



Metsimaholo Local Municipality
Annual Financial Statements
for the year ended June 30, 2020

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

General Information

Legal form of entity

FS 204 - Local Municipality.

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)

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 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 housing to the community, however including the rental of units owned by the municipality to public and staff).

Mayoral Committee

Mosokweni FD
Mofokeng KB
Malindi MJ
Fisher L
Semonyo LS
Mokoena NP
Poho MS

Executive Mayor

Tshongwe SL

Speaker

Mabasa KT

Councillors

Barnard JJ
Burger GS
Du Toit T
Dywili NN
Grobbelaar JJ
Kobo SS (Chairperson Streetnaming)
Leotlela MG
Mahlaela PM
Makhefu L (Chairperson Ethics)
Mare AK
Maseko ME
Mashia VL (Council Whip)
Matwa SM
Mbana MT
Meyer R
Mofokeng TH
Mohapi P
Mokoena MP
Molawa M (MPAC chairperson)
Motaung TA
Motjeane S
Motlounng TM
Mtshali NM
Nhlapo LL
Nkheloane M

Metsimaholo Local Municipality

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General Information

	Nnune GB Nteso SJ Taats TJ Telane MM Tsotetsi L Van der Merwe FJ Van Heerden LJ Zwane ZJ
Capacity and grading of local authority	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 High Capacity FS 204
Accounting Officer	S M Molala Acting - FM Mathe
Chief Financial Officer (CFO)	Vacant
Accounting Officer	Mathe FM (Acting)
Registered office	Civic Centre Fichardt Street Sasolburg 1947
Business address	Civic Centre Fichardt Street Sasolburg 1947
Postal address	PO Box 60 Sasolburg 1947
Bankers	The Standard Bank of South Africa Ltd ABSA Bank Ltd
Auditors	Auditor-General of South Africa
Attorneys	Katake Attorneys Khumalo Masondo Attorneys Incorporated Lawrence Melato Incorporated Nchupetsang Incorporated Attorneys Ponoane Attorney, Notaries and Conveyancers Popela Maaake Incorporated Raphela Inc. Attorneys Verveen Attorneys Lizel Venter Attorneys

Metsimaholo Local Municipality

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General Information

Legislation governing the municipality's operations

Local Government: Municipal Finance Management Act (Act No. 56 of 2003)

Local Government: Municipal Systems Act (Act No. 32 of 2000)

Local Government: Municipal Structures Act (Act No. 117 of 1998)

Constitution of the Republic of South Africa (Act No. 108 of 1996)

Municipal Property Rates Act (Act No. 6 2004)

Division of Revenue Act (Act No. 1 of 2007)

Jurisdiction

Metsimaholo Local Municipality is a local government institution and is located in the Free State Province of South Africa and is one of four municipalities under the jurisdiction of the Fezile Dabi District Municipality.

Cities/Towns:

Sasolburg, Oranjeville, Deneysville , Viljoensdrift, Zamdela, Refengkgotso and Metsimaholo

Metsimaholo Local Municipality

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

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ASB	Accounting Standard Board
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Officer's Responsibilities and Approval

The Accounting Officer is responsible for the preparation of the audited financial statements in terms of section 126(1) of the Municipal Finance Management Act (Act 56 of 2003). 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 (ASB).

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

I, as the accounting officer, acknowledges that I am 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 me to meet these responsibilities, I have set 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.

I am 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.

I have reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although I am primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

I would like to bring the following matters to your attention:

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 31 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with the Act.

The annual financial statements set out on page 6 to page 122, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 October 2020.

