minister of Finance (issued February 2008)
GRAP 24 – Presentation of Budget Information in the Financial Statements	New standard of GRAP dealing with the presentation and disclosure of budget information as required by GRAP 1. The impact of this is currently being assessed by management as part of the work on assets.	To be determined by the Minister of Finance (issued November 2007)
GRAP 26 - Impairment of Cash-generating Assets	New standard of GRAP dealing with the requirements around determining impairments of cash generating assets. The impact of this is currently being assessed by management as part of the work on assets.	To be determined by the Minister of Finance (issued March 2009)
GRAP 103 – Heritage Assets	New standard of GRAP dealing with the recognition, subsequent measurement, presentation and disclosure of heritage assets. The impact of this is currently being assessed by management as part of the work on assets.	To be determined by the Minister of Finance (issued July 2008)
Amendment to IFRS 3 – Business Combinations	Amendments to accounting for business combinations.	1 July 2009

The municipality has not entered into any business combinations. As such it is anticipated that the amendment to the Standard will have an impact on financial results of the municipality.

* Amendment to IFRS 7 – Financial Instruments: Disclosures	Presentation of finance costs	1 January 2009
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The amendment to the Standard enhances disclosure of finance costs. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

* Amendment to IAS 19 – Employee Benefits	The amendment affects the following: Curtailments and negative past service cost Plan administration costs Replacement of terms "fall due" Guidance on contingent liabilities	1 January 2009
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These changes are not expected to have a significant impact on the financial results of the municipality.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE....continue

Standard	Details of amendment and anticipated impact thereof	Annual periods beginning on or after
Amendment to IAS 32 – Financial Instruments: Presentation	Certain financial instruments will be classified as equity whereas, prior to these amendments, they would have been classified as financial liabilities.	1 January 2009

The entity does not hold any instruments that are subject to the revised classification provisions of the Standard. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

* Amendment to IAS 36 – Impairment of Assets	Disclosure of estimates used to determine recoverable amount.	1 January 2009
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The amendment to the Standard enhances disclosure of estimates applied in determining the recoverable amount. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

* Amendment to IAS 36 – Impairment of Assets	Unit of accounting for goodwill impairment test.	1 January 2010
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The municipality has not entered into any transactions that give rise to goodwill. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

* Amendment to IAS 39 – Financial Instruments: Recognition and Measurement	Reclassification of derivatives into or out of the classification of at fair value through profit or loss. Designating and documenting hedges at the segment level. Applicable effective interest rate on cessation of fair value hedge accounting.	1 January 2009
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The municipality does not have any derivative financial instruments or hedge instruments and does not apply hedge accounting. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

*Amendment to IAS 39 – Financial Instruments: Recognition and Measurement	Clarifies two hedge accounting issues: Inflation in a financial hedged item. A one-sided risk in a hedged item.	1 July 2009
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The municipality does not apply hedge accounting. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

* Amendment to IAS 39 – Financial Instruments: Recognition and Measurement	Treating loan prepayment penalties as closely related embedded derivatives Scope exemption for business combination contracts Cash flow hedge accounting	1 January 2010
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The municipality is not subject to any loan repayment penalties and it does not apply hedge accounting, as it does not have any hed instruments. As such it is anticipated that the amendment to the Standard will not have an impact on financial results of the municipality.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE....continue

Standard	Details of amendment and anticipated impact thereof	Annual periods beginning on or after
Interpretation** Annual periods beginning on or after		
* IFRIC 9 – Reassessment of Embedded Derivatives		1 July 2009
IFRIC 12 – Service Concession Arrangements		1 January 2008
IFRIC 13 – Customer Loyalty Programmes		1 July 2008
IFRIC 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction		1 January 2008
IFRIC 15 – Agreements for the Construction of Real Estate		1 January 2009
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation		1 October 2008
* IFRIC 16 – Hedges of a Net Investment in a Foreign Operation		1 July 2009
IFRIC 17 – Distribution of Non-cash Assets to Owners		1 July 2009

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.1 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

The Municipality assesses its loans and receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the company 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 loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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

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, if any, is included in the Statement of Financial Performance.

#### Fair value estimation

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 balance sheet date. The quoted market price used for financial assets held by the company 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 company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet 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. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

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.

#### Impairment testing

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.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.1 Significant judgements (continued)

#### Post employment benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 32.

#### Effective interest rate

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

#### Useful lives and residual values

The municipality re-assess the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of property, plant and equipment management considers the condition and use of the individual assets, to determine the remaining period over which the asset can and will be used.

#### Presentation currency

The financial statements are presented in South African Rand, which is the functional currency of the municipality, and are rounded off to the nearest Rand.

#### Going concern

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

#### Comparative concern

Budget information in accordance with GRAP 1 and based on IPSAS 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Additional text

### 1.2 Property, plant and equipment

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

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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

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. The cost of replacing or servicing an asset will only be included if the expenditure improves the condition of the asset beyond the most reasonably assessed standard of performance. 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.

An item of property, plant and equipment is eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Any gains or losses arising from the de-recognition thereof are recognised in surplus / deficit, in the period that it arises.

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 these 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:

<b>Item</b>	<b>Average useful life</b>
Roads	10 - 30 years
Electricity	20 - 30 years
Water	15 - 20 years
Sewerage	15 - 20 years
Housing	30 years
Buildings	30 years
Recreational facilities	20 - 30 years
Specialist vehicles	10 years
Other vehicles	3 - 20 years
Office equipment	3 - 5 years
Furniture and fittings	3 - 7 years
Bins and containers	5 - 10 years
Specialised plant and equipment	5 - 15 years
Other items of plant and equipment	2 - 5 years

The surpluses or deficits arising from de-recognition 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.

