



Metsimaholo Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2016

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## General Information

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**Legal form of entity**

Municipality

**Nature of business and principal activities**

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

**Mayoral committee**

Khonto MW  
Kubheka NJ  
Mabasa KT  
Mabefu RJ  
Makhoba KJ (Council Whip from 25 November 2015)  
Mtshali N M (since 25 November 2015)  
Radebe AN  
Semonyo LS  
Tshongwe SL

**Executive Mayor**

Mahlaku BT

**Councillors**

Matena SZ (Speaker)  
Soetsang TL (Council whip till 31 October 2015)  
Chebase LR  
Coetzer FC  
Du Plessis J  
Du Toit T  
Geyser JJ  
Grobbelaar JJ  
Holt S (resigned 13 February 2015)  
Khunou SB  
Machaea MF  
Mahlangu PJ  
Mare AK  
Maseko VJ  
Mdola NL  
Mofokeng SS  
Mofokeng TJ  
Mokoena DE  
Moolman HJ  
Moreki S  
Mosia TE (Chairperson MPAC since 17 September 2014)  
Mosia MM  
Nnune GB  
Nthebe MD  
Ntoane MG  
Oswald DM  
Phepheng-Lelahla JM  
Poho MS  
Rampala AM (Elected 13 March 2015)  
Sejaki MN  
Tamane MA  
Viljoen JD  
Van der Walt MC

# Metsimaholo Local Municipality

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## General Information

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<b>Grading of local authority</b>	Metsimaholo Local Municipality is a grade 9 Local Authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
<b>Capacity of local authority</b>	High Capacity
<b>Municipal demarcation code</b>	FS204
<b>Accounting Officer</b>	Molala SM
<b>Chief Financial Officer (CFO)</b>	Lambat A (B.Com, B.Accounting, CA(SA))
<b>Registered office</b>	Civic Centre Fichardt Street Sasolburg 1947
<b>Business address</b>	Civic Centre Fichardt Street Sasolburg 1947
<b>Postal address</b>	PO Box 60 Sasolburg 1947
<b>Bankers</b>	The Standard Bank of South Africa Ltd ABSA Bank Ltd
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Adolff Attorneys Boitumelo Maubane Attorneys Lebea and Associates Attorney Leepile & Mbewe Inc Lizel Venter Attorneys Melato Attorneys Melato - Mkhwanazi Molefi Thoabala Inc Attorneys Mollenaar and Griffiths Attorneys and Conveyancers Moroka Attorneys Ndobela Attorneys Phehello Molise Attorneys Ponane Attorney, Notaries and Conveyancers Rasegoete & Associates Suleman Attorneys Werksman Inc

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

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### Abbreviations

COGTA	Department of Cooperative Governance Traditional Affairs
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
INCA	Infrastructure Finance Corporation Limited
LED	Local Economic Development
MFMA	Municipal Finance Management Act
MM	Municipal Manager
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
PPP	Public Private Partnership
SALGA	South African Local Government Association
SARS	South African Revenue Service
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2016

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

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

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

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

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

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

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 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.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on pages 6 to 96, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2016

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**Molala SM**  
**Accounting Officer**

**31 August 2016**

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	15,318,465	8,390,967
Other financial assets	4	4,950,851	5,886,282
Receivables from non-exchange transactions	5	64,171,138	63,041,625
Receivables from exchange transactions	6	147,954,077	125,621,080
Cash and cash equivalents	7	14,345,478	26,194,963
		<b>246,740,009</b>	<b>229,134,917</b>
<b>Non-Current Assets</b>			
Investment property	8	86,389,336	86,415,127
Property, plant and equipment	9	1,147,458,435	1,077,554,748
Intangible assets	10	317,626	445,177
Heritage assets	11	561,001	561,001
		<b>1,234,726,398</b>	<b>1,164,976,053</b>
<b>Total Assets</b>		<b>1,481,466,407</b>	<b>1,394,110,970</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	13	1,375,608	-
Operating lease liability	12	1,883,504	1,199,646
Payables from exchange transactions	14	214,673,543	182,617,578
VAT payable	15	10,915,968	5,429,557
Consumer deposits	16	18,026,993	16,245,856
Unspent conditional grants and receipts	17	833,375	1,326,620
Short term portion - Long term loan	18	1,267,234	1,163,296
		<b>248,976,225</b>	<b>207,982,553</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	13	7,854,607	-
Employee benefit obligation	19	39,153,834	41,527,055
Landfill closure provision	20	49,618,678	44,894,029
Long term loan	18	4,516,517	5,783,751
		<b>101,143,636</b>	<b>92,204,835</b>
<b>Total Liabilities</b>		<b>350,119,861</b>	<b>300,187,388</b>
<b>Net Assets</b>		<b>1,131,346,546</b>	<b>1,093,923,582</b>
Accumulated surplus		1,131,346,546	1,093,923,582

\* See Note 40

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	513,136,112	486,640,151
Rental of facilities		4,641,920	4,599,852
Interest income- consumers		16,449,002	14,576,319
Non-payment fees		5,202,473	2,330,959
Licences and permits		159,061	148,515
Fines		18,506,723	22,876,410
Levies - refuse dump yard		825,555	1,070,621
Connection fees		2,338,908	1,614,315
Other income	22	4,480,888	2,761,914
Income legal cost		4,464,527	4,254,028
Interest received - investment	23	2,701,815	2,167,164
Dividends received	23	96,022	88,183
<b>Total revenue from exchange transactions</b>		<b>573,003,006</b>	<b>543,128,431</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	24	114,445,495	111,299,093
<b>Transfer revenue</b>			
Government grants and subsidies	25	202,893,358	303,066,999
Public contributions and donations	26	16,729,794	7,699,428
<b>Total revenue from non-exchange transactions</b>		<b>334,068,647</b>	<b>422,065,520</b>
<b>Total revenue</b>		<b>907,071,653</b>	<b>965,193,951</b>
<b>Expenditure</b>			
Employee related costs	27	(230,381,663)	(174,727,858)
Remuneration of councillors	28	(15,246,933)	(14,409,512)
Depreciation and amortisation	29	(42,930,416)	(39,608,099)
Finance costs	30	(991,347)	(4,602,127)
Lease rentals on operating lease		(3,712,648)	(3,903,457)
Debt impairment	31	(127,716,421)	(114,845,605)
Repairs and maintenance		(18,941,729)	(24,947,048)
Bulk purchases	32	(317,736,666)	(279,220,268)
Contracted services	33	(30,976,176)	(76,838,855)
General expenses	34	(91,592,672)	(70,236,181)
<b>Total expenditure</b>		<b>(880,226,671)</b>	<b>(803,339,010)</b>
<b>Operating surplus</b>		<b>26,844,982</b>	<b>161,854,941</b>
Gain/(Loss) on disposal of assets		(1,657,070)	(5,689,085)
Actuarial gain/(loss)		4,185,156	(210,489)
Fair value adjustments		-	1,139,610
Sale of stands		1,425,535	446,583
Gain on inventory		409,049	360,197
Fair value adjustments on stands		6,491,043	-
Fair value adjustment on listed equities		(275,732)	211,640
		<b>10,577,981</b>	<b>(3,741,544)</b>
<b>Surplus for the year</b>		<b>37,422,963</b>	<b>158,113,397</b>

\* See Note 40



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	932,272,968	932,272,968
Adjustments		
Prior year adjustments	3,537,217	3,537,217
<b>Balance at 01 July 2014 as restated*</b>	<b>935,810,185</b>	<b>935,810,185</b>
Changes in net assets		
Surplus for the year	158,113,397	158,113,397
Total changes	158,113,397	158,113,397
<b>Restated* Balance at 01 July 2015</b>	<b>1,093,923,583</b>	<b>1,093,923,583</b>
Changes in net assets		
Surplus for the year	37,422,963	37,422,963
Total changes	37,422,963	37,422,963
<b>Balance at 30 June 2016</b>	<b>1,131,346,546</b>	<b>1,131,346,546</b>

\* See Note 40

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		528,945,092	477,211,035
Grants		202,893,358	176,779,147
Interest income		15,861,017	12,967,798
Dividends received		96,022	88,183
Other receipts		19,201,974	11,215,399
		<u>766,997,463</u>	<u>678,261,562</u>
<b>Payments</b>			
Employee costs		(240,824,715)	(187,708,851)
Suppliers		(447,915,699)	(441,195,667)
Finance costs		(991,347)	(4,602,127)
		<u>(689,731,761)</u>	<u>(633,506,645)</u>
<b>Net cash flows from operating activities</b>	35	<u><b>77,265,702</b></u>	<u><b>44,754,917</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(99,267,340)	(52,488,054)
Proceeds from sale of assets	9	1,425,535	475,011
Movement in other financial assets		659,699	8,393,969
		<u>659,699</u>	<u>8,393,969</u>
<b>Net cash flows from investing activities</b>		<u><b>(97,182,106)</b></u>	<u><b>(43,619,074)</b></u>
<b>Cash flows from financing activities</b>			
Movement in long term loan		(1,163,296)	(1,070,029)
Finance lease receipts		9,230,215	-
		<u>9,230,215</u>	<u>-</u>
<b>Net cash flows from financing activities</b>		<u><b>8,066,919</b></u>	<u><b>(1,070,029)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>(11,849,485)</b></u>	<u><b>65,814</b></u>
Cash and cash equivalents at the beginning of the year		26,194,963	26,129,149
<b>Cash and cash equivalents at the end of the year</b>	7	<u><b>14,345,478</b></u>	<u><b>26,194,963</b></u>

\* See Note 40

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Note 51)
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	580,212,350	5,967,690	<b>586,180,040</b>	513,136,112	<b>(73,043,928)</b>	51.1
Rental of facilities and equipment	5,271,610	(159,000)	<b>5,112,610</b>	4,641,920	<b>(470,690)</b>	
Interest income - consumers	18,171,250	-	<b>18,171,250</b>	16,449,002	<b>(1,722,248)</b>	
Non - payment fees	1,435,310	2,340,000	<b>3,775,310</b>	5,202,473	<b>1,427,163</b>	51.2
Licences and permits	180,800	-	<b>180,800</b>	159,061	<b>(21,739)</b>	51.13
Fines	6,023,500	(999,600)	<b>5,023,900</b>	18,506,723	<b>13,482,823</b>	51.9
Levies dump yard	1,054,000	-	<b>1,054,000</b>	825,555	<b>(228,445)</b>	
Connection fees	2,882,940	(10,000)	<b>2,872,940</b>	2,338,908	<b>(534,032)</b>	
Other income	3,803,900	1,057,080	<b>4,860,980</b>	4,480,888	<b>(380,092)</b>	51.3 - 51.8
Income legal cost	4,996,540	-	<b>4,996,540</b>	4,464,527	<b>(532,013)</b>	51.12
Interest received - investment	2,000,000	560,000	<b>2,560,000</b>	2,701,815	<b>141,815</b>	51.10
Dividends received	-	-	-	96,022	<b>96,022</b>	
<b>Total revenue from exchange transactions</b>	<b>626,032,200</b>	<b>8,756,170</b>	<b>634,788,370</b>	<b>573,003,006</b>	<b>(61,785,364)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	99,585,600	3,554,390	<b>103,139,990</b>	114,445,495	<b>11,305,505</b>	51.22
<b>Transfer revenue</b>						
Government grants and subsidies	202,686,000	(3,000,000)	<b>199,686,000</b>	202,893,358	<b>3,207,358</b>	51.11
Public contributions and donations	2,000,000	-	<b>2,000,000</b>	16,729,794	<b>14,729,794</b>	51.23
<b>Total revenue from non-exchange transactions</b>	<b>304,271,600</b>	<b>554,390</b>	<b>304,825,990</b>	<b>334,068,647</b>	<b>29,242,657</b>	
<b>Total revenue</b>	<b>930,303,800</b>	<b>9,310,560</b>	<b>939,614,360</b>	<b>907,071,653</b>	<b>(32,542,707)</b>	
<b>Expenditure</b>						
Employee related cost	(231,529,430)	(3,229,930)	<b>(234,759,360)</b>	(230,381,663)	<b>4,377,697</b>	51.17
Remuneration of councillors	(15,518,870)	-	<b>(15,518,870)</b>	(15,246,933)	<b>271,937</b>	51.18
Depreciation and amortisation	(70,083,730)	-	<b>(70,083,730)</b>	(42,930,416)	<b>27,153,314</b>	51.24
Finance costs	(2,331,270)	973,430	<b>(1,357,840)</b>	(991,347)	<b>366,493</b>	51.14
Lease rentals on operating lease	(4,296,570)	496,520	<b>(3,800,050)</b>	(3,712,648)	<b>87,402</b>	51.15
Debt impairment	(84,278,540)	(12,867,160)	<b>(97,145,700)</b>	(127,716,421)	<b>(30,570,721)</b>	51.21
Repairs and maintenance	(33,536,980)	621,810	<b>(32,915,170)</b>	(18,941,729)	<b>13,973,441</b>	51.16
Bulk purchases	(324,863,560)	(20,000)	<b>(324,883,560)</b>	(317,736,666)	<b>7,146,894</b>	51.25
Contracted services	(33,601,420)	(970,720)	<b>(34,572,140)</b>	(30,976,176)	<b>3,595,964</b>	51.26
General expenses	(94,208,510)	(5,838,880)	<b>(100,047,390)</b>	(91,592,672)	<b>8,454,718</b>	51.19 - 51.20
<b>Total expenditure</b>	<b>(894,248,880)</b>	<b>(20,834,930)</b>	<b>(915,083,810)</b>	<b>(880,226,671)</b>	<b>34,857,139</b>	
<b>Operating surplus</b>	<b>36,054,920</b>	<b>(11,524,370)</b>	<b>24,530,550</b>	<b>26,844,982</b>	<b>2,314,432</b>	
Loss on disposal of assets and liabilities	-	-	-	(1,657,070)	<b>(1,657,070)</b>	

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Note 51)
	R	R	R	R	R	
Actuarial gain	-	-	-	4,185,156	<b>4,185,156</b>	
Sale of stands	5,000,000	-	<b>5,000,000</b>	1,425,535	<b>(3,574,465)</b>	
Gain on inventory	-	-	-	409,049	<b>409,049</b>	
Fair value adjustments on stands	-	-	-	6,491,043	<b>6,491,043</b>	
Fair value adjustment on shares	-	-	-	(275,732)	<b>(275,732)</b>	
	<b>5,000,000</b>	-	<b>5,000,000</b>	<b>10,577,981</b>	<b>5,577,981</b>	
<b>Surplus before taxation</b>	<b>41,054,920</b>	<b>(11,524,370)</b>	<b>29,530,550</b>	<b>37,422,963</b>	<b>7,892,413</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>41,054,920</b>	<b>(11,524,370)</b>	<b>29,530,550</b>	<b>37,422,963</b>	<b>7,892,413</b>	