Mathe FM (Acting)

Sasolburg

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Position as at June 30, 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Inventories	9	1,230,140	1,467,433
Other financial assets	7	2,730,475	3,640,357
Receivables from exchange transactions	10&13	236,351,195	180,804,912
Receivables from non-exchange transactions	11&13	69,344,706	53,613,048
Cash and cash equivalents	14	44,671,390	13,877,193
		354,327,906	253,402,943
Non-Current Assets			
Investment property	3	444,879,258	445,937,342
Property, plant and equipment	4	1,225,813,747	1,223,944,817
Intangible assets	5	4,555,920	4,189,199
Heritage assets	6	4,427,968	4,427,969
Receivables from exchange transactions	10	45,118	567,217
		1,679,722,011	1,679,066,544
Total Assets		2,034,049,917	1,932,469,487
Liabilities			
Current Liabilities			
Short term portion - long term loan	17	-	1,634,939
Finance lease obligation	15	3,287,522	3,347,599
Payables from exchange transactions	19	278,886,828	255,279,180
VAT payable	20	11,092,173	5,906,118
Consumer deposits	21	25,477,270	24,100,760
Employee benefit obligation	8	3,700,083	4,565,000
Unspent conditional grants and receipts	16	27,116,049	8,360,979
		349,559,925	303,194,575
Non-Current Liabilities			
Finance lease obligation	15	540,509	3,828,028
Employee benefit obligation	8	54,084,377	50,116,000
Provisions	18	87,620,304	84,337,965
		142,245,190	138,281,993
Total Liabilities		491,805,115	441,476,568
Net Assets		1,542,244,802	1,490,992,919
Accumulated surplus		1,542,244,802	1,490,992,919

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	22	767,532,947	693,519,589
Rental of facilities and equipment		5,983,037	5,854,292
Interest received - consumers		37,983,021	31,535,822
Income legal costs		3,901,301	2,755,174
Sale of stands		225,881	396,849
Operational revenue	25	2,544,036	3,516,521
Interest received - investment	26	4,490,865	3,408,691
Adjustments to assets		-	1,513,879
Fair value adjustments on other financial assets		-	374,946
Dividends received	26	123,203	115,088
Total revenue from exchange transactions		822,784,291	742,990,851
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	199,276,819	143,648,432
Licenses and permits (non-exchange)		56,315	105,569
Interest, dividends and rent on land		7,944,355	5,791,011
Transfer revenue			
Government grants and subsidies	29	237,140,395	269,173,065
Public contributions and donations	30	18,989,933	33,923,437
Fines, penalties and forfeits	23	2,507,907	4,055,117
Total revenue from non-exchange transactions		465,915,724	456,696,631
Total revenue		1,288,700,015	1,199,687,482
Expenditure			
Employee related costs	31	(307,824,153)	(288,068,845)
Remuneration of councillors	32	(19,379,734)	(17,554,110)
Depreciation and amortisation	33	(46,367,646)	(77,805,135)
Finance costs	34	(6,826,705)	(8,801,843)
Lease rentals on operating lease	24	(3,989,115)	(7,671,201)
Debt impairment	35	(230,763,368)	(234,585,991)
Bulk purchases	36	(449,401,794)	(397,419,784)
Contracted services	37	(79,498,478)	(82,659,736)
Transfers and subsidies	28	(175,615)	(301,033)
Loss on investment share price		(886,215)	-
Inventories losses/write-downs		(41,802)	(193,720)
Operating expenditure	38	(92,293,507)	(82,201,942)
Total expenditure		(1,237,448,132)	(1,197,263,340)
Surplus for the year		51,251,883	2,424,142

Metsimaholo Local Municipality

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,509,732,176	1,509,732,176
Adjustments		
Prior year adjustments	(21,163,399)	(21,163,399)
Balance at July 1, 2018 as restated*	1,488,568,777	1,488,568,777
Changes in net assets		
Surplus for the year	2,424,142	2,424,142
Total changes	2,424,142	2,424,142
Balance at July 1, 2019	1,490,992,919	1,490,992,919
Changes in net assets		
Surplus for the year	51,251,883	51,251,883
Total changes	51,251,883	51,251,883
Balance at June 30, 2020	1,542,244,802	1,542,244,802