Land is not depreciated.

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



# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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

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.

#### Non-current assets (or disposal group) held for sale

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.

#### Impairment testing

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

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. 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.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.3 Financial instruments

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

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

#### Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

#### 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 classified as loans and receivables and are measured at fair value plus direct transaction costs upon initial recognition.

After initial recognition these loans 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 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 classified as loans and receivables and are measured at initial recognition at fair value plus direct transaction costs. After initial recognition these receivables are measured at amortised cost, using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts..

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 payables and borrowings

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.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.3 Financial instruments (continued)

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.

#### Designated through profit and loss

These financial assets are measured at fair value.

#### 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.

### 1.4 Inventories

#### Initial recognition:

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

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.4 Inventories (continued)

- 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:

<b>Inventory class:</b>	<b>Measurement basis:</b>
Consumable stores	First-in-first out
Water	Weighted average method
Unsold houses	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.

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

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

### 1.5 Leases

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

#### Finance leases - lessor

The municipality recognises finance lease receivables on the Statement of Financial Position at the commencement of the lease term. The finance lease receivable is measured at an amount equal to the net investment in the lease upon initial recognition.

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.

#### Municipality as 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 to 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 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

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.5 Leases (continued)

- 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, at the commencement of the lease term. 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.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using GRAP 13 Leases.

#### 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 as a separate line item in the Statement of Financial Performance. Contingent rentals received / receivable are recognised in income in the period when they become due and are not included in the straight-line lease income.

#### 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.

Any contingent rents are expensed in the period they are incurred and are not included in the straight-line lease expense.

### 1.6 Intangible assets

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.6 Intangible assets (continued)

Initial recognition:

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 measured at cost upon initial recognition.

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. Amortisation commences when the asset is available for use and ceases at the earlier of the disposal of the asset or when the residual value of the asset is equal to or exceeds the carrying value of the asset.

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.

An item of intangible assets shall be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the disposal are recognised in surplus / (deficit) for the period during which the asset is disposed.

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

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

Item	Useful life
Computer software	3 years

### 1.7 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.

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 profit 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

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.7 Employee benefits (continued)

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 un-recognised actuarial deficits, plus the present value of available refunds and reduction in future contributions to the plan. 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.

#### 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.

### 1.8 Government grants

Government grants are recognised when there is reasonable assurance that:

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

### 1.9 Impairment of assets

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 service amount of the asset.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.9 Impairment of assets (continued)

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. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A 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 service 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. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.



# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits 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. Where the effect of time value of money is material, the amount of a provision shall be 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.

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.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.11 Revenue

Revenue from exchange transactions:

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

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

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

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

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

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

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

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

Revenue from non - exchange transactions:

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

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

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

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

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

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.

Grants, transfers and donations:

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.11 Revenue (continued)

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

### 1.12 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless the borrowing cost was incurred in relation to a qualifying asset in which case the borrowing cost is capitalized in the cost of such an asset.

### 1.13 Unauthorised expenditure

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

### 1.14 Irregular expenditure

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

### 1.15 Fruitless and wasteful expenditure

Unauthorised and 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.

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.

### 1.21 Comparative Information

Budget information in accordance with GRAP 1 and IPSAS 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

# **Metsimaholo Local Municipality**

Financial Statements for the year ended June 30, 2009

## **Accounting Policies**

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### **1.22 Going concern**

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

### **1.23 Related parties**

The municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. All municipalities and municipal entities, with whom the municipality has transacted with, are regarded as related parties.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>2. Inventories</b>		
Consumable stores	2,028,785	1,766,249
Unsold properties	51,657	66,122
Water reservoir	164,017	153,110
	<b>2,244,459</b>	<b>1,985,481</b>

The Municipality has recognised purchased water stock on hand on 30 June 2009. This amount has been estimated using water in reservoirs and water networks and the different purchase prices of water.

### 3. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions	92,443,055	127,240,569
<b>Service receivables</b>		
Rates	49,904,262	66,847,661
Electricity	48,080,278	42,903,027
Water	192,225,720	143,911,453
Sewerage	17,214,011	16,037,618
Refuse	13,617,961	31,576,757
Housing rentals	64,377	64,377
Provision for bad debts	(239,910,352)	(174,100,324)
	<b>81,196,257</b>	<b>127,240,569</b>

#### Credit quality of service receivables

All of municipality's trade and other receivables have been reviewed for indicators of impairment. The municipality's management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers, identified group, based on average past payment history and incorporates this information into its credit risk control. No external credit rating is performed.

#### Ageing

##### Trade receivables:

##### Rates

Current	10,645,708	10,476,168
1 - 30 days	1,511,041	3,133,457
31 - 60 days	1,251,976	1,646,230
61 - 90 days	1,200,458	1,458,455
91 - 120 days	1,168,555	1,292,191
120 + days	34,126,524	48,841,160
	<b>49,904,262</b>	<b>66,847,661</b>

##### Services (Electricity, Water, Sewerage and Refuse)

Current	26,734,259	87,289,996
1 - 30 days	7,825,871	23,135,247
31 - 60 days	6,945,673	10,098,693
61 - 90 days	11,816,300	16,471,554
91 - 120 days	19,275,485	5,364,602
120 + days	206,414,990	92,067,763
	<b>279,012,578</b>	<b>234,427,855</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand 2009 2008