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>2016</b>											
<b>Financial Performance</b>											
Property rates	99,585,600	3,554,390	103,139,990	-	-	103,139,990	114,445,495	-	11,305,505	111 %	115 %
Service charges	580,212,350	5,967,690	586,180,040	-	-	586,180,040	513,136,112	-	(73,043,928)	88 %	88 %
Investment revenue	2,000,000	560,000	2,560,000	-	-	2,560,000	2,797,837	-	237,837	109 %	140 %
Transfers recognised - operational	121,973,000	-	121,973,000	-	-	121,973,000	122,910,642	-	937,642	101 %	101 %
Other own revenue	48,819,850	2,228,480	51,048,330	-	-	51,048,330	69,170,791	-	18,122,461	136 %	142 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>852,590,800</b>	<b>12,310,560</b>	<b>864,901,360</b>	<b>-</b>	<b>-</b>	<b>864,901,360</b>	<b>822,460,877</b>	<b>-</b>	<b>(42,440,483)</b>	<b>95 %</b>	<b>96 %</b>
Employee costs	(231,529,430)	(3,229,930)	(234,759,360)	-	-	(234,759,360)	(230,381,663)	-	4,377,697	98 %	100 %
Remuneration of councillors	(15,518,870)	-	(15,518,870)	-	-	(15,518,870)	(15,246,933)	-	271,937	98 %	98 %
Debt impairment	(84,278,540)	(12,867,160)	(97,145,700)	-	-	(97,145,700)	(127,716,421)	-	(30,570,721)	131 %	152 %
Depreciation and asset impairment	(70,083,730)	-	(70,083,730)	-	-	(70,083,730)	(42,930,416)	-	27,153,314	61 %	61 %
Finance charges	(2,331,270)	973,430	(1,357,840)	-	-	(1,357,840)	(991,347)	-	366,493	73 %	43 %
Materials and bulk purchases	(324,863,560)	(20,000)	(324,883,560)	-	-	(324,883,560)	(317,736,666)	-	7,146,894	98 %	98 %
Other expenditure	(165,643,480)	(5,691,270)	(171,334,750)	-	-	(171,334,750)	(146,880,295)	-	24,454,455	86 %	89 %
<b>Total expenditure</b>	<b>(894,248,880)</b>	<b>(20,834,930)</b>	<b>(915,083,810)</b>	<b>-</b>	<b>-</b>	<b>(915,083,810)</b>	<b>(881,883,741)</b>	<b>-</b>	<b>33,200,069</b>	<b>96 %</b>	<b>99 %</b>
<b>Surplus/(Deficit)</b>	<b>(41,658,080)</b>	<b>(8,524,370)</b>	<b>(50,182,450)</b>	<b>-</b>	<b>-</b>	<b>(50,182,450)</b>	<b>(59,422,864)</b>	<b>-</b>	<b>(9,240,414)</b>	<b>118 %</b>	<b>143 %</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	80,713,000	(3,000,000)	77,713,000	-		77,713,000	79,982,716		2,269,716	103 %	99 %
Contributions recognised - capital and contributed assets	2,000,000	-	2,000,000	-		2,000,000	16,729,794		14,729,794	836 %	836 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>41,054,920</b>	<b>(11,524,370)</b>	<b>29,530,550</b>	-		<b>29,530,550</b>	<b>37,289,646</b>		<b>7,759,096</b>	<b>126 %</b>	<b>91 %</b>
Gain on inventory	-	-	-	-		-	(409,049)		(409,049)	DIV/0 %	DIV/0 %
Fair value adjustments on shares	-	-	-	-		-	275,732		275,732	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>41,054,920</b>	<b>(11,524,370)</b>	<b>29,530,550</b>	-		<b>29,530,550</b>	<b>37,422,963</b>		<b>7,892,413</b>	<b>127 %</b>	<b>91 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	185,851,620	(34,133,800)	151,717,820	-		151,717,820	(116,877,452)		(268,595,272)	(77)%	(63)%
<b>Sources of capital funds</b>											
Transfers recognised - capital	85,904,670	(8,197,500)	77,707,170	-		77,707,170	69,619,195		(8,087,975)	90 %	81 %
Public contributions and donations	10,000,000	(10,000,000)	-	-		-	15,070,494		15,070,494	DIV/0 %	151 %
Borrowing	31,880,000	(13,880,000)	18,000,000	-		18,000,000	10,379,139		(7,620,861)	58 %	33 %
Internally generated funds	57,616,950	(1,606,300)	56,010,650	-		56,010,650	21,808,624		(34,202,026)	39 %	38 %
<b>Total sources of capital funds</b>	<b>185,401,620</b>	<b>(33,683,800)</b>	<b>151,717,820</b>	-		<b>151,717,820</b>	<b>116,877,452</b>		<b>(34,840,368)</b>	<b>77 %</b>	<b>63 %</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>Cash flows</b>											
Net cash from (used) operating	113,162,000	(8,857,000)	104,305,000	-		104,305,000	77,265,702		(27,039,298)	74 %	68 %
Net cash from (used) investing	(166,852,000)	20,987,000	(145,865,000)	-		(145,865,000)	(97,182,106)		48,682,894	67 %	58 %
Net cash from (used) financing	29,680,000	(13,583,000)	16,097,000	-		16,097,000	8,066,919		(8,030,081)	50 %	27 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(24,010,000)</b>	<b>(1,453,000)</b>	<b>(25,463,000)</b>	<b>-</b>		<b>(25,463,000)</b>	<b>(11,849,485)</b>		<b>13,613,515</b>	<b>47 %</b>	<b>49 %</b>
Cash and cash equivalents at the beginning of the year	24,169,000	2,026,000	26,195,000	-		26,195,000	26,194,963		(37)	100 %	108 %
<b>Cash and cash equivalents at year end</b>	<b>159,000</b>	<b>573,000</b>	<b>732,000</b>	<b>-</b>		<b>732,000</b>	<b>14,345,478</b>		<b>(13,613,478)</b>	<b>1,960 %</b>	<b>9,022 %</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

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

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

##### Receivables

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

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

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

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus/deficit.

##### 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 end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (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 the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. 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 end of the reporting period.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact on the estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

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

Value in use of non-cash generating assets:

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

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

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

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

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

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 obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 19.

#### Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.

#### Allowance for impairment

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.2 Investment property

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

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

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

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

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

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

#### Cost model

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

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

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

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

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

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

### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

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

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

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

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

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

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

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

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

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<b>Item</b>	<b>Depreciation method</b>	<b>Average useful life</b>
Buildings	Straight line	50 years
Furniture and fixtures	Straight line	3 - 30 years
Infrastructure	Straight line	5 - 50 years
Land		Indefinite
Motor vehicles	Straight line	3 - 20 years
Office equipment	Straight line	3 - 10 years
Plant and machinery	Straight line	3 - 15 years

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

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

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

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located;
- changes in the measurement of an existing decommissioning, restoration and similar liability that result from change in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in discount rate; and
- the obligation the municipality incurs for having used the items during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

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

### 1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

Intangible assets are initially measured at cost.

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Intangible assets (continued)

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 or service potential;
- 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.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful lives.

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 finite 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.

Internally generated goodwill is not recognised as an intangible asset.

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

<b>Item</b>	<b>Useful life</b>
Computer software	5 years

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

### 1.6 Heritage assets

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

#### Recognition

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

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 11 Heritage assets.

#### Initial measurement

Heritage assets are measured at cost.

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Heritage assets (continued)

#### Subsequent measurement

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

#### Impairment

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

#### Transfers

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

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

#### Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the item is derecognised.

### 1.7 Financial instruments

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

#### Classification

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

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

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

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

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

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

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

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

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

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

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

#### Fair value measurement considerations

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 1.7 Financial instruments (continued)

Financial assets measured at cost:

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

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

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

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

##### Financial liabilities

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

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

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

### 1.8 Statutory receivables

#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

# Metsimaholo Local Municipality

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## Accounting Policies

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### 1.8 Statutory receivables (continued)

The transaction amount (for purposes of the Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers).

#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Statutory receivables (continued)

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.9 Inventories

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

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

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

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

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

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

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.9 Inventories (continued)

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

### 1.10 Impairment of cash-generating assets

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

#### Identification

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

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

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

#### Value in use

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

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

#### Identification

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

#### Reversal of an impairment loss

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

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

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

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

### 1.12 Value-added Tax (VAT)

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

# Metsimaholo Local Municipality

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## Accounting Policies

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### 1.13 Accumulated surplus

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

### 1.14 Leases

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

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

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

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

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

#### Operating leases - lessee

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

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

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



# Metsimaholo Local Municipality

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## Accounting Policies

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### 1.15 Employee benefits

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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

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

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

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

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

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise of assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

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

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

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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### 1.15 Employee benefits (continued)

#### Other long-term employee benefits

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

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

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

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

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

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

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when the municipality:

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

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

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

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

A contingent liability is a:

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

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

### 1.17 Revenue from exchange transactions

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

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

### 1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

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

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

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

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

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

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

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

#### Recognition

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

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Measurement

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

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

#### Property rates

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

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

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

#### Transfers

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

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

#### Debt forgiveness and assumption of liabilities

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

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

#### Fines

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

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

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

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

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



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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

#### Services in-kind

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

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

#### Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.19 Borrowing costs

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

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

### 1.20 Grant in aid

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

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

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

### 1.21 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 40 for detail.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.24 Fruitless and wasteful expenditure

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

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

### 1.25 Irregular expenditure

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

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

### 1.26 Budget information

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

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

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

### 1.27 Related parties

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

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

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

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

### 1.28 Events after reporting date

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

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

# **Metsimaholo Local Municipality**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.28 Events after reporting date (continued)**

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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### 2. New standards and interpretations

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

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

##### **GRAP 21 (as amended 2015): Impairment of Non-cash-generating Assets**

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets;
- the indicators of internal sources of information were amended to include obsolescence as an indication that an asset may be impaired. In line with the amendments made to IPSAS 21 on Impairment of Non-cash-generating Assets (IPSAS 21) in 2011, an amendment has been made to include another indicator of impairment i.e., where an asset's useful life has been reassessed as finite rather than indefinite;
- where the recoverable service amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples of indications of impairment and measurement of impairment losses have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

##### **GRAP 26 (as amended 2015): Impairment of Cash-generating Assets**

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets and cash generating unit;
- in line with the amendments made to IPSAS 26 on Impairment of Cash-generating Assets (IPSAS 26) in 2010, an amendment has been made to include another indicator of impairment in relation to the internal sources of information;
- where the recoverable amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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

#### Improvements to the Standards of GRAP (2013)

Amendments were made to the following standards of GRAP:

- GRAP 1 - Presentation of Financial Statements;
- GRAP 2 - Cash Flow Statements;
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- GRAP 7 - Investments in Associates;
- GRAP 10 - Financial Reporting in Hyperinflationary Economies;
- GRAP 11 - Construction Contracts;
- GRAP 13 - Leases;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21 - Impairment of Non-cash-generating Assets (refer to separate note);
- GRAP 24 - Presentation of Budget Information in Financial Statements;
- GRAP 25 - Employee Benefits;
- GRAP 26 - Impairment of Cash-generating Assets (refer to separate note);
- GRAP 31 - Intangible Assets;
- GRAP 103 - Heritage Assets; and
- GRAP 104 - Financial Instruments.

The amendments relate mainly to editorial and other changes to the original text to ensure consistency with other Standards of GRAP and deletion of the appendices with illustrative guidance and examples from the standards, as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the improvements is for years beginning on or after 01 April 2015.

The municipality has adopted the improvements for the first time in the 2016 annual financial statements.

The impact of the improvements is not material.

#### GRAP 23 (as amended 2015): Revenue From Non-exchange Transactions

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- the scope paragraph has been amended to exclude non-exchange revenue from construction contracts from this Standard;
- commentary has been added to clarify that discounts, volume rebates or other reductions in the quoted price of assets are exchange transactions that should be treated in accordance with the Standard of GRAP on Revenue from Exchange Transactions;
- the Standard was amended to make it mandatory for entities to recognise services in-kind to the extent that the services in-kind are significant to an entity's operations and/or service delivery objectives and to the extent that the recognition criteria have been met;
- commentary has been added to clarify that services in-kind are not limited to the provision of services by individuals but also include the right to use assets. Examples have been added to illustrate this amendment; and
- the appendix with illustrative examples has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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

#### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

This Standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

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

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

#### GRAP 20: Related Parties

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

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

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

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

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

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

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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

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

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

The standard elaborates on the definitions and identification of:

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

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

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

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

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

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

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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

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

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

#### GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

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

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

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

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

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

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

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

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



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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2016	2015
R	R