Refer to note 44 for prior year adjustments

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019
Cash flows from operating activities			
Receipts			
Property Rates		152,645,548	116,494,972
Service charges		558,572,384	489,062,798
Grants		268,259,394	284,828,097
Interest income		4,490,865	3,408,691
Dividends received		123,203	115,088
Other receipts		16,618,654	19,790,498
VAT Receivable/Payable		5,186,055	8,000,463
		1,005,896,103	921,700,607
Payments			
Employee Related costs		(299,921,743)	(280,447,142)
Remuneration of Councillors		(19,379,734)	(17,554,110)
Suppliers paid		(576,938,716)	(560,813,062)
Finance costs		(379,912)	(372,980)
		(896,620,105)	(859,187,294)
Net cash flows from operating activities	39	109,275,998	62,513,313
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(70,138,079)	(71,445,858)
Proceeds from sale of property, plant and equipment	4	-	8,182,172
Purchase of investment property	3	(15,230)	(478,439)
Proceeds on disposal of intangible assets	3	(2,685,825)	-
Purchase of other intangible assets	5	-	15,872
Purchases of heritage assets	6	-	(133,986)
Net cash flows from investing activities		(72,839,134)	(63,860,239)
Cash flows from financing activities			
Movement in Long Term Loan		(1,742,712)	(1,501,886)
Finance lease payments		(3,899,955)	(4,316,889)
Net cash flows from financing activities		(5,642,667)	(5,818,775)
Net increase/(decrease) in cash and cash equivalents		30,794,197	(7,165,701)
Cash and cash equivalents at the beginning of the year		13,877,193	21,042,894
Cash and cash equivalents at the end of the year	14	44,671,390	13,877,193

Metsimaholo Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	260,000	(250,000)	10,000	-	(10,000)	
Service charges	831,098,130	15,074,640	846,172,770	767,532,947	(78,639,823)	55.1
Rental of facilities and equipment	6,566,910	(484,000)	6,082,910	5,983,037	(99,873)	
Interest received (trading)	30,869,800	2,759,400	33,629,200	37,983,021	4,353,821	
Income legal cost	5,300,000	(300,000)	5,000,000	3,901,301	(1,098,699)	55.4
Sale of land	5,107,260	18,000	5,125,260	225,881	(4,899,379)	55.22
Other income - (rollup)	3,576,190	39,570	3,615,760	2,544,036	(1,071,724)	55.3
Interest received - investment	1,500,000	500,000	2,000,000	4,490,865	2,490,865	55.5
Dividends received	-	100,000	100,000	123,203	23,203	55.6
Total revenue from exchange transactions	884,278,290	17,457,610	901,735,900	822,784,291	(78,951,609)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	215,204,160	(13,431,350)	201,772,810	199,276,819	(2,495,991)	55.7
Licenses and Permits (Non-exchange)	210,930	-	210,930	56,315	(154,615)	55.2
Interest, Dividends and Rent on Land	5,400,000	2,440,450	7,840,450	7,944,355	103,905	
Transfer revenue						
Government grants & subsidies	367,308,000	(6,702,000)	360,606,000	237,140,395	(123,465,605)	55.8
Public contributions and donations	-	-	-	18,989,933	18,989,933	55.9
Fines, Penalties and Forfeits	16,920,100	(14,000,000)	2,920,100	2,507,907	(412,193)	55.10
Total revenue from non-exchange transactions	605,043,190	(31,692,900)	573,350,290	465,915,724	(107,434,566)	
Total revenue	1,489,321,480	(14,235,290)	1,475,086,190	1,288,700,015	(186,386,175)	
Expenditure						
Personnel	(359,389,670)	25,561,270	(333,828,400)	(307,824,153)	26,004,247	55.11
Remuneration of councillors	(19,855,440)	-	(19,855,440)	(19,379,734)	475,706	55.12
Depreciation and amortisation	(83,085,060)	479,677	(82,605,383)	(46,367,646)	36,237,737	55.13
Finance costs	(6,448,030)	4,622,680	(1,825,350)	(6,826,705)	(5,001,355)	55.14
Lease rentals on operating lease	(10,550,180)	5,316,290	(5,233,890)	(3,989,115)	1,244,775	55.15
Debt Impairment	(152,750,950)	(10,239,630)	(162,990,580)	(230,763,368)	(67,772,788)	55.16
Bulk purchases	(479,006,620)	-	(479,006,620)	(449,401,794)	29,604,826	55.17
Contracted Services	(110,421,000)	4,619,420	(105,801,580)	(79,498,478)	26,303,102	
Transfers and Subsidies	(42,020)	(114,000)	(156,020)	(175,615)	(19,595)	55.18
General Expenses	(88,838,585)	(7,418,690)	(96,257,275)	(92,293,507)	3,963,768	55.19 & 55.20
Total expenditure	(1,310,387,555)	22,827,017	(1,287,560,538)	(1,236,520,115)	51,040,423	
Operating surplus	178,933,925	8,591,727	187,525,652	52,179,900	(135,345,752)	
Loss on foreign exchange	-	-	-	(886,215)	(886,215)	55.21
Inventories losses/write-downs	-	-	-	(41,802)	(41,802)	