### 3. Trade and other receivables from exchange transactions (continued)

#### Housing Rentals

+ 365 days 64,377 64,377

#### Summary of receivables by customer classification 2009

	Consumers	Industrial / Commercial	National and Provincial Government
Current	29,125,039	8,112,299	142,629
1 - 30 days	5,314,348	3,882,951	139,613
31 - 60 days	5,062,875	1,747,626	1,387,148
61 - 90 days	11,286,512	1,588,635	141,394
91 - 120 days	18,854,463	1,442,183	147,394
120+ days	209,835,841	27,267,570	3,502,480
	<b>279,479,078</b>	<b>44,041,264</b>	<b>5,460,658</b>

#### Summary of receivables by customer classification 2008

	Consumers	Industrial / Commercial	Provincial Government
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	120,126,624	20,566,587	344,466
	<b>256,403,682</b>	<b>44,037,667</b>	<b>899,544</b>

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	174,100,324	108,113,670
Provision for impairment	65,810,028	72,564,515
Amounts written off as uncollectible	-	(6,577,861)
	<b>239,910,352</b>	<b>174,100,324</b>

#### Trade and other receivables past due but not impaired:

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

Current	14,226,142	52,358,576
1 month past due	8,034,930	4,957,819
2 months past due	7,810,643	7,568,696
3 months past due	62,154,850	62,291,101
	<b>92,226,565</b>	<b>127,176,192</b>

#### Trade and other receivables impaired

#### The ageing of these receivables are as follows:

Current	9,065,083	71,677,292
1 month past due	7,414,628	6,787,104
2 months past due	6,548,026	10,361,313
3 months past due	216,882,615	85,274,615
	<b>239,910,352</b>	<b>174,100,324</b>

The maximum exposure to credit risk at the reporting date is the fair value of each class of consumers mentioned above.

The municipality does not hold any collateral as security.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>3. Trade and other receivables from exchange transactions (continued)</b>		
None of these receivables were pledged as security.		
There is a difference between the debtors age analysis and the trial balance due to a system error. This is a recurring problem from previous years.		
<b>4. Other receivables from non-exchange transactions</b>		
Sundry receivables - general	7,476,400	11,603,485
Claims and subsidies	2,144,033	2,144,033
Input VAT / capital receivables	1,466,553	3,403,108
Provincial Administration - Ambulance Claim	1,056,162	852,492
Claimable: Deneysville	112,290	-
Other deposits	573,276	33,450
Rent Prepaid	9	9
	<b>12,828,723</b>	<b>18,036,577</b>
<b>5. Long-term receivables</b>		
Staff housing loans	14,048	16,507
The loan was granted to a staff member in 1984 at an interest rate of 5% according to the housing scheme that was applicable then. The loan will be fully redeemed in 2014.		
Car loans	49,800	225,366
Senior staff are entitled to car loans which attract interest at 8.5% p.a. 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	548,301	655,871
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 R 7,500 discount scheme by the government.		
Housing loans RDP	4,341,298	-
Loans are granted for the purchase of the land (stands).		
	<b>4,953,447</b>	<b>897,744</b>
<b>Non-current assets</b>		
Staff housing loans	14,048	16,507
Car loans	49,800	222,923
Housing selling scheme loans	548,301	472,451
Housing loans RDP houses	4,341,298	-
<b>Current assets</b>		
Staff housing loans	-	183,420
Car loans	-	2,443
	-	<b>185,863</b>
	<b>4,953,447</b>	<b>897,744</b>

The company has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2009 and 2008, as all the financial assets were disposed of at their redemption date.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>6. Call Investments</b>		
30 day deposits	8,073,891	7,221,019
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	5,315	6,893
Bank balances	6,121,603	-
Bank overdraft	-	(2,653,986)
	<b>6,126,918</b>	<b>(2,647,093)</b>
Current assets	6,126,918	6,893
Current liabilities	-	(2,653,986)
	<b>6,126,918</b>	<b>(2,647,093)</b>
Guarantee: Eskom as electricity deposit	539,826	990,000
<b>Bank balances/(overdrafts) consist of:</b>		
<b>Current Account (primary bank account)</b>	-	-
<b>ABSA [Acc no. 520 000 038]</b>	-	-
Cash book balance at the beginning of year	(2,653,987)	(14,274,808)
Cash book balance at end of year	6,121,603	(2,653,987)
Bank balance at beginning of the year	2,574,534	(4,088,977)
Bank balance at end of year	8,104,495	2,574,534
<b>Transmission Account</b>	-	-
<b>ABSA [Acc no. 520 000 062]</b>	-	-
Cash book balance at beginning of year	-	(788,288)
Cash book balance at end of year	-	-
Bank statement balance at beginning of year	-	800,853
Bank statement balance at end of year	-	-
Total cash book balance at beginning of year	(2,653,987)	(15,063,096)
Total cash book balance at end of year	6,121,603	(2,653,987)

## 8. Property, plant and equipment

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and Buildings	26,166,500	(6,854,086)	19,312,414	26,166,500	(5,831,479)	20,335,021
Infrastructure	334,995,322	(111,688,826)	223,306,496	318,202,724	(95,442,987)	222,759,737
Community	13,944,901	(4,646,800)	9,298,101	13,418,584	(4,031,123)	9,387,461
Heritage	180,420	206	180,626	180,420	205	180,625
Leasehold property	21,341,049	(10,903,294)	10,437,755	21,240,746	(6,595,174)	14,645,572
Other	40,775,309	(24,682,912)	16,092,397	39,075,299	(20,901,389)	18,173,910
Housing	27,104,302	(3,233,973)	23,870,329	27,104,302	(2,824,761)	24,279,541
<b>Total</b>	<b>464,507,803</b>	<b>(162,009,685)</b>	<b>302,498,118</b>	<b>445,388,575</b>	<b>(135,626,708)</b>	<b>309,761,867</b>



# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand 2009 2008

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

#### Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Depreciation	Total
Land and Buildings	20,335,021	-	(1,022,607)	19,312,414
Infrastructure	222,759,737	16,792,598	(16,245,839)	223,306,496
Community	9,387,461	526,317	(615,677)	9,298,101
Heritage	180,626	-	-	180,626
Housing	24,279,541	-	(409,212)	23,870,329
Assets held under finance lease agreement	14,645,572	100,303	(4,308,120)	10,437,755
Other	18,173,912	1,695,451	(3,776,966)	16,092,397
	<b>309,761,870</b>	<b>19,114,669</b>	<b>(26,378,421)</b>	<b>302,498,118</b>

#### Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Disposals	Depreciation	Total
Land and Buildings	19,923,321	1,500,000	(121,813)	(966,487)	20,335,021
Infrastructure	187,696,785	39,871,025	(196)	(4,807,877)	222,759,737
Community	10,427,011	-	(833,704)	(205,846)	9,387,461
Heritage	181,075	-	(450)	-	180,625
Housing	24,683,908	-	-	(404,367)	24,279,541
Assets held under finance lease	18,922,385	29,195	-	(4,306,008)	14,645,572
Other	18,379,007	2,312,045	(9,823)	(2,507,317)	18,173,912
	<b>280,213,492</b>	<b>43,712,265</b>	<b>(965,986)</b>	<b>(13,197,902)</b>	<b>309,761,869</b>

Also refer to Appendix B for additional analysis of property plant and equipment.

### 9. Intangible assets

	2009			2008		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	1,817,522	(1,783,085)	34,437	1,817,522	(1,783,085)	34,437

#### Reconciliation of intangible assets - 2009

	Opening Balance	Total
Computer software	34,437	34,437

#### Reconciliation of intangible assets - 2008

	Opening Balance	Amortisation	Total
Computer software	98,558	(64,121)	34,437

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>10. Investments</b>		
<b>Listed Shares</b>		
Sanlam Ltd - Moneymarket (2009: 548 898,76 units @ 100 cents; 2008: 419098,64 units @ 100 cents)	548,899	419,099
Sanlam Ltd - Term annuity investment	1,238,516	1,379,743
Sanlam Ltd - Investment policies	4,381,198	6,425,905
	<b>6,168,613</b>	<b>8,224,747</b>
<b>Unlisted Shares</b>		
Other deposits (Collateral housing deposits)	31,070	30,558
<b>Council valuation of listed investments</b>		
Sanlam Ltd	6,168,613	8,224,747
<b>Allocation of external investments:</b>		
<b>In terms of legislation, surplus cash is invested until used for specific purposes. Investments are allocated on the following basis:</b>		
Repayment of fixed period external loans	6,168,613	8,224,747
	<b>6,168,613</b>	<b>8,224,747</b>
<b>11. Consumer deposits</b>		
Electricity and water	7,394,644	7,143,179
	<b>7,394,644</b>	<b>7,143,179</b>
Guarantees in lieu of electricity and water deposits	45,300	45,300
	<b>45,300</b>	<b>45,300</b>
<b>12. Trade and other payables</b>		
Trade payables	21,261,758	13,201,105
VAT	23,976,801	27,466,505
Other payables	21,850,337	17,092,406
Payments received in advance	11,246,798	22,314,709
Accrued leave pay	7,024,842	6,004,282
Accrued bonus	2,251,275	1,788,276
	<b>87,611,811</b>	<b>87,867,283</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>13. Unspent conditional grants and receipts</b>		
<b>Conditional grants from other spheres</b>		
Municipal Infrastructure Grant	2,369,641	(931,315)
Department of Minerals and Energy	2,773,851	481,602
District Municipality - Fezile Dabi	66,695	66,695
Financial Management Grant	-	171,984
Provincial Government	632,590	632,590
Department of Water Affairs and Forestry	(175,000)	-
	<b>5,667,777</b>	<b>421,556</b>
<b>Other Conditional Receipts</b>		
SETA	1,186	1,186
Public Contribution - Sasol Chemical Industries	43,061	43,061
	<b>44,247</b>	<b>44,247</b>
Department of Water Affairs and Forestry The amount has been restated.		
See Note 19 for reconciliation of grants from National/Provincial government.		
These amounts are invested in a ring-fenced investment until utilised.		
<b>14. Long-term liabilities</b>		
Annuity loans	2,564,743	6,615,107
The loans have been taken up to finance Infrastructure and the purchase of vehicles. The interest rate vary between 9.1% and 15.6%. The terms of the loans vary and will be redeemed at 30/4/2011.		
<b>Non-current liabilities</b>		
Long term liabilities	2,564,743	2,564,743
<b>Current liabilities</b>		
Current portion long term liabilities	-	4,050,364
	<b>2,564,743</b>	<b>6,615,107</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	7,113,240	6,557,173
- in second to fifth year inclusive	12,249,498	19,243,721
	19,362,738	25,800,894
less: future finance charges	(2,944,327)	(5,230,368)
<b>Present value of minimum lease payments</b>	<b>16,418,411</b>	<b>20,570,526</b>
<b>Present value of minimum lease payments due</b>		
- within one year	5,380,057	4,255,673
- in second to fifth year inclusive	11,038,354	16,314,583
	<b>16,418,411</b>	<b>20,570,256</b>
Non-current liabilities	11,038,354	16,314,583
Current liabilities	5,380,057	4,255,673
	<b>16,418,411</b>	<b>20,570,256</b>

It is company policy to lease certain equipment under finance leases.