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

#### GRAP 16 (as amended 2015): Investment Property

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

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

#### GRAP 17 (as amended 2015): Property, Plant and Equipment

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

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

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

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

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

The impact of this standard is currently being assessed.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>3. Inventories</b>		
Water (purified water in reservoirs and pipes)	416,138	400,995
Unsold properties held for resale	13,635,042	7,144,000
Fuel (diesel, petrol)	203,333	308,268
Stores and materials	1,063,952	537,704
	<b>15,318,465</b>	<b>8,390,967</b>
<b>4. Other financial assets</b>		
<b>At fair value</b>		
Listed shares	2,783,139	3,058,871
Sanlam shares		
2016: 46,109 @ R60.36		
2015: 46,109 @ R61.34		
Unit trusts	1,303,696	1,220,870
Sanlam - SIM Money market fund		
2016: 1 303 696 shares @100 cents		
2015: 1,220,870 shares @ 100 cents		
	<b>4,086,835</b>	<b>4,279,741</b>
<b>At amortised cost</b>		
Investment - unspent grants	833,375	1,575,900
Unspent grants		
- Department of Co-operative Governance R 704 984 (2015: R 704 984)		
- Department of Water R 79 057 (2015: R 10 230)		
- Department of Energy R 0 (2015: R 84)		
- SETA R 0 (2015: R 860 602)		
- Extended Public Works Program R 49 334		
Investment - ceded	30,641	30,641
Ceded - R30 641 (2015: R30,641)		
	<b>864,016</b>	<b>1,606,541</b>
<b>Total other financial assets</b>	<b>4,950,851</b>	<b>5,886,282</b>
<b>Current assets</b>		
At fair value	4,086,835	4,279,741
At amortised cost	864,016	1,606,541
	<b>4,950,851</b>	<b>5,886,282</b>
<b>Financial assets at fair value</b>		
<b>Fair value hierarchy of financial assets at fair value</b>		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
<b>Level 1</b>		
Sanlam shares	2,783,139	3,058,871
Sanlam Unit trusts	1,303,696	1,220,870
	<b>4,086,835</b>	<b>4,279,741</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>5. Receivables from non-exchange transactions</b>		
Trade debtors	8,747,530	6,661,056
Deposits	1,675,695	1,620,500
Operating lease receivables	1	2
Rates	91,228,779	84,326,943
Sundry debtors	77,832,668	65,186,365
Traffic fines	18,524,500	22,160,588
Prepaid electricity payments	3,403,489	4,846,573
Allowance for debt impairment	(137,241,524)	(121,760,402)
	<b>64,171,138</b>	<b>63,041,625</b>
<b>Pledged as security</b>		
None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.		
<b>Rates</b>		
Current (0 -30 days)	7,442,119	7,040,263
31 - 60 days	3,820,017	4,425,676
61 - 90 days	2,373,003	3,058,910
> 91 days	77,593,640	69,802,094
Impairment	(53,256,207)	(46,516,415)
	<b>37,972,572</b>	<b>37,810,528</b>
<b>Summary of receivables by customer classification</b>		
<b>Household consumers</b>		
Current (0 -30 days)	5,056,319	4,388,549
31 - 60 days	2,886,090	2,672,944
61 - 90 days	1,978,779	1,852,992
> 91 days	66,392,149	58,524,535
	<b>76,313,337</b>	<b>67,439,020</b>
<b>Industrial and commercial consumers</b>		
Current (0 -30 days)	2,357,716	2,592,343
31 - 60 days	907,324	1,728,250
61 - 90 days	367,633	1,182,316
> 91 days	8,611,878	8,620,419
	<b>12,244,551</b>	<b>14,123,328</b>
<b>National and provincial government</b>		
Current (0 -30 days)	28,084	59,371
31 - 60 days	26,603	24,481
61 - 90 days	26,591	23,601
> 91 days	2,589,613	2,657,139
	<b>2,670,891</b>	<b>2,764,592</b>
<b>Total</b>		
Current (0 -30 days)	7,442,119	7,040,263
31 - 60 days	3,820,017	4,425,676
61 - 90 days	2,373,003	3,058,910
> 91 days	77,593,640	69,802,094
Less: Allowance for impairment	(53,256,207)	(46,516,415)
	<b>37,972,572</b>	<b>37,810,528</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>5. Receivables from non-exchange transactions (continued)</b>		
<b>Traffic Fines</b>		
Current (0 -30 days)	342,900	1,866,200
31 - 60 days	1,898,400	2,753,800
61 - 90 days	1,800,300	1,334,850
> 91 days	14,482,900	16,205,738
Less: Allowance for impairment	(12,096,486)	(14,106,114)
	<b>6,428,014</b>	<b>8,054,474</b>
<b>Sundry Debtors</b>		
Current (0 -30 days)	1,348,439	(1,644,114)
31 - 60 days	1,116,324	658,430
61 - 90 days	591,841	548,282
> 91 days	74,776,063	65,623,767
Less: Allowance for impairment	(71,888,830)	(61,137,874)
	<b>5,943,837</b>	<b>4,048,491</b>
<b>Credit quality of trade and other receivables</b>		
The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.		
None of the financial assets that are fully performing have been renegotiated in the last year.		
<b>Trade and other receivables impaired</b>		
As of 30 June 2016, trade and other receivables of R 137,241,524 (2015: R 121,760,403) were impaired and provided for.		
The ageing of these trade and other receivables is as follows:		
3 to 6 months	2,964,844	3,607,192
Over 6 months	152,369,703	135,425,860
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	(121,760,403)	(105,858,827)
Allowance for impairment on other receivables	(10,750,956)	(3,566,704)
Amounts written off as uncollectible	20,023,298	12,130,348
Allowance for impairment on traffic fines	(18,013,670)	(16,625,624)
Allowance for impairment on rates	(7,035,250)	(7,839,596)
Amounts written off as uncollectible	295,457	-
	<b>(137,241,524)</b>	<b>(121,760,403)</b>
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	82,696,951	74,336,128
Water	510,904,316	416,568,362
Sewerage	32,685,659	28,958,156
Refuse	44,094,636	36,518,990
	<b>670,381,562</b>	<b>556,381,636</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Less: Allowance for impairment</b>		
Electricity	(34,843,524)	(30,475,195)
Water	(423,495,510)	(346,034,721)
Sewerage	(27,258,752)	(24,132,307)
Refuse	(36,829,699)	(30,118,333)
	<b><u>(522,427,485)</u></b>	<b><u>(430,760,556)</u></b>
<b>Net balance</b>		
Electricity	47,853,427	43,860,933
Water	87,408,806	70,533,641
Sewerage	5,426,907	4,825,849
Refuse	7,264,937	6,400,657
	<b><u>147,954,077</u></b>	<b><u>125,621,080</u></b>
<b>Electricity</b>		
Current (0 -30 days)	7,364,030	13,880,943
31 - 60 days	6,242,597	9,122,381
61 - 90 days	3,035,403	2,376,628
> 91 days	66,054,921	48,956,176
Allowance for impairment	(34,843,524)	(30,475,195)
	<b><u>47,853,427</u></b>	<b><u>43,860,933</u></b>
<b>Water</b>		
Current (0 -30 days)	39,567,429	31,785,124
31 - 60 days	24,954,620	13,987,324
61 - 90 days	14,045,428	8,517,419
> 91 days	432,336,839	362,278,494
Allowance for impairment	(423,495,510)	(346,034,720)
	<b><u>87,408,806</u></b>	<b><u>70,533,641</u></b>
<b>Sewerage</b>		
Current (0 -30 days)	1,734,317	1,350,308
31 - 60 days	1,038,955	929,720
61 - 90 days	705,822	662,811
> 91 days	29,206,565	26,015,316
Allowance for impairment	(27,258,752)	(24,132,306)
	<b><u>5,426,907</u></b>	<b><u>4,825,849</u></b>
<b>Refuse</b>		
Current (0 -30 days)	2,250,898	1,940,029
31 - 60 days	1,533,412	1,347,106
61 - 90 days	1,149,573	992,291
> 91 days	39,160,753	32,239,564
Allowance for impairment	(36,829,699)	(30,118,333)
	<b><u>7,264,937</u></b>	<b><u>6,400,657</u></b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Household consumers</b>		
Current (0 -30 days)	36,898,634	25,211,777
31 - 60 days	23,169,199	10,972,900
61 - 90 days	12,358,356	8,631,113
> 91 days	509,596,057	422,553,266
	<b>582,022,246</b>	<b>467,369,056</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	10,230,670	22,825,113
31 - 60 days	5,927,714	9,285,166
61 - 90 days	6,054,632	3,411,760
> 91 days	40,364,786	38,966,335
	<b>62,577,802</b>	<b>74,488,374</b>
<b>National and provincial government</b>		
Current (0 -30 days)	3,787,370	919,513
31 - 60 days	4,672,671	5,128,466
61 - 90 days	523,237	506,277
> 91 days	16,798,236	7,969,948
	<b>25,781,514</b>	<b>14,524,204</b>
<b>Total</b>		
Current (0 -30 days)	50,916,674	48,956,404
31 - 60 days	33,769,584	25,386,532
61 - 90 days	18,936,225	12,549,150
> 91 days	566,759,079	469,489,550
	670,381,562	556,381,636
Less: Allowance for impairment	(522,427,485)	(430,760,556)
	<b>147,954,077</b>	<b>125,621,080</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(14,004,296)	(11,482,115)
31 - 60 days	(17,275,093)	(8,440,771)
61 - 90 days	(9,275,549)	(7,356,031)
> 91 days	(481,872,547)	(403,481,639)
	<b>(522,427,485)</b>	<b>(430,760,556)</b>
<b>Total debtor past due but not impaired</b>		
Current (0 -30 days)	36,912,379	37,474,289
31 - 60 days	16,494,491	16,945,761
61 - 90 days	9,660,676	5,193,119
> 91 days	84,886,531	66,007,911
	<b>147,954,077</b>	<b>125,621,080</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(430,760,556)	(347,118,850)
Contributions to allowance	(91,916,543)	(86,813,685)
Debt impairment written off against allowance	249,614	3,171,979
	<b>(522,427,485)</b>	<b>(430,760,556)</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Credit quality of consumer debtors</b>		
The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.		
None of the financial assets that are fully performing have been renegotiated in the last year.		
<b>Receivables from exchange transactions past due but not impaired</b>		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R - (2015: R 48,956,404) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	16,494,491	16,945,761
2 months past due	9,660,676	5,193,119
3 months past due	83,219,355	64,340,735
<b>Receivables from exchange transactions impaired</b>		
As of 30 June 2016, consumer debtors of R 522,427,485 (2015: R 430,760,556) were impaired and provided for.		
The ageing of these impairment is as follows:		
3 to 6 months	9,275,549	7,356,031
Over 6 months	481,872,547	403,481,638
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	5,489	5,489
Bank balances	1,223,842	14,857,178
Short-term deposits	13,116,147	11,332,296
	<b>14,345,478</b>	<b>26,194,963</b>
<b>Cash and cash equivalents pledged as guarantees</b>		
Guarantee: Eskom as electricity deposit	990,000	990,000
Guarantee: Post Office as postal deposit	80,000	80,000

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R			2015 R		
<b>7. Cash and cash equivalents (continued)</b>						
<b>The municipality had the following bank accounts</b>						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank - Cheque Account - 520 000 038	407,374	3,584,900	3,627,013	404,974	3,584,900	3,627,013
ABSA Bank - Revenue account- 520 000 062	-	-	-	(3,188)	-	-
Standard Bank - current account (primary bank account) - 240347862	4,592,175	2,290,877	4,870,247	1,335,591	2,882,505	4,999,131
Standard Bank - Revenue Account - 33 197 836 9	-	8,393,419	679,695	(513,535)	8,389,773	671,082
ABSA Bank - Call Account - 907 840 0708	1,915,309	3,633,177	633,177	-	-	-
Rand Merchant Bank - Call deposit account - X02 190 1012	27,726	1,427,726	427,726	-	-	-
Standard Bank - Call deposit account -	5,573,806	1,073,805	13,373,806	-	-	-
Standard Bank - Call deposit account - 228 505 348	129,530	394	393	-	-	-
Nedbank -Call deposit account -788 103 3088	73,095	5,773,095	2,895,624	-	-	-
Standard Bank - money Market- 447 648	-	1,000,000	1,000,000	-	-	-
Investec- Call account- 1100 - 523923	6,230,057	-	-	-	-	-
Short term deposits	-	-	-	13,949,522	11,332,296	16,826,434
<b>Total</b>	<b>18,949,072</b>	<b>27,177,393</b>	<b>27,507,681</b>	<b>15,173,364</b>	<b>26,189,474</b>	<b>26,123,660</b>

## 8. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	86,902,762	(513,426)	86,389,336	86,902,762	(487,635)	86,415,127

### Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	86,415,127	(25,791)	86,389,336

### Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	86,440,918	(25,791)	86,415,127

### Pledged as security

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



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Infrastructure Work in Progress	300,761,672	-	300,761,672	234,068,872	-	234,068,872
Buildings	133,213,529	(54,881,551)	78,331,978	133,213,529	(52,217,280)	80,996,249
Buildings Work in Progress	7,549,884	-	7,549,884	1,642,905	-	1,642,905
Land Work in Progress	63,665	-	63,665	-	-	-
Furniture and fixtures	26,168,400	(20,511,333)	5,657,067	25,836,122	(17,976,643)	7,859,479
Infrastructure	1,485,411,882	(992,475,542)	492,936,340	1,462,303,569	(971,657,997)	490,645,572
Land	225,607,149	-	225,607,149	225,266,449	-	225,266,449
Leased assets	8,096,680	(103,938)	7,992,742	-	-	-
Motor vehicles	31,944,815	(20,574,130)	11,370,685	32,108,815	(16,879,258)	15,229,557
Office equipment	40,216,253	(30,197,597)	10,018,656	40,201,743	(25,258,816)	14,942,927
Plant and machinery	18,459,474	(11,290,877)	7,168,597	17,356,362	(10,453,624)	6,902,738
<b>Total</b>	<b>2,277,493,403</b>	<b>(1,130,034,968)</b>	<b>1,147,458,435</b>	<b>2,171,998,366</b>	<b>(1,094,443,618)</b>	<b>1,077,554,748</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Additions through donations	Disposals	Depreciation	Total
Buildings	80,996,249	-	-	-	(2,664,271)	78,331,978
Buildings Work in Progress	1,642,905	5,906,979	-	-	-	7,549,884
Furniture and fixtures	7,859,479	332,278	-	-	(2,534,690)	5,657,067
Infrastructure	490,645,572	17,027,883	14,728,477	(1,579,036)	(27,886,556)	492,936,340
Infrastructure Work in Progress	234,068,872	66,692,800	-	-	-	300,761,672
Land	225,266,449	-	340,700	-	-	225,607,149
Motor vehicles	15,229,557	-	-	(53,300)	(3,805,572)	11,370,685
Office equipment	14,942,927	16,694	1,315	(663)	(4,941,617)	10,018,656
Plant and machinery	6,902,738	1,130,361	-	(24,071)	(840,431)	7,168,597
Land Work in Progress	-	63,665	-	-	-	63,665
Leased assets	-	8,096,680	-	-	(103,938)	7,992,742
<b>Total</b>	<b>1,077,554,748</b>	<b>99,267,340</b>	<b>15,070,492</b>	<b>(1,657,070)</b>	<b>(42,777,075)</b>	<b>1,147,458,435</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Additions through donations	Disposals	Transfers received	Transfers	Depreciation	Total
Buildings	83,660,480	-	-	-	-	-	(2,664,231)	80,996,249
Buildings Work in Progress	1,093,131	-	-	-	549,774	-	-	1,642,905
Furniture and fixtures	6,876,588	7,701	-	(106,981)	-	-	1,082,171	7,859,479
Infrastructure	521,321,846	7,616,787	-	(5,851)	-	-	(38,287,210)	490,645,572
Infrastructure Work in progress	195,051,281	39,567,365	-	-	(549,774)	-	-	234,068,872
Land	89,487,357	-	133,737,999	-	-	2,041,093	-	225,266,449
Motor vehicles	11,099,151	4,034,828	-	(153,037)	-	-	248,615	15,229,557
Office equipment	13,805,211	118,271	-	-	-	-	1,019,445	14,942,927
Plant and machinery	7,086,502	1,143,108	-	(380,214)	-	-	(946,658)	6,902,738
	<b>929,481,547</b>	<b>52,488,060</b>	<b>133,737,999</b>	<b>(646,083)</b>	<b>-</b>	<b>2,041,093</b>	<b>(39,547,868)</b>	<b>1,077,554,748</b>

#### Pledged as security

None of the above property, plant and equipment have been pledged as security.

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

Motor vehicles	7,992,742	-
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#### Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	234,068,872	1,642,905	235,711,777
Additions/capital expenditure	66,692,800	5,970,644	72,663,444
	<b>300,761,672</b>	<b>7,613,549</b>	<b>308,375,221</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 9. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	195,051,281	1,093,131	196,144,412
Additions/capital expenditure	39,567,365	-	39,567,365
Other movements classification]	(549,774)	549,774	-
	<b>234,068,872</b>	<b>1,642,905</b>	<b>235,711,777</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 10. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	863,321	(545,695)	317,626	863,321	(418,144)	445,177

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	445,177	(127,551)	317,626

#### Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	479,616	(34,439)	445,177

#### Pledged as security

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

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R			2015 R		
<b>11. Heritage assets</b>						
	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	561,001	-	561,001	561,001	-	561,001

### Reconciliation of heritage assets 2016

	Opening balance	Total
Historical buildings	561,001	561,001

### Reconciliation of heritage assets 2015

	Opening balance	Total
Historical buildings	561,001	561,001

### Heritage assets which fair values cannot be reliably measured

This is land used to manufacture bricks that were used to build the Union Buildings in Pretoria (Tshwane).