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
	-	-	-	(928,017)	(928,017)	
Surplus before taxation	178,933,925	8,591,727	187,525,652	51,251,883	(136,273,769)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	178,933,925	8,591,727	187,525,652	51,251,883	(136,273,769)	
Reconciliation						

Metsimaholo Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	18,676,480	(17,054,046)	1,622,434	1,230,140	(392,294)	55.23
Other financial assets	3,851,498	78,859	3,930,357	2,730,475	(1,199,882)	55.24
Receivables from exchange transactions	221,825,312	(55,948,029)	165,877,283	236,351,195	70,473,912	55.25
Receivables from non-exchange transactions	69,741,490	(4,691,561)	65,049,929	69,344,706	4,294,777	55.25
Cash and cash equivalents	30,328,180	(16,461,181)	13,866,999	44,671,390	30,804,391	55.26
	344,422,960	(94,075,958)	250,347,002	354,327,906	103,980,904	
Non-Current Assets						
Investment property	86,658,916	207,442,121	294,101,037	444,879,258	150,778,221	55.27
Property, plant and equipment	1,533,976,689	27,794,982	1,561,771,671	1,225,813,747	(335,957,924)	55.27 & 55.28
Intangible assets	4,587,601	(3,663,219)	924,382	4,555,920	3,631,538	55.27
Heritage assets	561,001	-	561,001	4,427,968	3,866,967	55.27
Receivables from exchange transactions	-	-	-	45,118	45,118	55.25
	1,625,784,207	231,573,884	1,857,358,091	1,679,722,011	(177,636,080)	
Total Assets	1,970,207,167	137,497,926	2,107,705,093	2,034,049,917	(73,655,176)	
Liabilities						
Current Liabilities						
Short term portion - long term loan	-	1,996,772	1,996,772	-	(1,996,772)	55.29
Finance lease obligation	4,363,878	(1,076,360)	3,287,518	3,287,522	4	
Payables from exchange transactions	151,363,198	167,095,022	318,458,220	278,886,828	(39,571,392)	
VAT payable	10,026,756	(85,944,490)	(75,917,734)	11,092,173	87,009,907	55.30
Consumer deposits	26,293,783	4,593,987	30,887,770	25,477,270	(5,410,500)	
Employee benefit obligation	-	-	-	3,700,083	3,700,083	
Unspent conditional grants and receipts	-	784,040	784,040	27,116,049	26,332,009	55.31
	192,047,615	87,448,971	279,496,586	349,559,925	70,063,339	
Non-Current Liabilities						
Finance lease obligation	22,365,291	(21,824,781)	540,510	540,509	(1)	
Employee benefit obligation	49,633,247	10,347,753	59,981,000	54,084,377	(5,896,623)	
Provisions	43,431,342	46,230,211	89,661,553	87,620,304	(2,041,249)	
Borrowings	37,204,326	(2,012,685)	35,191,641	-	(35,191,641)	55.29
	152,634,206	32,740,498	185,374,704	142,245,190	(43,129,514)	
Total Liabilities	344,681,821	120,189,469	464,871,290	491,805,115	26,933,825	
Net Assets	1,625,525,346	17,308,457	1,642,833,803	1,542,244,802	(100,589,001)	