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.

The company's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

## 16. Housing development fund

<b>Housing development fund</b>		
Unappropriated surplus	16,972,066	12,706,410

The housing development fund is represented by the following:

Investments	16,972,066	12,706,410
-------------	------------	------------

## 17. Government grants and subsidies

Equitable share	50,649,530	38,890,859
Financial Management Grant	671,984	368,649
Provincial Government	-	537,500
District Municipality: Fezile Dabi	1,796,277	117,889
Department Minerals & Energy	-	1,209,528
Department of Water Affairs and Forestry	976,955	535,895
Sasol Chemical Industries	-	186,694
Provincial Government	-	507,516
Provincial Government Municipal Infrastructure Grant	15,583,045	7,472,756
Financial Management Grant	-	164,546
Municipal Systems Improvement Grant	746,239	734,000
	<b>70,424,030</b>	<b>50,725,832</b>

## Equitable Share

	272	254
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# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand

	2009	2008
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### 17. Government grants and subsidies (continued)

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.

#### Financial Management Grant

Balance unspent at beginning of the year	171,984	40,633
Current year receipts	500,000	500,000
Conditions met - transferred to revenue	(671,984)	(368,649)
	<b>-</b>	<b>171,984</b>

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.

#### Provincial Government

Current year receipts	-	537,500
Conditions met - transferred to revenue	-	(537,500)
	<b>-</b>	<b>-</b>

Funds received from Provincial Government to assist with spatial framework.

#### District Municipality: Fezile Dabi

Balance unspent at the beginning of the year	66,695	66,695
Current year receipts	1,796,277	4,225,502
Conditions met - transferred to revenue	(1,796,277)	(4,225,502)
	<b>66,695</b>	<b>66,695</b>

Capital projects (infrastructure) financed by the District Municipality: Fezile Dabi.

#### Department of Minerals & Energy

Balance unspent at beginning of the year	481,603	2,692,048
Current year receipts	2,292,248	12,000,000
Conditions met - transferred to revenue	-	(14,210,445)
	<b>2,773,851</b>	<b>481,603</b>

Installation of electricity in the Municipality's area, financed by the Department of Mineral & Energy.

#### Department of Water Affairs and Forestry

Current year receipts	441,349	-
Conditions met - transferred to revenue	(976,955)	-
	<b>(535,606)</b>	<b>-</b>

Funds for waterworks at Deneysville restated.

#### Provincial Government

Balance unspent at beginning of the year	632,590	632,590
	<b>632,590</b>	<b>632,590</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand

	2009	2008
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### 17. Government grants and subsidies (continued)

Funds for waterworks at laboratory.

#### Sasol Chemical Industries

Balance unspent at beginning of the year	43,061	43,061
Current year receipts	-	1,229,760
Conditions met - transferred to revenue	-	(1,229,760)
	<b>43,061</b>	<b>43,061</b>

Equipment for library Zamdela (06/07) and Chairs Theatre (07/08).

#### Provincial Government Municipality Infrastructure Grant

Balance unspent at beginning of the year	(931,314)	1,572,585
Current year receipts	18,884,000	18,931,181
Conditions met - transferred to revenue	(15,583,045)	(21,435,080)
	<b>2,369,641</b>	<b>(931,314)</b>

Funds received for installation of infrastructure.

#### Sector Education Training Authority Grant

Balance unspent at beginning of the year	1,186	1,186
	<b>1,186</b>	<b>1,186</b>

The Municipality received funds from Sector Education Training Authority for excellence performance by human resources division.

#### Municipal Systems Improvement Grant

Current year receipts	746,239	734,000
Conditions met - transferred to revenue	(746,239)	(734,000)
	-	-

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

### Changes of levels in Government Grants

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.

### 18. Property rates

#### Actual

Residential	49,861,607	33,907,775
Commercial	5,004,020	5,745,693
Light industries	371,040	1,974,827
Heavy Industries	9,793,158	13,641,016
State	169,928	1,647,987
	<b>65,199,753</b>	<b>56,917,298</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>18. Property rates (continued)</b>		
<b>Valuations</b>		
Residential	7,286,212	347,894
Commercial	819,692	68,678
Light industries	440,344	9,479
Heavy industries	32,924	29,232
State	409,851	17,301
Municipality	188,619	77,994
Agriculture	493,195	-
Churches	94,722	-
Council Stand	144,020	-
Unregistered Erven	18,206	-
Unknown	729,037	-
	<b>10,656,822</b>	<b>550,578</b>

The option to tax private development and agricultural land are in place and enter the second year and will be taxed at 50%. A phasing in period of 3 years remain to get some properties (zoning) on equal tariffs as per regulations issued in December 2007 by DPLG..

### Sasolburg / Zamdela

Residential:		
- Sasolburg	0.005	cents per Rand
- Zamdela	0.005	cents per Rand
Commercial	0.001	cents per Rand
Light Industries	0.025	cents per Rand
Heavy Industries	0.025	cents per Rand
State	0.01	cents per Rand

### Deneysville / Refengkgotso / Phomolong

Residential:		
Deneysville	0.005	cents per Rand
Businesses	0.01	cents per Rand
State	0.01	cents per Rand
Refengkgotso	0.005	cents per Rand

### Oranjeville / Metsimaholo

Residential:		
-Oranjeville	0.005	cents per Rand
Businesses	0.015	cents per Rand
Metsimaholo :		
Residential	0.005	cents per Rand
Businesses	0.01	cents per Rand
State Property	0.01	cents per Rand