## 12. Operating lease

### Government garage

Opening balance	1,199,646	871,174
Movement for the year	683,858	328,472
	<b>1,883,504</b>	<b>1,199,646</b>

### Minimum lease payments due: Government Garage

- within one year	3,530,841	2,759,638
- in second to fifth year inclusive	3,336,907	5,191,682
	<b>6,867,748</b>	<b>7,951,320</b>

Operating lease - Government Garage

Operating lease payments represent rentals payable by the municipality for certain of its motor vehicles. Leases for motor vehicle are negotiated for an average of three years and rentals are fixed for the full term of the lease.

Operating lease - Abrahamsrust Resort

Operating lease payments represent rentals payable by the municipality for rental of property situated in Abrahamsrust.

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	2,241,653	-
- in second to fifth year inclusive	9,389,987	-
- later than five years	186,752	-
	<u>11,818,392</u>	<u>-</u>
less: future finance charges	(2,588,177)	-
<b>Present value of minimum lease payments</b>	<u><b>9,230,215</b></u>	<u>-</u>
<b>Present value of minimum lease payments due</b>		
- within one year	1,375,608	-
- in second to fifth year inclusive	7,669,393	-
- later than five years	185,214	-
	<u>9,230,215</u>	<u>-</u>
Non-current liabilities	7,854,607	-
Current liabilities	1,375,608	-
	<u><b>9,230,215</b></u>	<u>-</u>
<p>It is municipality policy to lease certain motor vehicles and equipment under finance leases.</p> <p>The average lease term was 3 and 5 years and the average effective borrowing rate was 10% (2015: -%).</p> <p>Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.</p>		
<b>14. Payables from exchange transactions</b>		
Accrued bonus	4,453,544	3,618,350
Accrued expense	113,253,752	92,645,076
Accrued leave pay	14,521,736	12,364,983
Eskom	26,449,491	28,160,457
Payments received in advance	15,498,789	11,808,701
Rand Water	10,720,677	9,672,311
Retentions	13,813,667	10,508,765
Trade payables	15,961,887	13,838,935
	<u><b>214,673,543</b></u>	<u><b>182,617,578</b></u>
<b>15. VAT payable</b>		
VAT payable	<u>10,915,968</u>	<u>5,429,557</u>
<b>16. Consumer deposits</b>		
Water and electricity	<u>18,026,993</u>	<u>16,245,856</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>17. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Co-operative Governance and Traditional Affairs	704,984	704,984
Department of Energy	-	84
Department of Water Free State	-	10,230
Extended Public Works Programme	49,334	-
Sector Education Training Authority	-	611,322
Water Demand Management	79,057	-
	<b>833,375</b>	<b>1,326,620</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	1,326,620	3,504,293
Additions during the year	202,401,654	264,817,718
Income recognition during the year	(202,894,899)	(266,995,391)
	<b>833,375</b>	<b>1,326,620</b>

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 18. Long term loan

Development Bank of Southern Africa Limited - Non-current portion	4,516,517	5,783,751
Development Bank of Southern Africa Limited - Current portion	1,267,234	1,163,296

Terms and conditions

The original loan amount approved was R19,000,000 but only R9,000,000 was disbursed in 2012/2013 financial year.

The interest on the loan is fixed at 8.67% with capitalisation every 6 months but will be 10.67% on arrear amounts.

The interest and capital repayment is made every 6 months in 14 equal instalments of R871,356 over 7 years.

The loan is unsecured but the application of the loan is conditional to specific projects.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R	
<b>19. Employee benefit obligations</b>			
<b>Defined benefit plan</b>			
<b>Reconciliation of employee benefits obligation - 2016</b>			
	Opening Balance	Additions	Total
Employee benefit cost medical	25,989,436	(849,158)	25,140,278
Employee benefits long service awards	15,537,619	(1,524,063)	14,013,556
	<b>41,527,055</b>	<b>(2,373,221)</b>	<b>39,153,834</b>

### Reconciliation of employee benefits obligation - 2015

	Opening Balance	Additions	Total
Employee benefit cost medical	23,603,675	2,385,761	25,989,436
Employee benefits long service awards	15,818,226	(280,607)	15,537,619
	<b>39,421,901</b>	<b>2,105,154</b>	<b>41,527,055</b>

### Employee benefit cost obligation

#### Post Employment Health Care Benefits

Balance at beginning of year	25,989,436	23,603,675
Current-service cost	467,711	474,986
Interest cost	2,227,127	2,037,462
Actuarial (gain) / loss	(2,218,536)	1,078,653
Employer benefit payments	(1,325,460)	(1,205,340)
	<b>25,140,278</b>	<b>25,989,436</b>

#### Continue Medical aid membership

Municipal employees contribute to accredited medical schemes.

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

In-service members that were employed prior to 2001 are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

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

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>19. Employee benefit obligations (continued)</b>		
<b>Accrued Liability</b>		
<b>Category of member</b>		
In-service members	10,562,509	9,887,335
Continuation members	14,577,769	16,102,101
<b>All members</b>		
Total liability	25,140,278	25,989,436
Value of asset	-	-
	<b>25,140,278</b>	<b>25,989,436</b>

Liabilities and experience adjustments are made. The table summarises the accrued liabilities and the plan assets for the current period and the previous period.

### History of liabilities and assets

Present value of accrued liability	25,140,278	25,989,436
Fair value of plan asset	-	-
	<b>25,140,278</b>	<b>25,989,436</b>

The experience adjustments for the current period is summarised below. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

### History of experience adjustments: Gains and losses

#### Experience adjustment

Liabilities: (gain) / loss	(2,218,536)	1,078,652
Assets: gain / (loss)	-	-
	<b>(2,218,536)</b>	<b>1,078,652</b>

### Best estimate of benefits payments expected in next annual period

#### 2016/2017 (comparatives are for 2015/2016)

Opening accrued liability	29,086,916	25,989,436
Current service cost	694,353	467,711
Interest cost	2,462,552	2,227,127
Benefit vestings	(1,407,864)	(1,281,168)
Total annual expense	-	-
	<b>30,835,957</b>	<b>27,403,106</b>

### Key financial assumptions

The table summarises the financial assumption used.

Discount rates	9.04 %	8.79 %
Health care cost inflation rate	8.14 %	7.92 %
Net effective discount rate	0.83 %	0.80 %



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R			
<b>19. Employee benefit obligations (continued)</b>					
The next contribution rate increase is assumed to occur at 1 January 2017.					
Average retirement age	65				
Continuation of membership at retirement	70%				
Proportion assumed married at retirement	70%				
Mortality during employment	SA 85-90				
Mortality post-retirement	PA 90-1 ultimate				
Withdrawal from service (sample annual rates)	Age	Females			
	20	16%			
	30	12%			
	40	8%			
	50	4%			
	>55	2%			
Number of in service members	54				
Number of pensioners	38				
<b>Summarised results of the sensitivity analysis.</b>					
<b>Sensitivity analysis on the accrued liability (R Millions)</b>					
<b>Assumption</b>	<b>Change</b>	<b>In-service</b>	<b>Continuation</b>	<b>Total</b>	<b>% change</b>
Central assumptions		10.563	14.578	25.140	
Health care inflation	1%	11.188	15.196	26.383	5
	-1%	9.600	13.839	23.438	(7)
Post-retirement mortality	-1 yr	10.901	15.187	26.088	4
Average retirement age	-1 yr	11.362	14.578	25.940	3
Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.					
The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 5% higher than that shown.					
<b>Long term service awards</b>					
Balance at beginning of year			15,537,619	15,818,226	
Current-service cost			1,489,958	1,250,438	
Interest cost			1,146,306	1,155,040	
Actuarial (gain) / loss			(1,966,620)	(868,164)	
Employer benefit payments			(2,193,707)	(1,817,921)	
			<b>14,013,556</b>	<b>15,537,619</b>	
<b>Accrued liability</b>					
Value of long-service awards			13,775,349	15,205,102	
Retirement gifts			238,207	332,517	
			<b>14,013,556</b>	<b>15,537,619</b>	

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>19. Employee benefit obligations (continued)</b>		
<b>Best estimate of benefits payments expected in next annual period 2016/2017 (comparatives are for 2015/2016)</b>		
Opening accrued liability	15,537,619	15,818,226
Current service cost	1,489,958	1,250,438
Interest cost	1,146,306	1,155,040
Benefit vesting	(2,193,707)	(1,817,921)
Total annual expenses	-	-
	<b>15,980,176</b>	<b>16,405,783</b>

### Long service awards

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

	Female	Male	Total
Number of eligible employees	235	538	733
Average annual salary	173 332	165 693	168 015
Salary-weighted average age	44.1	44.8	44.6
Salary-weighted average past service	10.7	7.7	8.6

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

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

733 Employees benefit from this policy

### Special leave pay

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

### Retirement gifts

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

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

### Key Financial assumptions

The table summarised the financial assumptions used.

Discount rates	8.46 %	7.93 %
General salary inflation rate (long term)	7.12 %	7.04 %
Net effective discount rate	1.25 %	0.83 %

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
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### 19. Employee benefit obligations (continued)

The salaries used in the valuation include an assumed increase on 1 July 2016 of 7.12%.  
The next salary increase was assumed to take place in July 2017.

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

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

Assumption	Change	Liability	% change
Central assumptions		14.014	
General salary inflation	+1%	14.888	6%
	-1%	13.222	-6%
Average retirement age	-2 yrs	12.616	-10%
	+2 yrs	15.194	8%
Withdrawal rates	-50%	15.952	14%

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

### 20. Landfill closure provision

#### Reconciliation of landfill closure provision - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	44,894,029	4,724,649	49,618,678

#### Reconciliation of landfill closure provision - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	37,847,344	7,046,685	44,894,029

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>20. Landfill closure provision (continued)</b>		
<b>Provision for landfill closure</b>		
The municipality engages in waste disposal operations from residential and business areas within the following areas:		
<ul style="list-style-type: none"> <li>- Deneysville</li> <li>- Oranjeville</li> <li>- Sasolburg</li> </ul>		
In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.		
The life spans for the individual landfill sites were calculated based on available air space and cover material available on the estimations of Metsimaholo Local Municipality as well as a survey of each landfill site by a qualified surveyor.		
The estimation of cost of capping and remediation is highly sensitive to many factors, including:		
<ul style="list-style-type: none"> <li>- where the landfill site pose a risk to the environment more stringent capping and remediation measures may be required</li> <li>- changing legislation may alter the minimum requirements for capping and remediation</li> <li>- availability of capping materials</li> <li>- site specific requirements may vary, as well as proposed end-use of the site</li> <li>- non-inflationary at linked costs like fuel</li> <li>- the condition of infrastructure on site at the time of closure, for instance fencing, and storm water management</li> </ul>		
The average predicated inflation rate is 6.3% per year for the period 1 July 2016 to 30 June 2034		
SMEC is the the consultants for the calculation of the provision for rehabilitation of landfill sites		
<b>21. Service charges</b>		
Sale of electricity	208,625,631	195,341,485
Sale of water	258,841,883	249,415,753
Sewerage and sanitation charges	19,713,892	18,086,696
Refuse removal	25,954,706	23,796,217
	<b>513,136,112</b>	<b>486,640,151</b>
<b>Forgone income (free portion)</b>		
Electricity	(4,305,657)	(8,377,080)
Sewerage and sanitation	(7,418,032)	(6,859,264)
Refuse removal	(8,930,777)	(8,286,481)
Water	(10,823,581)	(24,394,880)
	<b>(31,478,047)</b>	<b>(47,917,705)</b>
<b>22. Other income</b>		
Billboards	446,376	280,846
Building plan fees	228,625	240,217
Cemetery fees	501,811	288,071
Clearance certificates	243,021	241,985
Entrance fees	1,183,310	671,278
Fire services rendered	420,626	263,473
Lost library books	2,037	2,666
Photo copies	106,368	144,483
Private telephone calls	241,223	86,793
Sundry income	386,894	344,907
Tender documents sold	720,597	197,195
	<b>4,480,888</b>	<b>2,761,914</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>23. Investment revenue</b>		
<b>Dividend revenue</b>		
Dividends	96,022	88,183
<b>Interest revenue</b>		
Interest received	2,701,815	2,167,164
	<b>2,797,837</b>	<b>2,255,347</b>
<b>24. Property rates</b>		
<b>Rates revenue</b>		
Commercial	9,588,561	8,935,830
Heavy Industries	24,571,219	26,673,786
Residential	76,654,710	72,660,567
Small holdings and farms	9,402,652	8,892,871
State	10,114,060	9,465,024
Less: Income forgone	(15,885,707)	(15,328,985)
	<b>114,445,495</b>	<b>111,299,093</b>
<b>Valuations</b>		
5 year: Tax Holiday	49,237	40,621
Churches	108,325	108,860
Commercial	911,515	861,588
Heavy/light industries	918,276	997,216
Municipal	438,089	416,613
Public Benefit Organisation/Service Infrastructure	51,088	51,992
Residential	7,971,142	8,199,270
Small holdings and farms	2,971,355	2,933,789
State	685,716	677,166
allocated, unregistered stands	257,350	11,903
	<b>14,362,093</b>	<b>14,299,018</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2017.

Rebates up to R35 000 (2015: R35 000) are granted to residential and state property owners.