Metsimaholo Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,625,525,346	17,308,457	1,642,833,803	1,542,244,802	(100,589,001)	

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Appropriation Statement

Figures in Rand

Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
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Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Appropriation Statement

Figures in Rand

	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
2020											
Financial Performance											
Property rates	215,204,160	(13,431,350)	201,772,810	-		201,772,810	199,276,819		(2,495,991)	99 %	93 %
Service charges	831,098,130	15,074,640	846,172,770	-		846,172,770	767,532,947		(78,639,823)	91 %	92 %
Investment revenue	1,500,000	600,000	2,100,000	-		2,100,000	4,614,068		2,514,068	220 %	308 %
Transfers recognised - operational	190,038,600	298,000	190,336,600	-		190,336,600	201,482,134		11,145,534	106 %	106 %
Other own revenue	74,211,190	(9,776,580)	64,434,610	-		64,434,610	61,145,853		(3,288,757)	95 %	82 %
Total revenue (excluding capital transfers and contributions)	1,312,052,080	(7,235,290)	1,304,816,790	-		1,304,816,790	1,234,051,821		(70,764,969)	95 %	94 %
Employee costs	(359,389,670)	25,561,270	(333,828,400)	-	-	(333,828,400)	(307,824,153)	-	26,004,247	92 %	86 %
Remuneration of councillors	(19,855,440)	-	(19,855,440)	-	-	(19,855,440)	(19,379,734)	-	475,706	98 %	98 %
Debt impairment	(152,750,950)	(10,239,630)	(162,990,580)			(162,990,580)	(230,763,368)	-	(67,772,788)	142 %	151 %
Depreciation and asset impairment	(83,085,060)	479,677	(82,605,383)			(82,605,383)	(46,367,646)	-	36,237,737	56 %	56 %
Finance charges	(6,448,030)	4,622,680	(1,825,350)	-	-	(1,825,350)	(6,826,705)	-	(5,001,355)	374 %	106 %
Materials and bulk purchases	(479,006,620)	-	(479,006,620)	-	-	(479,006,620)	(449,401,794)	-	29,604,826	94 %	94 %
Transfers and grants	(42,020)	(114,000)	(156,020)	-	-	(156,020)	(175,615)	-	(19,595)	113 %	418 %
Other expenditure	(209,809,765)	2,517,020	(207,292,745)	-	-	(207,292,745)	(176,709,117)	-	30,583,628	85 %	84 %
Total expenditure	(1,310,387,555)	22,827,017	(1,287,560,538)	-	-	(1,287,560,538)	(1,237,448,132)	-	50,112,406	96 %	94 %
Surplus/(Deficit)	1,664,525	15,591,727	17,256,252	-		17,256,252	(3,396,311)		(20,652,563)	(20)%	(204)%