### Farmland

Residential	0.00063	cents per Rand
Businesses	0.00125	cents per Rand
Industries	0.00313	cents per Rand

Private owned towns, Body Corporate, Sectional Titles	0.00063 cents per Rand
Mining	0.00313 cents per Rand

Agricultural	0.00031	cents per Rand
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# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>19. Service charges</b>		
Sale of water	85,241,711	117,021,478
Sale of electricity	93,602,912	73,402,144
Refuse removal	14,223,665	12,324,137
Sewerage and sanitation charges	12,336,325	12,544,800
	<b>205,404,613</b>	<b>215,292,559</b>
<b>20. Other income</b>		
<b>Consists of the following material items:</b>		
Connection fees	1,778,228	2,876,154
Income - Legal costs	1,062,962	715,755
Other income	10,132,437	7,853,139
	<b>12,973,627</b>	<b>11,445,048</b>



# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand 2009 2008

### 21. Employee related costs

The following emoluments were paid to the directors during the year.

#### Total employee costs:

Salaries and wages	67,635,371	60,375,796
Council contributions - UIF, pension, medical, group Ins.	16,988,683	15,063,079
Travel, motor car, accommodation and subsistence allowance	5,584,896	5,749,430
Housing benefits and allowance	949,804	660,644
Overtime payments	8,723,850	7,657,095
Bonus	5,171,636	4,440,979
	<b>105,054,240</b>	<b>93,947,023</b>

#### Remuneration of Municipal Manager

Annual remuneration	598,011	574,018
Performance and other bonuses	47,450	-
Car allowance	194,905	150,617
Contributions - UIF, pension, medical, group insurance.	18,134	26,687
Travel, motor car, accommodation and subsistence allowance	60,982	15,167
Other remuneration	27,439	-
	<b>946,921</b>	<b>766,489</b>

#### Remuneration of Chief Financial Officer

Annual remuneration	476,168	653,535
Car allowance	230,116	157,300
Contributions - UIF, pension, medical, group insurance.	112	49,578
Travel, motor car, accommodation and subsistence allowance	31,828	16,053
	<b>738,224</b>	<b>876,466</b>

Included in the 2008 figures of the 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

2009	Technical services	Corporate Services	Social Services	Economic Development
Annual remuneration	266,293	462,006	359,224	516,907
Performance and other bonuses	22,191	-	-	-
Travel, motor car, accommodation and subsistence allowance	33,622	53,716	124,192	54,481
Car allowance	134,937	223,075	143,962	236,708
Contributions - UIF, pension, medical, group insurance	73,351	112	64,650	333
Other	190,613	-	3,477	-
	<b>721,007</b>	<b>738,909</b>	<b>695,505</b>	<b>808,429</b>

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 and subsistence allowance	9,632	1,768	19,263	28,139
	<b>409,579</b>	<b>658,921</b>	<b>633,843</b>	<b>308,494</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>22. Remuneration of Councillors</b>		
Executive Mayor	312,700	304,786
Speaker	290,337	229,724
Mayoral Committee Members	1,746,748	1,533,688
Councillors	3,162,299	2,454,610
Councillors' pension contribution	327,843	642,004
Councillors' medical contribution	131,581	117,573
Telephone allowance	425,669	380,359
Traveling allowance	2,027,163	1,965,230
	<b>8,424,340</b>	<b>7,627,974</b>

### *In-kind benefits*

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.

The Executive Mayor has use of a council owned vehicle for official duties and a bodyguard.

### **23. Finance costs**

Non-current borrowings	4,999,278	3,712,950
Bank	-	111,569
Eskom	277	87,337
Rand Water	-	242,588
	<b>4,999,555</b>	<b>4,154,444</b>

### **24. Bulk purchases**

Electricity	56,820,321	42,306,893
Water	52,138,772	50,790,874
	<b>108,959,093</b>	<b>93,097,767</b>

### **25. Grants and subsidies paid**

Grant to community chess	-	20,000
Equitable share	4,224,152	3,523,782
	<b>4,224,152</b>	<b>3,543,782</b>