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

The following properties are exempted from property rates:

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>24. Property rates (continued)</b>		
<b>Tariff structure (cents per Rand)</b>		
Business	0.01473	0.01389
Industries	0.03684	0.03475
Residential	0.00736	0.00694
State-owned property	0.01473	0.01389
<b>Farmland</b>		
Residential	0.00368	0.00347
Business	0.00736	0.00694
Industries	0.01845	0.01738
Private owned towns, Body Corporate, Sectional Titles	0.00368	0.00347
Mining	0.01845	0.01738
Agricultural	0.00185	0.00174
<b>25. Government grants and subsidies</b>		
<b>Operating grants</b>		
Energy efficiency and demand side grant	3,000,000	-
Equitable share	115,423,000	107,541,536
Expanded Public Works Programme Intergrated Grant	970,666	1,109,000
Financial management grant	1,600,000	1,600,000
Municipal Systems Improvement Grant	930,000	934,000
Sector Education Training Authority Grant	986,976	1,098,314
	<b><u>122,910,642</u></b>	<b><u>112,282,850</u></b>
<b>Capital grants</b>		
Department of Co operative Governance and Traditional Affairs Grant	-	895,877
Department of Energy grant	29,000,084	7,999,916
Department of Water Affairs grant	7,429,632	5,989,770
Fezile Dabi District Municipality	-	21,587
Housing Development Agency	340,000	133,737,999
Municipal infrastructure grant	43,213,000	42,139,000
	<b><u>79,982,716</u></b>	<b><u>190,784,149</u></b>
	<b><u>202,893,358</u></b>	<b><u>303,066,999</u></b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	87,470,358	195,525,464
Unconditional grants received	115,423,000	107,541,535
	<b><u>202,893,358</u></b>	<b><u>303,066,999</u></b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
A Council Resolution was taken to use some of the grant for free basic services to residents. Equitable share is also used to allocate 6kl water, 25kWh electricity only in 2014/2015(not applicable in 2015/2016) and basic sewer per month to all households. Indigent households are allocated an additional 4kl of water, 50 kWh of electricity, additional sewer, refuse, and R50 per month on Rates.		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>25. Government grants and subsidies (continued)</b>		
<b>Municipal system improvement grant</b>		
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 17).		
To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.		
<b>Financial management grant</b>		
Current-year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,600,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 17).		
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.		
<b>Expanded public works programme integrated grant</b>		
Balance unspent at beginning of year	-	633,536
Current-year receipts	1,020,000	1,109,000
Conditions met - transferred to revenue	(970,666)	(1,109,000)
Withheld	-	(633,536)
Unspent	(49,334)	-
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 17).		
Appointment of workers on the Extended Public Works Program. The workers continue in July 2016 and were paid with the unspent grant of 30 June 2016.		
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	43,213,000	42,139,000
Conditions met - transferred to revenue	(43,213,000)	(42,139,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 17).		
Funds received for installation of infrastructure.		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>25. Government grants and subsidies (continued)</b>		
<b>Department of Water Affairs Grant</b>		
Balance unspent at beginning of year	10,230	-
Current-year receipts	3,500,000	6,000,000
Conditions met - transferred to revenue	(3,510,230)	(5,989,770)
	<u>-</u>	<u>10,230</u>
Conditions still to be met - remain liabilities (see note 17).		
The Municipality received funds from the Department of Water Affairs for water purification.		
<b>Department of Energy grant</b>		
Balance unspent at beginning of year	84	-
Current-year receipts	29,000,000	8,000,000
Conditions met - transferred to revenue	(29,000,084)	(7,999,916)
	<u>-</u>	<u>84</u>
Conditions still to be met - remain liabilities (see note 17).		
Installation of electricity in the Municipality's area, financed by the Department of Energy.		
<b>Department of Co operative and Traditional Affairs</b>		
Balance unspent at beginning of year	704,984	1,600,861
Conditions met - transferred to revenue	-	(895,877)
	<u>704,984</u>	<u>704,984</u>
Conditions still to be met - remain liabilities (see note 17).		
Funds received for the installation of infrastructure.		
<b>Fezile Dabi District Municipality Grant</b>		
Current-year receipts	-	21,587
Conditions met - transferred to revenue	-	(21,587)
	<u>-</u>	<u>-</u>
Computers donated by Fezile Dabi Districts Municipality.		
<b>Sector Education Training Authority Grant</b>		
Balance unspent at beginning of year	611,322	1,269,896
Current-year receipts	375,654	439,740
Conditions met - transferred to revenue	(986,976)	(1,098,314)
	<u>-</u>	<u>611,322</u>
Conditions still to be met - remain liabilities (see note 17).		
The Municipality received funds from Sector Education Training Authority for excellence performance by human resources division. The funds must be utilised towards training. In the previous year the process in appointing service providers to provide training was delayed.		



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>25. Government grants and subsidies (continued)</b>		
<b>Housing development agency</b>		
Current-year receipts	340,000	133,737,999
Conditions met - transferred to revenue	(340,000)	(133,737,999)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

Land was purchased and transferred into the name of the municipality by the Housing Development Agency. The land is earmarked for the development of mainly residential stands.

### Water Demand Management (Free State Province)

Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(3,920,943)	-
	<u>79,057</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

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

### Energy efficiency and demand side grant

Current-year receipts	3,000,000	-
Conditions met - transferred to revenue	(3,000,000)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

Grant from National Treasury to assist with electricity maintenance.

### Changes in level of government grants

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>26. Public contributions and donations</b>		
Department of Sport, Arts and Culture (Library)	2,000,000	1,666,000
Rejuvenation	14,727,779	6,033,428
Public contributions and donations	2,015	-
	<b>16,729,794</b>	<b>7,699,428</b>
<b>Reconciliation of conditional contributions</b>		
Current-year receipts	16,729,794	7,699,428
Conditions met - transferred to revenue	(16,729,794)	(7,699,428)
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 17)

The funds transferred to current year were received from the Provincial Department of Sport, Arts and Culture for the payment of salaries for library staff. A printer was donated by Millennium Pumps Pty (Ltd) to Technical Services (R1 314). Electrical network installed in Chem City (R8 104 389) and Naledi (R5 071 957) by SASOL Rejuvenation. Electricity installed in Zamdela Extension 17 (R1 551 434) by MDV Developments. Land to the value for R700 donated by private developers. A compactor for the landfill site was donated and traffic circles were built by the Rejuvenation project 2014/2015 financial year.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>27. Employee related costs</b>		
Basic	133,686,800	103,277,043
13th Cheques and other bonuses	10,021,761	6,413,408
Contribution post retirement	1,369,378	1,307,108
Defined contribution plans	22,744,181	16,032,026
Group Insurance	199,941	202,489
Housing benefits and allowances	974,329	592,450
Industrial council levy contributions	56,724	-
Leave pay accrual	1,497,640	2,082,277
Leave pay provision	2,991,946	(817,976)
Long-service awards	442,557	587,557
Medical aid - company contributions	13,855,637	9,663,054
Overtime payments	13,038,301	10,635,487
Standby Allowance	2,449,676	1,684,440
Transport allowance	16,020,791	13,274,274
Unemployment insurance fund contribution	1,171,950	810,781
	<b>220,521,612</b>	<b>165,744,418</b>
<b>Remuneration of S M Molala - Municipal Manager</b>		
Annual remuneration	1,579,846	1,476,490
Car allowance	240,000	240,000
Performance bonuses	80,130	-
Travel, motor car, accommodations, subsistence and other allowances	3,679	5,801
Telephone Allowance	36,000	36,000
	<b>1,939,655</b>	<b>1,758,291</b>
<b>Remuneration of A Lambat - Chief Financial Officer</b>		
Annual remuneration	1,680,531	1,570,590
Car allowance	24,000	24,000
Performance bonuses	68,926	-
Travel, motor car, accommodations, subsistence and other allowances	4,897	3,088
Telephone Allowance	30,000	30,000
	<b>1,808,354</b>	<b>1,627,678</b>
<b>Remuneration of I S Mokgatle -Director Technical Service and Infrastructure</b>		
Annual remuneration	989,763	925,012
Car allowance	409,291	409,291
Telephone Allowance	30,000	30,000
Other	-	1,855
	<b>1,429,054</b>	<b>1,366,158</b>
<b>Remuneration of M L M Maseola -Director Organisational Development and Corporate Services</b>		
Annual remuneration	1,216,417	1,136,838
Car allowance	120,000	120,000
Performance bonuses	64,104	-
Housing subsidy	120,000	120,000
Telephone allowance	30,000	30,000
Other	5,614	11,784
	<b>1,556,135</b>	<b>1,418,622</b>
<b>Remuneration of S J Lempe - Director Social Services</b>		

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>27. Employee related costs (continued)</b>		
Annual remuneration	1,137,797	1,063,362
Car allowance	190,000	190,000
Performance bonuses	64,104	-
Housing subsidy	120,000	120,000
Transport claims	335	2,676
Telephone Allowance	30,000	30,000
Acting allowance as Municipal Manager	19,450	-
	<b>1,561,686</b>	<b>1,406,038</b>
<b>Remuneration of S J Monyaki - Director Economic Development</b>		
Annual remuneration	1,073,597	1,003,362
Car allowance	270,000	270,000
Performance bonuses	64,104	-
Housing subsidy	100,000	100,000
Transport claims	3,166	3,291
Telephone Allowance	30,000	30,000
Acting Allowance as Municipal Manager	24,300	-
	<b>1,565,167</b>	<b>1,406,653</b>
Total Employee related cost	<b>230,381,663</b>	<b>174,727,858</b>

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>28. Remuneration of Councillors</b>		
Executive Mayor	807,929	766,897
Council Whip	570,843	580,390
Mayoral Committee Members	4,889,311	4,643,120
Speaker	650,514	617,689
Councillors	8,328,336	7,801,416
	<b>15,246,933</b>	<b>14,409,512</b>

### Remuneration per councillor

#### Executive Mayor

Maklaku BT	807,929	766,896
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#### Council Whip

Soetsang TL (Till 31 October 2015)	205,146	580,389
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Makhoba KJ (Council Whip from 25 November 2015)	365,696	-
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#### Mayoral Committee Members

Khonto MW	611,164	580,390
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Kubheka NJ	611,164	580,390
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Mabasa KT	611,164	580,390
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Mabefu RJ	611,164	580,390
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Makhoba KJ (Council Whip from 25 November 2015)	245,467	580,390
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Radebe AN	611,164	580,390
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Semonyo LS	611,164	580,390
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Tshongwe SL	611,164	580,390
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Mtshali NM (MAYCO member 25 November 2015)	365,696	-
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#### Speaker

Matena SZ	650,515	617,689
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#### Councillors

Chebase LR	255,306	244,676
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Coetzer FC	258,104	244,676
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Du Plessis J	258,104	244,676
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Du Toit T	258,104	244,676
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Geyser JJ	258,104	244,676
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Grobbelaar JJ	258,104	244,676
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Holt S (Resigned 13 February 2015)	-	152,137
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Khunou SB	258,104	244,676
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Lelahla JM	258,104	244,676
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Machafa MF	258,104	244,676
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Mahlangu PJ	258,104	244,676
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Mare AK	258,104	244,676
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Maseko VJ	258,104	244,676
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Mdola NL	258,104	244,676
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Nnune MS	258,104	244,676
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Mofokeng SS	258,104	244,676
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Mofokeng TJ	258,104	244,676
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Mokoena DE	258,104	244,676
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Moolman HJ	258,104	244,676
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Moreki S	258,104	244,676
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Mosia MM	258,104	244,676
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Mosia TE (Chairperson MPAC- 17 September 2014)	571,810	480,245
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Mtshali NM (MAYCO member 25 November 2015)	103,665	244,676
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Nthebe MD	258,104	244,676
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Ntoane MG	258,104	244,676
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Oswald DM	258,104	244,676
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Poho MS	258,104	244,676
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Rampala AM (Appointed 13 March 2015)	258,104	73,432
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Sejaki MN	258,104	244,676
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# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>28. Remuneration of Councillors (continued)</b>		
Soetsang TL (Council Whip till 31 October 2015)	170,643	-
Tamane MA	258,104	244,676
Van der Walt MC	258,104	244,676
Viljoen JD	258,104	244,676
	<b>15,246,933</b>	<b>14,409,512</b>

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

### 29. Depreciation and amortisation

Intangible assets	127,551	34,439
Investment property	25,791	25,791
Property, plant and equipment	42,777,074	39,547,869
	<b>42,930,416</b>	<b>39,608,099</b>

### 30. Finance costs

Current borrowings	623,306	672,683
Other interest paid	368,041	3,929,444
	<b>991,347</b>	<b>4,602,127</b>

### 31. Debt impairment

Contributions to debt impairment provision	127,716,421	114,845,605
Receivables from exchange transactions	91,916,543	86,813,685
Receivables from non-exchange transactions	35,799,878	28,031,920
	<b>127,716,421</b>	<b>114,845,605</b>

### 32. Bulk purchases

Electricity	187,804,595	166,459,204
Water	129,932,071	112,761,064
	<b>317,736,666</b>	<b>279,220,268</b>

2016	Total sales (units)	Less total purchases (units)	(Loss)/gain (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	207,819,924	215,018,959	(7,199,035)	(3)%	5,597,825
Water	16,926,683	20,197,584	(3,270,901)	(16)%	22,108,523
	<b>224,746,607</b>	<b>235,216,543</b>	<b>(10,469,936)</b>		<b>27,706,348</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

				2016 R	2015 R
<b>32. Bulk purchases (continued)</b>					
<b>2015</b>	Total sales (units)	Less total purchases (units)	(Loss)/gain (units)	% loss on purchases	Rand value of loss at purchase price
Electricity	197,664,137	215,447,365	(17,783,228)	(8)%	10,360,313
Water	14,263,322	20,087,867	(5,824,545)	(29)%	34,655,572
	<u>211,927,459</u>	<u>235,535,232</u>	<u>(23,607,773)</u>		<u>45,015,885</u>

Unaccounted consumption can be a result of:

- Distributions losses;
- Internal use that is not metered and not read;
- Illegal connections and theft.

### 33. Contracted services

Specialist Services	14,291,285	62,904,492
Other Contractors	16,684,891	13,934,363
	<u>30,976,176</u>	<u>76,838,855</u>
<b>Specialist Services</b>		
Security services	<u>14,291,285</u>	<u>69,404,492</u>
<b>Other Contractors</b>		
Cash security	336,834	112,054
Cleaning services	2,198,364	1,683,389
Delivery of summonses/traffic fines	1,777,436	1,335,079
Disconnection and re-connection of services	531,190	709,290
Easy pay commission	668,968	700,344
Electricity pre-paid service	7,197,983	6,182,418
Printing services	3,974,116	3,211,789
	<u>16,684,891</u>	<u>13,934,363</u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>34. General expenses</b>		
Advertising	896,179	1,436,535
Auditors remuneration	4,741,151	5,608,452
Bank charges	339,111	422,017
Bursaries	2,704,000	1,927,880
Cleaning	159,715	-
Computer expenses	6,626,044	2,812,371
Conferences and seminars	1,157,743	793,461
Connection charges	92,157	631,286
Consulting and professional fees	19,095,347	10,781,877
Electricity charges	-	8,423
Entertainment	145,230	98,811
Fuel and oil	5,687,522	4,444,784
Insurance	1,753,885	1,197,709
Magazines, books and periodicals	27,090	9,485
Marketing	476,370	481,580
Medical expenses	53,223	227,798
Other expenses	1,365,819	1,320,372
Pest control	22,518	-
Postage and courier	1,708,987	1,447,025
Printing and stationery	672,573	725,469
Promotions	9,974	3,736
Provision for Rehabilitation of landfill site	4,724,649	7,046,685
Public Programme	4,010,023	1,838,470
Rental equipment	5,602,428	1,685,877
Royalties and license fees	361,693	328,779
Seed Trees Shrubs Topdressing	1,171	-
Sewer Treatment	14,963,955	14,278,052
Skill Development Levy	1,895,793	1,466,745
Stocks and materials	3,957,654	770,396
Subscriptions and membership fees	2,325,868	2,120,140
Telephone	2,112,886	1,942,635
Title deed search fees and valuation cost	249,513	640,618
Training	1,376,192	1,581,533
Training LG SETA	111,924	310,072
Travel - local	1,242,533	1,250,388
Uniforms	921,752	596,720
	<b>91,592,672</b>	<b>70,236,181</b>