Metsimaholo Local Municipality

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Appropriation Statement

Figures in Rand

	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
Transfers recognised - capital	177,269,400	(7,000,000)	170,269,400	-		170,269,400	35,658,261		(134,611,139)	21 %	20 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	18,989,933		18,989,933	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	178,933,925	8,591,727	187,525,652	-		187,525,652	51,251,883		(136,273,769)	27 %	29 %
Surplus/(Deficit) for the year	178,933,925	8,591,727	187,525,652	-		187,525,652	51,251,883		(136,273,769)	27 %	29 %
Capital expenditure and funds sources											
Total capital expenditure	281,435,800	(36,895,831)	244,539,969	-		244,539,969	59,172,409		(185,367,560)	24 %	21 %
Sources of capital funds											
Transfers recognised - capital	177,269,400	(6,398,931)	170,870,469	-		170,870,469	50,048,226		(120,822,243)	29 %	28 %
Public contributions and donations	-	-	-	-		-	6,626,004		6,626,004	DIV/0 %	DIV/0 %
Borrowing	55,972,400	(18,263,400)	37,709,000	-		37,709,000	-		(37,709,000)	- %	- %
Internally generated funds	61,275,300	(17,660,500)	43,614,800	-		43,614,800	2,498,179		(41,116,621)	6 %	4 %
Total sources of capital funds	294,517,100	(42,322,831)	252,194,269	-		252,194,269	59,172,409		(193,021,860)	23 %	20 %

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Figures in Rand

	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
Cash flows											
Net cash from (used) operating	234,869,000	(38,160,770)	196,708,230	-		196,708,230	109,275,998		(87,432,232)	56 %	47 %
Net cash from (used) investing	(286,467,000)	61,073,800	(225,393,200)	-		(225,393,200)	(72,839,134)		152,554,066	32 %	25 %
Net cash from (used) financing	50,359,000	(17,753,075)	32,605,925	-		32,605,925	(5,642,667)		(38,248,592)	(17)%	(11)%
Net increase/(decrease) in cash and cash equivalents	(1,239,000)	5,159,955	3,920,955	-		3,920,955	30,794,197		26,873,242	785 %	(2,485)%
Cash and cash equivalents at the beginning of the year	35,419,000	(21,542,000)	13,877,000	-		13,877,000	13,877,193		193	100 %	39 %
Cash and cash equivalents at year end	34,180,000	(16,382,045)	17,797,955	-		17,797,955	44,671,390		(26,873,435)	251 %	131 %

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Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2019				
Financial Performance				
Property rates				143,648,432
Service charges				693,519,589
Investment revenue				3,523,779
Transfers recognised - operational				178,079,553
Other own revenue				59,389,422
Total revenue (excluding capital transfers and contributions)				1,078,160,775
Employee costs	-	-	-	(288,068,845)
Remuneration of councillors	-	-	-	(17,554,110)
Debt impairment	-	-	-	(234,585,991)
Depreciation and asset impairment	-	-	-	(77,805,135)
Finance charges	-	-	-	(8,801,843)
Materials and bulk purchases	-	-	-	(397,419,784)
Transfers and grants	-	-	-	(301,033)
Other expenditure	-	-	-	(176,322,410)
Total expenditure	-	-	-	(1,200,859,151)
Surplus/(Deficit)				(122,698,376)
Transfers recognised - capital				91,093,512
Contributions recognised - capital and contributed assets				33,923,437
Surplus (Deficit) after capital transfers and contributions				2,318,573
Surplus/(Deficit) for the year				2,318,573
Capital expenditure and funds sources				
Total capital expenditure				114,974,334

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Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Cash flows				
Net cash from (used) operating				62,513,313
Net cash from (used) investing				(63,860,239)
Net cash from (used) financing				(5,818,775)
Net increase/(decrease) in cash and cash equivalents				(7,165,701)
Cash and cash equivalents at the beginning of the year				21,042,894
Cash and cash equivalents at year end				13,877,193

Accordance to the MFMA and MFMA Circular 12, unauthorised expenditure relates to overspending of the total amount appropriated for a vote which should be according to GFS functions in terms of circular 12. According to this circular, departments must be defined in terms of functions (eg electricity, water, sanitation etc.) To facilitate comparisons, functions in government must be related to international classification system like the Government Finance Statistics (GFS) system. The GFS functions provide a reasonable high level grouping of related service delivery activities for local government.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