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

Equitable share is used to subsidise registered indigents.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>26. General expenditure</b>		
Advertising	258,491	213,713
Audit fees	2,603,511	1,699,270
Bank charges	1,281,352	1,150,595
Bursaries	177,647	67,140
Conference and delegations	712,374	350,158
Connection charges	1,151,103	1,535,850
Consulting and professional fees	6,265,098	5,059,993
Departemental consumption	3,816,346	2,446,521
Entertainment	233,551	120,801
Legal fees	1,898,141	1,881,346
License fees vehicles	199,676	141,717
Financial management grant	-	190,744
Fuel and oil	3,905,171	3,571,064
Insurance aggregate	-	65,121
Insurance premium	1,221,598	1,731,726
Rental: External equipment	70,858	2,251,138
Membership fees	610,809	307,021
Postage	1,063,320	938,836
Printing and stationery	973,010	895,224
Sewerage treatment charges	9,198,620	8,618,059
Telephone expense	2,711,763	2,116,024
Training	631,629	580,338
Transport claims	355,834	154,815
Skills development levy	867,900	778,879
Stock and materials	1,384,571	1,315,996
Valuation costs	651,871	2,153,555
Uniforms	231,639	340,299
Other general expense	6,866,303	3,194,099
	<b>49,342,186</b>	<b>43,870,042</b>
<b>27. Cash generated from operations</b>		
(Loss) profit before taxation	(32,423,179)	55,091,150
<b>Adjustments for:</b>		
Depreciation and amortisation	26,378,418	13,262,023
Finance costs	4,999,555	4,154,444
Loss on disposal of fixed assets	-	1,276,272
Gain on disposal of fixed assets	-	(8,805,166)
<b>Changes in working capital:</b>		
Inventories	(258,978)	257,331
Trade and other receivables from exchange transactions	34,797,514	(14,923,211)
Call Investments	(852,872)	(1,715,865)
Trade and other payables	(255,472)	23,344,779
	<b>32,384,986</b>	<b>71,941,757</b>
<b>28. Cash and cash equivalents</b>		
<b>Cash and cash equivalents included in the Cash Flow Statement comprise the following:</b>		
Bank balance / cash	6,126,918	6,893
Bank overdraft	-	(2,653,987)
	<b>6,126,918</b>	<b>(2,647,094)</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>29. Utilisation of Long-term liabilities reconciliation</b>		
Long-term liabilities	-	6,615,108
Used to finance property, plant and equipment	-	(6,615,108)
	-	-
Cash set aside for repayment of long-term liabilities	-	4,050,364
<b>30. Additional disclosure in terms of Municipal Finance Management Act.</b>		
<b>Contributions to SALGA</b>		
Council subscriptions	600,629	301,140
Amount paid - current year	(600,629)	(301,140)
	-	-
<b>VAT</b>		
VAT payable is shown in note 12.		
All VAT returns have been submitted by the due date throughout the year.		
<b>Audit fees</b>		
Opening balance	28,230	-
Current year audit fee	2,603,511	1,699,270
Amount paid - current year	-	(1,671,040)
	<b>2,631,741</b>	<b>28,230</b>
<b>PAYE and UIF</b>		
Current year payroll deductions	11,761,913	11,097,434
Amount paid - current year	(11,761,913)	(11,097,434)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year payroll deductions	25,737,059	23,981,915
Amount paid - current year	(25,737,059)	(23,981,915)
	-	-
<b>Councillor's arrear accounts</b>		
T du Toit (Acc no. 525381)	2,356	-
DN Motloang (Acc no. 510127)	14,019	-
	<b>16,375</b>	-

These councillor's accounts were in arrear for more than 90 days at the reporting date or during the year.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>31. Commitments</b>		
<b>Capital Commitments</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure	15,460,478	4,486,419
<b>This expenditure will be financed from:</b>		
- Government grants	15,460,478	4,486,416
<b>Operating leases – lessee (Abrahamsrust)</b>		
<b>Minimum lease payments due</b>		
- within one year	1	1
- in second to fifth year inclusive	5	5
- later than five years	2	3
	<b>8</b>	<b>9</b>

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.

### 32. Retirement benefits

#### 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.

#### 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. Post balance sheet events

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).

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>35. Related parties</b>		
<b>Relationships</b>		
Government entities	RANDWATER SALGA DWAF TELKOM SAPO ESKOM SARS	
Post employment benefit plan for employees	Refer to note 32	
Executive Council Members	Refer to note 22	
<b>Related party transactions</b>		
<b>Purchases from (sales to) related parties</b>		
SARS	5,991,914	2,286,983
RAND WATER	53,694,392	56,087,547
SALGA	716,096	691,164
DWAF	3,096,038	2,936,027
TELKOM	1,866,251	1,059,755
SAPO	997,296	1,906,116
ESKOM	65,700,723	50,886,066
<b>36. Unauthorised, irregular, fruitless and wasteful expenditure</b>		
<b>FRUITLESS AND WASTEFULL EXPENDITURE</b>		
<b>Reconciliation of fruitless and wasteless expenditure</b>		
Opening balance	6,427,371	3,904,377
Fruitless and wasteful expenditure current year	1,817,978	2,275,508
Condoned by Council	1,007,981	247,486
	<b>9,253,330</b>	<b>6,427,371</b>
<b>Fruitless and wasteful expenditure during current year</b>		
<b>Incident</b>		
Interest on Rand Water	Payment was made	- 242,588
Interest on Eskom	Payment was made	- 87,337
Interest on Bank overdraft	Overdraft facility was cancelled	- 111,569
Payments made to Promptvest 26 (Pty) Ltd for a GAMAP compliant fixed asset register not completed in full Telephone system	Contract cancelled	- (11,107)
Suspended Employees - Salaries (refer to note 21)	Damage in fire, to be paid by Insurers	555,523 323,556
	Disciplinary hearing was held and one of the employees was dismissed	875,316 1,521,565
Legal costs - suspended employees	The costs had to be paid for the hearings of employees	387,139 -
		<b>1,817,978 2,275,508</b>
<b>Condoned by Council</b>		
<b>Incident</b>		
Purchases without an order	Condoned by Council	- 64,715
Purchases without an order and not budgeted for Ukwasi Force - Contract price exceeded budget	Condoned by Council	- 182,771
	Condoned by Council	1,007,981 -
		<b>1,007,981 247,486</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>36. Unauthorised, irregular, fruitless and wasteful expenditure (continued)</b>		
<b>IRREGULAR EXPENDITURE</b>		
<b>Reconciliation of irregular expenditure</b>		
Opening balance	-	5,718,052
Irregular expenditure current year	-	684,439
	-	<b>6,402,491</b>
<b>Irregular expenditure current year</b>		
<b>Incident</b>	<b>Actions taken</b>	
Inadequate quotation obtained for payments/tender procedures made to Jacobsco.	Supply Chain Officer will take control over procurement procedures	- 684,439
Computer service no tender	Service terminated	- 386,414
Photocopiers tender procedure not followed	Investigation in process	- 1,133,969
		- <b>2,204,822</b>

### 37. Comparative figures

Certain comparative figures have been reclassified for fairer presentation of the information.