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>35. Cash generated from operations</b>		
Surplus	37,422,963	158,113,397
<b>Adjustments for:</b>		
Depreciation and amortisation	42,930,416	39,608,099
(Loss) gain on sale of inventory	(409,049)	5,157,814
Fair value adjustment on stands	(6,491,043)	-
Fair value adjustments	(3,909,424)	(1,140,761)
Loss on the sale of property, plant and equipment	231,524	(275,509)
Housing Development Agency -land	(340,000)	(133,737,999)
Infrastructure donated	(14,730,494)	-
Debt impairment	127,716,421	114,845,605
Movements in operating lease assets and accruals	683,858	328,472
Movements in retirement benefit assets and liabilities	1,811,935	1,894,665
Movements in land fill closure provisions	4,724,649	7,046,685
Current leave and bonus accrual	2,991,947	(817,977)
Transfer from Inventory to PPE - non-cash items	-	(2,041,093)
<b>Changes in working capital:</b>		
Inventories	(27,401)	2,654,616
Receivables from non-exchange transactions	(36,929,391)	(43,099,428)
Receivables from exchange transactions	(114,249,540)	(123,186,476)
Payables from exchange transactions	29,064,028	15,991,061
VAT	5,486,411	3,145,756
Unspent conditional grants and receipts	(493,245)	(2,177,673)
Consumer deposits	1,781,137	2,445,663
	<b>77,265,702</b>	<b>44,754,917</b>

## 36. Financial instruments disclosure

### Categories of financial instruments

#### 2016

#### Financial assets

	At fair value	At amortised cost	Total
Other financial assets - Listed shares	2,783,139	-	2,783,139
Other financial assets - Unit trust	1,303,696	-	1,303,696
Other financial assets -Investment	-	30,641	30,641
Receivables from non-exchange transactions	-	64,171,138	64,171,138
Receivables from exchange transactions	-	147,954,077	147,954,077
Cash and cash equivalents	-	14,345,478	14,345,478
	<b>4,086,835</b>	<b>226,501,334</b>	<b>230,588,169</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease obligation	9,230,215	9,230,215
Payables from exchange transactions	214,673,543	214,673,543
Consumer deposits	18,026,993	18,026,993
Short term portion - Long term loan	1,267,234	1,267,234
Non- current Long term loan	4,516,517	4,516,517
	<b>247,714,502</b>	<b>247,714,502</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R	
<b>Financial instruments disclosure (continued)</b>			
<b>2015</b>			
<b>Financial assets</b>			
	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	63,041,625	63,041,625
Receivables from exchange transactions	-	125,621,080	125,621,080
Cash and cash equivalents	-	26,194,963	26,194,963
Other financial assets Listed shares	3,058,871	-	3,058,871
Other financial assets -Investment	-	30,641	30,641
Other financial assets -Unit trust	1,220,870	-	1,220,870
	<u><b>4,279,741</b></u>	<u><b>214,888,309</b></u>	<u><b>219,168,050</b></u>
<b>Financial liabilities</b>			
		At amortised cost	Total
Payables from exchange transactions		182,617,578	182,617,578
Non - current - Long term loan		5,783,751	5,783,751
Short term loan		1,163,296	1,163,296
Consumer deposits		16,245,856	16,245,856
		<u><b>205,810,481</b></u>	<u><b>205,810,481</b></u>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment including infrastructure	<u>95,240,654</u>	<u>42,642,064</u>
<b>Total capital commitments</b>		
Already contracted for but not provided for	<u>95,240,654</u>	<u>42,642,064</u>
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Expenditure	<u>33,565,881</u>	<u>44,393,067</u>
<b>Total operational commitments</b>		
Already contracted for but not provided for	<u>33,565,881</u>	<u>44,393,067</u>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	95,240,654	42,642,064
Authorised operational expenditure	33,565,881	44,393,067
	<u><b>128,806,535</b></u>	<u><b>87,035,131</b></u>

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

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

**Operating leases - as lessor (income)**

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>38. Contingencies</b>		
<b>Housing loans</b>		
Guarantees for housing loans to employees at financial institutions	30,161	30,161
<b>Leabea ans Associates (Employee related matters)</b>		
Kavita N.O and SAMWU Taxation	-	180,000
Kriel	-	50,000
Klaumanns & Roux	-	124,987
Roux JJ (re-instatement)	3,000,000	-
Klauman -Moller (re-instatement)	4,000,000	-
Kriel HJ (re-instatement)	3,000,000	-
SAMWU	-	80,000
SAMWU Mijikane	-	100,000
Hermopect	-	200,000
<b>Maroka Attorneys</b>		
Sally-Anne Morgan/Metsimaholo Municipality	-	18,603
H Momberg/Metsimaholo Municipality	-	24,386
G M Marx/Metsimaholo Municipality	-	77,113
T Semeya/Metsimaholo Municipality	-	18,648
<b>Nkaiseng Attorneys</b>		
Nkadimeng/Metsimaholo Municipality	-	100,000
Meyer Beukes (Settled)	-	35,000
<b>Majavu Incorporated</b>		
Mansi/Metsimaholo Municipality	-	1,000,000
<b>Melato Attorneys</b>		
State/F J Motloung (settled)	-	40,000
<b>Boitumelp Maubane Attorneys</b>		
Mayoral Trust	-	500,000
Special consent erf 3314 Sasolburg	-	250,000
<b>Ndobela Attorneys</b>		
Labour Matters	180,000	300,000
Metsimaholo Municipality/Human CW	44,474	-
<b>Rasegoete &amp; Associates Incorporated</b>		
Metsimaholo Municipality/S P Mogale and another	-	25,000
<b>Mkwanazi Melato Inc</b>		
Metsimaholo Municipality/I A van der Walt	47,265	180,000
Metsimaholo Municipality/A Maredi	27,256	200,000
Metsimaholo Municipality/J Schoultz	58,365	180,000
Metsimaholo Municipality/S Maboe	190,000	400,000
Metsimaholo Municipality/Mpembe	44,377	180,000
Metsimaholo Municipality/Mpembe	-	200,000
Metsimaholo Municipality/Mohlakane	57,816	380,000
Metsimaholo Municipality/Manoto	65,159	180,000
Metsimaholo Municipality/Elite Tent	68,578	190,000
Metsimaholo Municipality/Mbongo	46,950	400,000
Metsimaholo Municipality/Saaiman R	100,000	-
Metsimaholo Municipality/ Fouche Quinton	18,000	-
Metsimaholo Municipality/ Vaal Panelbeaters	35,000	-
<b>Ponoane Attorneys</b>		
SAMWU/Metsimaholo Municipality (S S Sediane)	-	40,000
Labour cases/Metsimaholo Municipality (settled in 2014/2015)	-	123,688
L Lehani/Metsimaholo Local Municipality (settled in 2014/2015)	233,368	22,182
Erwee Andries/Metsimaholo Local Municipality	38,645	-
<b>Adloff Attorneys</b>		
Metsimaholo Municipality/Van der Vyver C	13,186	-
Metsimaholo Municipality/Van Zyl J	12,135	-
Metsimaholo Municipality/Calitz ACJ	111,182	-
<b>Internal Legal Division</b>		
Ward PD/Metsimaholo Local Municipality	3,686	-
Rhani DV/Metsimaholo Local Municipality	4,515	-

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

	2016 R	2015 R
<b>38. Contingencies (continued)</b>		
Vosloo A/Metsimaholo Local Municipality	1,443	-
Aztek Furnance and MEC SUP CC /Metsimaholo Local Municipality	38,399	-
Le Roux JM /Metsimaholo Local Municipality	18,937	-
Loots SJH /Metsimaholo Local Municipality	35,000	-
Trauernicht M/Metsimaholo Local Municipality	16,184	-
Mokoena L /Metsimaholo Local Municipality	12,639	-
Prinsloo JM /Metsimaholo Local Municipality	4,321	-
Coertze J /Metsimaholo Local Municipality	15,929	-
Pretorius IEM /Metsimaholo Local Municipality	2,835	-
IMATU obo Smith E Labour dispute	75,000	-
IMATU obo Van Rooyen F Labour dispute	75,000	-
	<b>11,725,805</b>	<b>5,829,768</b>

### Unlicensed landfill site

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

### 39. Related parties

#### Relationships

- Phepheng Lelahla JM
- Nthebe MD
- Maseko VJ
- Grobbelaar JJ

- Soetsang T L
- Mofokeng TJ

- Mosia TE
- Mahlangu PJ
- Radebe AN
- Makhoba KJ
- Du Plessis J
- Viljoen JD
- Mabefu RJ
- Molala SM
- Maseola M

- Monyaki SJ

- Lambat A

Post employment benefit plan for employees  
Members of key management  
Executive Council Members

Grey Construction (Civil & Mechanical)  
Alaska One Enterprise (Pty) Ltd  
Living Fountains (Church)  
In his footprints (Non-profitable Charity organisation)  
Tuso Hunges (Non-profitable Charity organisation)  
Nyakaza Mfazi Primary co-operative limited  
Asazi funeral parlour  
Asazi Inn  
Soxi Electronics and IT Centre  
Kgutlo Thako Funeral Services  
Maitshokolla Cooperative  
Paballo Ya Bomme  
SanJohan private trust (trustee)  
Principal of Vaalpark Primary School  
Directorship: Skyho Sands  
Afriscapes CC (Capacity building)  
Khumase CC (Construction and transport)  
Wealthpros(General Trading)  
Raleoa Trading (Tourism retail)  
Bold Moves 198 (Properties, tourism, retail)  
Lambat & Pochee Chartered Accountants  
New Redruth Motors CC  
Refer to note 19  
Refer to note 27  
Refer to note 28

### 40. Prior period errors

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 40. Prior period errors (continued)

Statement of financial performance	Balance as previously reported	Prior period error	Reclassified (note 42)	Total
<b>Revenue</b>				
Service charges	486,640,151	-	-	486,640,151
Levies refuse dump yard	1,070,621	-	-	1,070,621
Rental of facilities and equipment	4,599,853	-	-	4,599,853
Interest received - trading	14,576,318	-	-	14,576,318
Interest received - investments	2,167,164	-	-	2,167,164
Dividends	88,183	-	-	88,183
Non- payment fees	2,330,959	-	-	2,330,959
Licence and permits	148,515	-	-	148,515
Fines	22,876,411	-	-	22,876,411
Connection fees	1,614,315	-	-	1,614,315
Property rates	111,299,093	-	-	111,299,093
Government grants and subsidies	302,817,718	249,280	-	303,066,998
Public contributions and donations	7,699,428	-	-	7,699,428
Other income	2,761,913	-	-	2,761,913
Income legal cost	4,254,028	-	-	4,254,028
Gains on disposal of assets	475,011	-	(475,011)	-
	<b>965,419,681</b>	<b>249,280</b>	<b>(475,011)</b>	<b>965,193,950</b>
<b>Expenses</b>				
Employee related cost	(175,079,691)	351,830	-	(174,727,861)
Remuneration of councillors	(14,409,512)	-	-	(14,409,512)
Depreciation and amortisation	(38,692,098)	(915,999)	-	(39,608,097)
Debt Impairment	(114,845,605)	-	-	(114,845,605)
Finance cost	(4,602,127)	-	-	(4,602,127)
Repairs and maintenance	(25,693,030)	745,981	-	(24,947,049)
Bulk purchases	(279,220,268)	-	-	(279,220,268)
Contracted services	(83,216,302)	6,377,444	-	(76,838,858)
General expenses	(69,902,450)	(333,734)	-	(70,236,184)
Operating Lease	(3,758,843)	(144,614)	-	(3,903,457)
Loss on disposal of assets	(5,401,585)	-	5,401,585	-
	<b>(814,821,511)</b>	<b>6,080,908</b>	<b>5,401,585</b>	<b>(803,339,018)</b>
Gain/loss on disposal of assets	-	(287,500)	(5,401,585)	(5,689,085)
Fair value adjustments	1,139,610	-	-	1,139,610
Actuarial gain / (loss)	41,262	(251,751)	-	(210,489)
Sale of stands (Loss on sale)	446,583	-	-	446,583
Loss on inventory	(114,814)	-	475,011	360,197
Fair value of shares	211,640	-	-	211,640
	<b>1,724,281</b>	<b>(539,251)</b>	<b>(4,926,574)</b>	<b>(3,741,544)</b>
<b>Statement of financial position</b>				
<b>Current assets</b>				
Inventory	8,700,967	(310,000)	-	8,390,967
Receivables from exchange transactions	123,953,903	-	1,667,177	125,621,080
Receivables from non-exchange transactions	64,467,759	241,043	(1,667,177)	63,041,625
Cash and cash equivalents	26,194,963	-	-	26,194,963
Other Financial Assets	5,886,282	-	-	5,886,282
	<b>229,203,874</b>	<b>(68,957)</b>	<b>-</b>	<b>229,134,917</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 40. Prior period errors (continued)

#### Non-current assets

Investment property	86,415,127	-	-	86,415,127
Property, plant and equipment	1,079,810,641	(2,255,892)	-	1,077,554,749
Intangible assets	445,177	-	-	445,177
Heritage assets	561,001	-	-	561,001
	<b>1,167,231,946</b>	<b>(2,255,892)</b>	<b>-</b>	<b>1,164,976,054</b>

#### Current liabilities

Other liabilities	1,199,646	-	-	1,199,646
Payables from exchange transactions	189,047,559	(6,429,983)	-	182,617,576
VAT payable	5,438,487	(8,930)	-	5,429,557
Consumer deposits	16,245,856	-	-	16,245,856
Unspent conditional grants	1,575,900	(249,280)	-	1,326,620
Short term portion -Long term loan	1,163,296	-	-	1,163,296
	<b>214,670,744</b>	<b>(6,688,193)</b>	<b>-</b>	<b>207,982,551</b>

#### Non-current liabilities

Long term loan	5,783,751	-	-	5,783,751
Employee benefit obligations	44,624,535	(3,097,480)	-	41,527,055
Landfill closure provision	44,894,029	-	-	44,894,029
	<b>95,302,315</b>	<b>(3,097,480)</b>	<b>-</b>	<b>92,204,835</b>

#### Net assets

Accumulated surplus - opening balance	1,086,462,761	1,669,896	-	1,088,132,657
(Surplus) / deficit for the year	-	4,123,752	-	4,123,752
	<b>1,086,462,761</b>	<b>5,793,648</b>	<b>-</b>	<b>1,092,256,409</b>

#### 1. Expenses not accrued in prior years

Some general expenses, repairs and maintenance, operating leasehold and contracted services were incorrectly accrued in 2013/2014 and 2014/2015 years. These have been corrected and the 2013/2014 amounts restated accordingly.

#### Statement of financial position

Adjustment against the opening accumulated surplus 1 July 2014	-	-	-	192,735
Decrease in payables from exchange transactions	-	-	-	6,429,984
	-	-	-	<b>6,622,719</b>

#### Statement of financial performance

Increase in general expenditure	-	-	-	356,083
Decrease in repairs and maintenance	-	-	-	(745,980)
Increase in operating lease cost	-	-	-	144,622
Decrease in Contracted Services	-	-	-	(6,377,444)
	-	-	-	<b>(6,622,719)</b>

#### 2. Revenue incorrectly accounted in the prior years

Sundry debtors were incorrectly billed in 2013/2014 year. These have been corrected and the 2014/2015 opening amounts were restated accordingly.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 40. Prior period errors (continued)

#### Statement of financial position

Adjustment against the opening accumulated surplus 1 July 2014	-	(227,624)
Increase in receivables from non -exchange transactions	-	227,624
	<u>-</u>	<u>-</u>

#### 3. Adjustment of SETA grant

The unspent grant from SETA was adjusted as a prior year payment was made.

#### Statement of financial position

Decrease of unspent grant	-	249,280
	<u>-</u>	<u>249,280</u>

#### Statement of financial performance

Increase in grants and subsidies	-	(249,280)
	<u>-</u>	<u>(249,280)</u>

#### 4. Assets identified

PPE (assets) identified and taken on in 2014/2015 financial year. These have been corrected and the 2014/2015 PPE restated accordingly.

#### Statement of financial position

Increase in PPE	-	120,000
Decrease in accumulated surplus	-	(120,000)
	<u>-</u>	<u>-</u>

#### 5. Inventory(stands) identified

It was identified that attends were included in Inventory and PPE in 2014/2015 financial year. These have been corrected and the 2014/2015 inventory restated accordingly.

#### Statement of financial position

Decrease in Inventory	-	(310,000)
Increase in accumulated surplus	-	310,000
	<u>-</u>	<u>-</u>

#### 6. VAT

Some VAT were incorrectly accounted for in the 2014/2015 years. These have been corrected and the prior year amounts restated accordingly.

#### Statement of financial position

Increase in VAT	-	8,931
	<u>-</u>	<u>8,931</u>

#### Statement of financial performance

Decrease in general expenditure	-	(8,931)
	<u>-</u>	<u>(8,931)</u>

#### 7. Bursary recover

An employee left the service of the Municipality and must pay back the bursary.

#### Statement of financial position

Increase in receivables from non - exchange	-	13,419
	<u>-</u>	<u>13,419</u>



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 40. Prior period errors (continued)

#### Statement of financial performance

Decrease in bursary	-	(13,419)
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#### 8. Employee benefit obligation

The calculation for the provision of employee benefit obligation (medical aid) was recalculated from July 2013.

#### Statement of financial position

Adjustment against the opening accumulated surplus 1 July 2014	-	(2,997,401)
Decrease in Employee Benefits	-	3,097,480
	-	<b>100,079</b>

#### Statement of financial performance

Decrease in employee cost	-	351,830
Increase in Actuarial loss	-	(251,751)
	-	<b>100,079</b>

#### 9. Deviations and Irregular expenditure

Deviations were adjusted from R61 043 963 to R61 284 654 for expenditure items that were not previously included.

Irregular expenditure was restated from R48 211 291 (2014/2015) to R46 757 428. The amounts written off in terms of Council resolution 11.2 of 30 June 2015 was adjusted from R23 389 857 to R9 729 635. The Council resolution in June 2016 replaced most of the items in the Council resolution 11.2 on June 2015.

#### 10. Fruitless Expenditure

MPAC adjusted the register by R22 649 for the 2009/2010 and R15 570 for the 2012/2013 financial year.

#### 11. Assets adjustments

Assets from WIP to PPE in 2013/14 as well as derecognition of roads.

Write off of Caterpillar in 2014/2015

#### Statement of financial position

PPE	-	(1,625,719)
Accumulated surplus	-	1,172,393
Accumulated depreciation	-	(750,173)
	-	<b>(1,203,499)</b>

#### Statement of financial performance

Depreciation	-	915,999
Loss on disposal of asset	-	287,500
	-	<b>1,203,499</b>

### 41. Change in estimate

#### Property, plant and equipment

No changes in 2015/2016 financial year that related to previous years.

### 42. Comparative figures

Certain comparative figures have been reclassified.

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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	2016	2015
	R	R

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### 42. Comparative figures (continued)

The effects of the reclassification are set out in note 40.

#### Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Gain on disposal of assets	475,011	(475,011)	-
Loss on disposal of assets	(5,401,585)	5,401,585	-
Gain/(loss) on disposal of assets	-	(5,401,585)	(5,401,585)
Loss on inventory	-	475,011	475,011
<b>Total</b>	<b>(4,926,574)</b>	<b>-</b>	<b>(4,926,574)</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 43. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	18,026,993	-	-	-
Finance lease obligation	1,375,608	-	7,854,607	-
Other financial liabilities	1,267,234	-	4,516,517	-
Payables from exchange transactions	214,689,916	-	-	-

  

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	16,245,856	-	-	-
Short term portion - long term loan	1,163,296	-	-	-
Long term loan	-	-	5,783,751	-
Payables from exchange transactions	182,617,579	-	-	-

#### Credit risk

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

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

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

Financial instrument	2016	2015
Receivables from exchange transactions	146,286,900	123,953,903
Receivables from non-exchange transactions	64,171,138	63,041,625
Cash and cash equivalents	14,345,478	26,194,963
Other financial assets -short term	4,950,851	5,886,282

#### Market risk

##### Interest rate risk

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 44. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had an accumulated surplus of R 1,131,346,546 (2015: R 1,092,256,405) and that the municipality's total assets exceeded its liabilities by R 1,131,346,546 (2015: R1,092,256,405). Current liabilities exceeded current assets by R3,919,765 (2015 Current assets exceed current liabilities by R19,485,187).

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

- not all suppliers were not paid within the legislative 30 days
- The gross debtors book has grown from R640 708 579 to R761 610 341 30 at June 2016. The debt impairment provision has increased for the year by R98 406 721 compared to R91 481 302 for the previous year. This is indicative of challenges in reducing the debtors book, requiring more stringent debt collection measures.;
- The average payment level for the year was 78.9% compared to a budgeted collection level of 83%
- The municipality also faced challenges in meeting the minimum maintenance of Property Plant and Equipment as prescribed by National Treasury

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

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

### 45. Events after the reporting date

No events took place after the reporting date.

### 46. Unauthorised expenditure

Opening balance	77,901,967	117,225,894
Incurred during the current year	19,367,544	77,888,603
Approval by Council or condoned July 2012	-	(83,443,160)
Approval by Council or condoned July 2015	-	(33,769,370)
Condoned by Council November 2015	(25,983,230)	-
Condoned by Council May 2016	(51,905,373)	-
	<b>19,380,908</b>	<b>77,901,967</b>

#### Details of unauthorised expenditure - current year

Financial services	19,367,544	-
Budget: R38 011 420		
Actual expenditure: R57 378 964		

#### Details of unauthorised expenditure - prior year

Financial services	-	25,418,901
Budget: R36 827 950		
Actual expenditure: R62 246 851		
Local Economic Development and Housing	-	564,329
Budget: R21 576 410		
Actual expenditure R22 140 739		
Unforeseen and unavoidable expenditure due to labour unrest exceed the limit as per MFMA	-	51,905,373
	<b>-</b>	<b>77,888,603</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 47. Fruitless and wasteful expenditure

Opening balance	12,747,980	8,818,536
Incurred in the current year	158,840	3,929,444
Written off Council meeting October 2015	(6,225,775)	-
Written off Council November 2015	(3,790,763)	-
	<b>2,890,282</b>	<b>12,747,980</b>

### Analysis of expenditure

Telkom- Payment of telephone accounts. Interest charged on the late payment of accounts	18,233	37,848
Sheriff Sasolburg - Payment of interest	2,288	3,643
BHR - Payment of interest on late payment of copies	-	2,744
Sasol - Payment of interest of late payment of petrol account	-	10,296
Auditor General - Interest on late payment	5,932	54,382
Rand Water - Interest on the late payment of water account	5	23,911
SA Post Office - Interest on late payment	-	20
ESKOM - Interest paid on the late payments of electricity accounts	121,959	3,790,764
Free State Provincial Government - Late payment of licence fees	7,301	742
Development Bank of South Africa - partial5 094 payment of repayment of loan	-	5,094
SAICE - interest on late payment	361	-
SARS late submission of EMP501	1,654	-
SABC -late payment of licence	1,107	-
	<b>158,840</b>	<b>3,929,444</b>

### 48. Irregular expenditure

Opening balance	228,943,576	207,143,293
Add: Irregular Expenditure - current year	25,703,162	46,757,428
Less: Amounts written off item 11,1 Council 30 June 2015	-	(15,227,510)
Less: Amounts written off Item 11,2 Council 30 June 2015	-	(9,729,635)
Less: Amounts written off Council Resolution June 2016	(27,392,762)	-
	<b>227,253,976</b>	<b>228,943,576</b>

### Analysis of expenditure awaiting condonation per age classification

Unauthorised sole supplier	3,623,241	6,081,691
Tax clearance not submitted	335,119	8,527,887
Supplier not on the accredited prospective providers list and the listing requirements not met	165,866	1,191,292
Supplier did not submit declarations of interest	42,560	640,345
Not submitting the minimum quotations for acquiring goods and services	480,308	340,694
No supporting documentation (payment vouchers and/or tender documentation)	4,657	4,572,727
Invoices deliberately splited	-	169,708
Contract / SLA expired ie exceeds three years, no valid approval for extension	3,456,685	3,543,000
Competitive bidding process not followed	14,728,438	20,849,699
Bid specifications did not specify the minimum threshold for local production and content as required by PPR9	2,866,288	840,385
	<b>25,703,162</b>	<b>46,757,428</b>

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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

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

Current year subscription / fee	2,300,000	2,100,000
Amount paid - current year	(2,300,000)	(2,100,000)
	<u>-</u>	<u>-</u>

#### Audit fees

Opening balance	-	(150,283)
Current year subscription / fee	4,741,151	5,813,116
Amount paid - current year	(4,741,151)	(5,608,451)
Amount paid - previous years	-	(54,382)
	<u>-</u>	<u>-</u>

#### PAYE and UIF

Current year subscription / fee	33,626,558	27,647,446
Amount paid - current year	(33,626,558)	(27,647,446)
	<u>-</u>	<u>-</u>

#### Pension and medical aid deductions

Current year subscription / fee	58,741,181	42,123,803
Amount paid - current year	(58,741,181)	(42,123,803)
	<u>-</u>	<u>-</u>

#### VAT

VAT payable	<u>10,915,968</u>	<u>5,429,557</u>
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The nett VAT output payable and VAT input receivable is shown in note 15.

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

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding more than 90 days R	Total R
Chebase E (Acc no 601490)	37,428	37,428
Du Toit T (Acc no 525381)	235	235
Khunou PJ (Acc no 103351 and 575822))	2,757	2,757
Mabasa KT (Acc no 579460 and 600299)	3,486	3,486
Machaea MF (Acc no 103252 and 561530)	765	765
Mahlangu J (Acc no 612694)	120,560	120,560
Mofokeng TJ (Acc no 511539 and 579964)	51,579	51,579
Mosia MM (Acc no 555731)	6,463	6,463
Mtshali BP (Acc no 562315)	62,640	62,640
Moreki S (Acc no 526465)	58,600	58,600
Ntebe MD (Acc no 104154 and 578880)	66,918	66,918
Sejaki PS (Acc no 565498)	20,452	20,452
Semonyo JS (Acc no 103997)	4,110	4,110
Tamane WL (Acc no 551238)	44	44
	<b>436,037</b>	<b>436,037</b>
30 June 2015	Outstanding more than 90 days R	Total R
Chebase E (Acc no 601490)	33,121	33,121
Khonto MW (Acc no 528629)	6,874	6,874
Khunou PJ (Acc no 103351 and 575822))	9,700	9,700
Mabasa KT (Acc no 579460)	5,059	5,059
Machaea MF (Acc no 103252) (August 2014)	847	847
Mahlangu J (Acc no 612694)	93,311	93,311
Maseko VJ (Acc no 590415 and 611123) (December 2014)	549	549
Mdola NL (Acc no 799083 and 577984)	893	893
Mofokeng SS (Acc no 566560) (May 2015)	1,214	1,214
Mofokeng TJ (Acc no 511539)	72,476	72,476
Mokoena DE (Acc no 595204 and 611797) (November 2014)	4,660	4,660
Moreki S (Acc no 526465)	61,251	61,251
Mosia MM (Acc no 555731) March 2015)	2,644	2,644
Mtshali BP (Acc no 103466 and 562315)	88,772	88,772
Ntebe MD (Acc no 104154 and 578880)	90,300	90,300
Ntoane MG (Acc no 690333)	3,046	3,046
Poho MS (Acc no 512681 and 589204)	1,687	1,687
Radebe M (Acc no 526972) (October 2014)	533	533
Sejaki PS (Acc no 6012077 and 565498)	34,135	34,135
Tamane WL (Acc no 551238)	827	827
	<b>511,899</b>	<b>511,899</b>

# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Supply chain management regulations

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

#### Incident

Emergency	11,922,706	8,395,651
Exceptional/Impractical	4,579,411	-
Other	58,861	-
Quotations received outside the official procurement process	-	1,600,277
Social crime prevention	101,282	50,649,420
Sole suppliers	479,444	639,307
	<b>17,141,704</b>	<b>61,284,655</b>

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

### 50. Deviation from supply chain management regulations

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

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

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The expenses incurred as listed hereunder have been approved by the Accounting Officer:

### 51. Budget differences

#### Material differences between budget and actual amounts

1. Service charges - Electricity sales and refuse charges were less than the budgeted.
2. Non-payment fees - Fees exceed the budget.
3. Billboards- Collection for billboards exceed the budget.
4. Building Plans - Collection for building plans is less than the budget due to non-submission of building plans by the community and due to economic decline.
5. Connection Plans - Less consumers applied for the new connections to service network than budgeted for.



# Metsimaholo Local Municipality

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand

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### 51. Budget differences (continued)

6. Cemetery Fees - Collection for cemetery exceeded the budget. The amount varies and can not be determined with accuracy
7. Private Telephone Calls - Collection for telephone calls exceeded the budget due to better cost control.
8. Tender deposit - Collection for tender deposit exceeded the budget.
9. Fines - The fines allocated in terms of GRAP exceeded the budget.
10. Interest received - Interest on investments was increased in the adjustment budget based on prevailing circumstances.
11. Government grants and subsidies - Exceeded the budget due to increase of R3 000 000 from Provincial government.
12. Income legal cost - Less actions were taken against consumers than anticipated with the budget.
13. Licences and permits - The money collected on licences and street trading was less than the budget.
14. Finance cost - Interest on external loans were lower as the loans were only taken up in May 2016.
15. Lease rental on operating lease - Government Garage expenditure.
16. Sewer treatment charges - Charges were lower than anticipated.
17. Housing of officials exceeded the budget due to a more staff participate in the scheme. The total remuneration of employees does not exceed the budget.
18. The line item, housing of councillors exceed the budget. Councillors restructured their packages.
19. Computer services exceeded the budget due to payment of licence fees for Microsoft.
20. Commission of electricity sales exceeded the budget as more consumers converted to pre-paid electricity meters and various levels of consumption.
21. Provision for impairment exceeded the budget as the non-payment of consumers and fines increased.
22. Property rates levied exceeded the budget by R11million.
23. Donations were made by the public for infrastructure that was not part of the budget.
24. Depreciation is R28 million less than the budget due to capital projects/items not finalised or implemented.
25. Less water was purchased than anticipated
26. Contracted service - less was spent than budgeted.