### 38. Prior period errors

- 1.] An amount of R 708 600 has been paid for VAT during the current year pertaining to amounts that accrued in the 2008 financial year but was not provided for in that statements.
- 2.] An amount of R 415 200 has been received for health claims during the current year pertaining to amounts accrued but not provided for in the 2008 financial year.
- 3.] Deferred income was previously recognised over the usefull life of assets purchased with Government Grants. The conditions for these Grants is merely the purchase of the assets. In terms of IPSAS 23 the full amount of the Grant can be recognised when the asset is purchased. Deferred income that should have been recognised for periods prior to 2008 is R 67,854,796 . Accumulated surplus has been restated with the corresponding amount.
- 4.] The municipality re-assessed he usefull life of certain assets that has already been fully depreciated by the end of the 2007 and 2008 financial years. Access depreciation recognised in periods before the start of the 2008 financial year amounts to R 27,539,353.80. Accumulated surplus and accumulated depreciation has been restated with the corresponding amount.

The correction of these errors results in adjustments for the 2008 year as set out below:

#### Statement of financial position [ Dt / (Kt) ]

VAT Payable	(708,600)	(708,600)
Other receivables	415,200	415,200
Deferred income	39,704,898	39,704,898
Accumulated depreciation	13,769,677	13,769,677
	<b>53,181,175</b>	<b>53,181,175</b>

#### Statement of financial performance [ Dt / (Kt) ]

Other income	(415,200)	(415,200)
Revenue	708,600	708,600
Realisation of deferred income	(39,704,898)	(39,704,898)
Depreciation	(13,769,677)	(13,769,677)
	<b>(53,181,175)</b>	<b>(53,181,175)</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand	2009	2008
<b>39. Contingencies</b>		
<b>Housing Loans</b>		
Guarantees for housing loans to employees at financial institutions	31,070	30,558

### 40. Risk management

#### Capital risk management

#### Liquidity risk

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

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.

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

<b>At June 30, 2009</b>	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Later than 5 years</b>
Annuity loans	-	2,564,743	-
Finance lease obligations	7,113,240	12,249,498	-
Trade and other payables	76,365,020	-	-
Consumer deposits	7,394,644	-	-
<b>At June 30, 2008</b>	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Later than 5 years</b>
Annuity Loans	4,050,364	-	-
Finance lease obligations	6,557,173	19,243,721	-
Trade and other payables	60,400,785	-	-
Consumer deposits	7,143,179	-	-



# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

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Figures in Rand	2009	2008
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### 40. Risk management (continued)

#### Risk from environmental assets

The Council is not exposed to financial risks arising from changes in any purchased biological bulk services.

The Council operates two water purification plants as well as two sewer purification plants in Oranjeville and Deneyville 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.

The Council reviews its water and sewer purification prices annually, considering the need for active financial risk management.

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.

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.

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.

Adequate (R100 million) public liability insurance is secured annually from the insurers of the Council.

#### Interest rate risk

At reporting date the interest rate profile of the municipality's interest bearing financial instruments was:

##### Fixed rate instruments

Financial Assets: R 8,073,891(2008: R 7,221,019)

Financial Liabilities: R Nil (2008:R Nil )

##### Variable rate instruments

Financial Assets: R 6,218,208 (2008: R Nil)

Financial Liabilities: R 16,513,423 (2008: R 20,570,256)

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2009 and 2008, the municipality's borrowings at variable rate were denominated in the Rand.

#### Credit risk

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.

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.

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.

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand 2009 2008

### 40. Risk management (continued)

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.

Cash, fidelity and money handlers insurance are taken out annually to ensure adequate risk cover exist.

### 41. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2009

	Financial liabilities at amortised cost	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Total
Long term payables	2,564,743	-	-	2,564,743
Trade and other payables	76,365,013	-	-	76,365,013
Consumer deposits	7,394,644	-	-	7,394,644
	<b>86,324,400</b>	<b>-</b>	<b>-</b>	<b>86,324,400</b>

#### 2008

	Financial liabilities at amortised cost	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Total
Long term payables	6,615,107	-	-	6,615,107
Trade and other payables	65,552,573	-	-	65,552,573
Bank overdraft	-	2,653,986	-	2,653,986
Consumer deposits	7,143,179	-	-	7,143,179
	<b>79,310,859</b>	<b>2,653,986</b>	<b>-</b>	<b>81,964,845</b>

### 42. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2009

	Loans and receivables	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
Other financial assets	-	-	6,199,683	-	-	6,199,683
Trade and other receivables	86,149,734	-	-	-	-	86,149,734
Cash and cash equivalents	-	14,200,809	-	-	-	14,200,809
	<b>86,149,734</b>	<b>14,200,809</b>	<b>6,199,683</b>	<b>-</b>	<b>-</b>	<b>106,550,226</b>

# Metsimaholo Local Municipality

Financial Statements for the year ended June 30, 2009

## Notes to the Financial Statements

Figures in Rand

2009

2008

### 42. Financial assets by category (continued)

2008

	Loans and receivables	Fair value through profit or loss - held for trading	Fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
Other financial assets	-	-	8,255,305	-	-	8,255,305
Trade and other receivables	127,952,450	-	-	-	-	127,952,450
Cash and cash equivalents	-	7,227,912	-	-	-	7,227,912
	<b>127,952,450</b>	<b>7,227,912</b>	<b>8,255,305</b>	-	-	<b>143,435,667</b>

### 43. Change in estimate

#### Property, plant and equipment

The useful life of certain property, plant and equipment was re-assessed during the year. The effect of this revision has decreased the depreciation charges for the current and future periods by R 446,983