## Appendix A

### Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
<b>Development Bank of South Africa</b>							
Loan 61006825	9000000	6,947,048	-	1,163,296	5,783,752	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>6,947,048</b>	<b>-</b>	<b>1,163,296</b>	<b>5,783,752</b>	<b>-</b>	<b>-</b>
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
Lease liability		-	-	-	-	-	-
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
<b>Total external loans</b>							
Loan Stock		-	-	-	-	-	-
Structured loans		-	-	-	-	-	-
Funding facility		-	-	-	-	-	-
Development Bank of South Africa		6,947,048	-	1,163,296	5,783,752	-	-
Bonds		-	-	-	-	-	-
Other loans		-	-	-	-	-	-
Lease liability		-	-	-	-	-	-

## Appendix A

### Schedule of external loans as at 30 June 2016

Loan Number	Redeemable	Balance at 30 June 2015	Received during the period	Redeemed written off during the period	Balance at 30 June 2016	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Annuity loans		-	-	-	-	-	-
Government loans		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		<b>6,947,048</b>	-	<b>1,163,296</b>	<b>5,783,752</b>	-	-

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation						Accumulated depreciation							
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	225,266,450	404,365	-	-	-	-	225,670,815	-	-	-	-	-	-	225,670,815
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	134,856,434	5,906,978	-	-	-	-	140,763,412	(52,217,280)	-	-	(2,664,271)	-	(54,881,551)	85,881,861
	<b>360,122,884</b>	<b>6,311,343</b>	-	-	-	-	<b>366,434,227</b>	<b>(52,217,280)</b>	-	-	<b>(2,664,271)</b>	-	<b>(54,881,551)</b>	<b>311,552,676</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	709,246,928	22,585,539	(7,577,025)	-	-	-	724,255,442	(492,807,055)	6,363,064	-	(11,183,352)	-	(497,627,343)	226,628,099
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	258,645,570	43,283,207	(1,071,021)	-	-	-	300,857,756	(118,500,745)	705,946	-	(6,358,832)	-	(124,153,631)	176,704,125
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	434,086,304	3,666,975	-	-	-	-	437,753,279	(263,501,622)	-	-	(7,323,077)	-	(270,824,699)	166,928,580
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	290,583,751	26,317,953	-	-	-	-	316,901,704	(96,107,895)	-	-	(3,010,699)	-	(99,118,594)	217,783,110
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	85,719	-	-	-	-	-	85,719	(72,537)	-	-	(1,766)	-	(74,303)	11,416
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	3,724,169	-	-	-	-	-	3,724,169	(668,139)	-	-	(8,829)	-	(676,968)	3,047,201
	<b>1,696,372,441</b>	<b>95,853,674</b>	<b>(8,648,046)</b>	-	-	-	<b>1,783,578,069</b>	<b>(971,657,993)</b>	<b>7,069,010</b>	-	<b>(27,886,555)</b>	-	<b>(992,475,538)</b>	<b>791,102,531</b>
<b>Community Assets</b>														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	2,595,487	-	-	-	-	2,595,487	-	-	-	-	-	-	2,595,487
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	<b>2,595,487</b>	-	-	-	-	<b>2,595,487</b>	-	-	-	-	-	-	<b>2,595,487</b>

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2016

**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Heritage assets</b>														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
	<b>561,001</b>	-	-	-	-	-	<b>561,001</b>	-	-	-	-	-	-	<b>561,001</b>
<b>Specialised vehicles</b>														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other assets</b>														
General vehicles	32,108,817	-	(164,000)	-	-	-	31,944,817	(16,879,258)	110,700	-	(3,805,572)	-	(20,574,130)	11,370,687
Plant & equipment	17,356,363	1,130,361	(27,250)	-	-	-	18,459,474	(10,453,624)	3,179	-	(840,431)	-	(11,290,876)	7,168,598
Computer Equipment	40,201,744	18,009	(3,500)	-	-	-	40,216,253	(25,258,817)	2,837	-	(4,941,617)	-	(30,197,597)	10,018,656
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	25,836,122	332,278	-	-	-	-	26,168,400	(17,976,645)	-	-	(2,534,690)	-	(20,511,335)	5,657,065
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	8,096,680	-	-	-	-	8,096,680	-	-	-	(103,938)	-	(103,938)	7,992,742
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>115,503,046</b>	<b>9,577,328</b>	<b>(194,750)</b>	-	-	-	<b>124,885,624</b>	<b>(70,568,344)</b>	<b>116,716</b>	-	<b>(12,226,248)</b>	-	<b>(82,677,876)</b>	<b>42,207,748</b>

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2016

**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	360,122,884	6,311,343	-	-	-	-	366,434,227	(52,217,280)	-	-	(2,664,271)	-	(54,881,551)	311,552,676
Infrastructure	1,696,372,441	95,853,674	(8,648,046)	-	-	-	1,783,578,069	(971,657,993)	7,069,010	-	(27,886,555)	-	(992,475,538)	791,102,531
Community Assets	-	2,595,487	-	-	-	-	2,595,487	-	-	-	-	-	-	2,595,487
Heritage assets	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	115,503,046	9,577,328	(194,750)	-	-	-	124,885,624	(70,568,344)	116,716	-	(12,226,248)	-	(82,677,876)	42,207,748
	<b>2,172,559,372</b>	<b>114,337,832</b>	<b>(8,842,796)</b>	-	-	-	<b>2,278,054,408</b>	<b>1,094,443,617</b>	<b>7,185,726</b>	-	<b>(42,777,074)</b>	-	<b>1,130,034,965</b>	<b>1,148,019,443</b>
<b>Agricultural/Biological assets</b>														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Intangible assets</b>														
Computers - software & programming	863,321	-	-	-	-	-	863,321	(418,144)	-	-	(127,548)	-	(545,692)	317,629
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>863,321</b>	-	-	-	-	-	<b>863,321</b>	<b>(418,144)</b>	-	-	<b>(127,548)</b>	-	<b>(545,692)</b>	<b>317,629</b>
<b>Investment properties</b>														
Investment property	86,902,762	-	-	-	-	-	86,902,762	(487,635)	-	-	(25,791)	-	(513,426)	86,389,336
	<b>86,902,762</b>	-	-	-	-	-	<b>86,902,762</b>	<b>(487,635)</b>	-	-	<b>(25,791)</b>	-	<b>(513,426)</b>	<b>86,389,336</b>
<b>Total</b>														
Land and buildings	360,122,884	6,311,343	-	-	-	-	366,434,227	(52,217,280)	-	-	(2,664,271)	-	(54,881,551)	311,552,676
Infrastructure	1,696,372,441	95,853,674	(8,648,046)	-	-	-	1,783,578,069	(971,657,993)	7,069,010	-	(27,886,555)	-	(992,475,538)	791,102,531
Community Assets	-	2,595,487	-	-	-	-	2,595,487	-	-	-	-	-	-	2,595,487
Heritage assets	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	115,503,046	9,577,328	(194,750)	-	-	-	124,885,624	(70,568,344)	116,716	-	(12,226,248)	-	(82,677,876)	42,207,748
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	863,321	-	-	-	-	-	863,321	(418,144)	-	-	(127,548)	-	(545,692)	317,629
Investment properties	86,902,762	-	-	-	-	-	86,902,762	(487,635)	-	-	(25,791)	-	(513,426)	86,389,336
	<b>2,260,325,455</b>	<b>114,337,832</b>	<b>(8,842,796)</b>	-	-	-	<b>2,365,820,491</b>	<b>1,095,349,396</b>	<b>7,185,726</b>	-	<b>(42,930,413)</b>	-	<b>1,131,094,083</b>	<b>1,234,726,408</b>

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2015

<b>Cost/Revaluation</b>	<b>Accumulated depreciation</b>
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	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	89,367,357	133,737,999	-	2,041,093	-	-	225,146,449	-	-	-	-	-	-	225,146,449
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	134,306,662	-	-	549,772	-	-	134,856,434	(49,553,049)	-	-	(2,664,231)	-	(52,217,280)	82,639,154
<b>223,674,019</b>	<b>133,737,999</b>	<b>-</b>	<b>2,590,865</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>360,002,883</b>	<b>(49,553,049)</b>	<b>-</b>	<b>-</b>	<b>(2,664,231)</b>	<b>-</b>	<b>(52,217,280)</b>	<b>307,785,603</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	706,785,560	2,461,368	-	-	-	-	709,246,928	(471,136,891)	-	-	(21,670,164)	-	(492,807,055)	216,439,873
Storm water Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	251,608,821	7,036,749	-	-	-	-	258,645,570	(112,270,100)	-	-	(6,230,649)	-	(118,500,749)	140,144,821
Street lighting	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	429,244,602	4,865,420	(23,718)	-	-	-	434,086,304	(256,232,333)	17,866	-	(7,287,155)	-	(263,501,622)	170,584,682
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	257,763,133	32,820,618	-	-	-	-	290,583,751	(93,099,658)	-	-	(3,008,237)	-	(96,107,895)	194,475,856
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	85,719	-	-	-	-	-	85,719	(68,575)	-	-	(3,962)	-	(72,537)	13,182
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	4,273,941	-	-	(549,772)	-	-	3,724,169	(581,093)	-	-	(87,046)	-	(668,139)	3,056,030
<b>1,649,761,776</b>	<b>47,184,155</b>	<b>(23,718)</b>	<b>(549,772)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,696,372,441</b>	<b>(933,388,650)</b>	<b>17,866</b>	<b>-</b>	<b>(38,287,213)</b>	<b>-</b>	<b>(971,657,997)</b>	<b>724,714,444</b>
<b>Community Assets</b>														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Appendix B

### Analysis of property, plant and equipment as at 30 June 2015

**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Heritage assets</b>														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
	<b>561,001</b>	-	-	-	-	-	<b>561,001</b>	-	-	-	-	-	-	<b>561,001</b>
<b>Specialised vehicles</b>														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other assets</b>														
General vehicles	28,590,186	4,034,828	(516,197)	-	-	-	32,108,817	(17,491,032)	363,159	-	248,615	-	(16,879,258)	15,229,559
Plant & equipment	17,231,500	1,143,108	(1,018,245)	-	-	-	17,356,363	(10,144,998)	638,032	-	(946,658)	-	(10,453,624)	6,902,739
Computer Equipment	40,083,473	118,271	-	-	-	-	40,201,744	(26,278,262)	-	-	1,019,445	-	(25,258,817)	14,942,927
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	26,167,792	7,701	(339,371)	-	-	-	25,836,122	(19,291,204)	232,388	-	1,082,171	-	(17,976,645)	7,859,477
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>112,072,951</b>	<b>5,303,908</b>	<b>(1,873,813)</b>	-	-	-	<b>115,503,046</b>	<b>(73,205,496)</b>	<b>1,233,579</b>	-	<b>1,403,573</b>	-	<b>(70,568,344)</b>	<b>44,934,702</b>



## Appendix B

### Analysis of property, plant and equipment as at 30 June 2015

**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	223,674,019	133,737,999	-	2,590,865	-	-	360,002,883	(49,553,049)	-	-	(2,664,231)	-	(52,217,280)	307,785,603
Infrastructure	1,649,761,776	47,184,155	(23,718)	(549,772)	-	-	1,696,372,441	(933,388,650)	17,866	-	(38,287,213)	-	(971,657,997)	724,714,444
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	112,072,951	5,303,908	(1,873,813)	-	-	-	115,503,046	(73,205,496)	1,233,579	-	1,403,573	-	(70,568,344)	44,934,702
	<b>1,986,069,747</b>	<b>186,226,062</b>	<b>(1,897,531)</b>	<b>2,041,093</b>	-	-	<b>2,172,439,371</b>	<b>1,056,147,195</b>	<b>1,251,445</b>	-	<b>(39,547,871)</b>	-	<b>1,094,443,621</b>	<b>1,077,995,750</b>
<b>Agricultural/Biological assets</b>														
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Intangible assets</b>														
Computers - software & programming	863,321	-	-	-	-	-	863,321	(383,705)	-	-	(34,439)	-	(418,144)	445,177
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>863,321</b>	-	-	-	-	-	<b>863,321</b>	<b>(383,705)</b>	-	-	<b>(34,439)</b>	-	<b>(418,144)</b>	<b>445,177</b>
<b>Investment properties</b>														
Investment property	86,902,762	-	-	-	-	-	86,902,762	(461,844)	-	-	(25,791)	-	(487,635)	86,415,127
	<b>86,902,762</b>	-	-	-	-	-	<b>86,902,762</b>	<b>(461,844)</b>	-	-	<b>(25,791)</b>	-	<b>(487,635)</b>	<b>86,415,127</b>
<b>Total</b>														
Land and buildings	223,674,019	133,737,999	-	2,590,865	-	-	360,002,883	(49,553,049)	-	-	(2,664,231)	-	(52,217,280)	307,785,603
Infrastructure	1,649,761,776	47,184,155	(23,718)	(549,772)	-	-	1,696,372,441	(933,388,650)	17,866	-	(38,287,213)	-	(971,657,997)	724,714,444
Community Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Heritage assets	561,001	-	-	-	-	-	561,001	-	-	-	-	-	-	561,001
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	112,072,951	5,303,908	(1,873,813)	-	-	-	115,503,046	(73,205,496)	1,233,579	-	1,403,573	-	(70,568,344)	44,934,702
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	863,321	-	-	-	-	-	863,321	(383,705)	-	-	(34,439)	-	(418,144)	445,177
Investment properties	86,902,762	-	-	-	-	-	86,902,762	(461,844)	-	-	(25,791)	-	(487,635)	86,415,127
	<b>2,073,835,830</b>	<b>186,226,062</b>	<b>(1,897,531)</b>	<b>2,041,093</b>	-	-	<b>2,260,205,454</b>	<b>1,056,992,744</b>	<b>1,251,445</b>	-	<b>(39,608,101)</b>	-	<b>1,095,349,400</b>	<b>1,164,856,054</b>

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

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun			
Local Government Financial Governmet Grant	National Treasury	1,600	-	-	-	-	237	422	311	630	-	-	-	-	-	-	-	Yes	
Municipal Systems Improvement Grant	National Treasury	930	-	-	-	-	108	178	310	334	-	-	-	-	-	-	-	Yes	
Expanded Public Works Programme Integrated Grant	National Treasury	408	306	306	-	-	112	233	33	593	-	-	-	-	-	-	Previous year funds	Yes	
Water Services Operating Subsidy grant	National Treasury	875	1,750	875	-	-	-	2,549	521	430	-	-	-	-	-	-	-	Yes	
Municipal Infrastructure Grant	National Treasury	36,949	2,904	3,360	-	-	12,204	10,551	1,609	18,849	-	-	-	-	-	-	-	Yes	
Integrated National electrification programme Grant	National Treasury	16,000	13,000	-	-	-	906	18,298	1,642	8,154	-	-	-	-	-	-	-	Yes	
Equitable Share	National Treasury	48,093	38,204	29,126	-	-	17,579	11,366	16,931	17,176	-	-	-	-	-	-	Spending report only free basic services	Yes	
SETA	LGSETA	48	165	97	66	-	649	82	-	255	-	-	-	-	-	-	-		
SETA (WIL)	LGSETA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		04,903	56,329	33,764	66	-	31,795	43,679	21,357	46,421	-	-	-	-	-	-	-		

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