Figures in Rand	Note(s)	2020	2019
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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, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

The municipality implemented the Municipal Standard Chart of Accounts (mSCOA) during the year ended 30 June 2018 as required in terms of the Municipal Regulations on Standard Chart of Accounts, announced by Government Gazette No 37577 of 22 April 2014, in section 168 of the Local Government: Municipal Finance Management Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

1.1 Going concern assumption

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

The recent COVID-19 pandemic and its effect on the Municipality's current and expected performance has been considered by management in the Going concern assumption.

1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.3 Significant judgements and sources of estimation uncertainty

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

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Loans and receivables

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

The impairment for loans and receivables is first for individually significant loans and receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and poor payment history/default of payments are all considered indicators of impairment.

For loans and 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 loan's or receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

Allowance for slow moving, damaged and obsolete stock

An assessment is made of net realisable value of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided

The write down is included in surplus or 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.

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 selling price assumption may change, for example, which may then impact our estimations and may then require a material adjustment to the carrying value of 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 goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors such as interest rates inflation interest.

Value in use of non-cash-generating asset

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

Internally generated intangible assets and intangible assets with an indefinite useful life are tested for impairment on an annual basis.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

Post-retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-retirement and long-term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no 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 obligations are based on current market conditions. Additional information is disclosed in Note 8.

Effective interest rate

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

Allowance for doubtful debts

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

The provision for doubtful debt is determined by taking into account the payment rate by exchange receivable (consumer debtor), indigent status, whether the consumer debtor has a credit balance at financial year end as well as whether the consumer debtor is government related or not.

Non-exchange receivables (Traffic fine debtors) have been impaired taking into account historical payment rates by these nonexchange receivables.

Traffic fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Non exchange receivables arising from traffic fines are measured at the best estimate based on expected inflows of economic benefits to the municipality.

Budget Information

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences (between budget and actual amounts) are explained in the notes to the annual financial statements.

Water Inventory

The estimation of the Water Inventory in reservoirs is based on actual dip readings, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. t

Metsimaholo Local Municipality

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Accounting Policies

1.4 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are 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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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.

Property, plant and equipment are 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:

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

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Metsimaholo Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

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 are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual audited financial statements, which include: the cumulative expenditure recognised in the carrying value of an item of property, plant and equipment; the carrying value of an item of property, plant and equipment that is taking a significantly longer period of time to complete than expected; and the carrying value of an item of property, plant and equipment where construction or development has been halted (see note 11).

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.

1.6 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, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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.

1.7 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software as intangible assets.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity 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.

Metsimaholo Local Municipality

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Accounting Policies

1.7 Intangible assets (continued)

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.

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.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided on a straight-line basis over the expected useful lives of the intangible assets

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Should the estimate change the municipality revises the expected useful life accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Amortisation is provided to write down the intangible assets, on a straight-line basis, on a straight-line basis to their residual values, if any. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software	Straight-line	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 intangible assets is included in surplus or deficit when the asset is derecognised. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The municipality has classified a site of historical significance and council regalia as heritage assets.

Recognition

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

When the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 6 - Heritage assets.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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1.8 Heritage assets (continued)

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

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

1.9 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

- cash;
- a residual interest of another entity; or

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Accounting Policies

1.9 Financial instruments (continued)

- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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Accounting Policies

1.9 Financial instruments (continued)

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:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets - collateral	Financial asset measured at amortised cost
Other financial assets - Shares	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:

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Taxes and transfers payable	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Current portion of long-term liabilities	Financial liability measured at amortised cost

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Accounting Policies

1.9 Financial instruments (continued)

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

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.

Discounting of short-term receivables and payables

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:
combined instrument that is required to be measured at fair value; or
an investment in a residual interest that meets the requirements for reclassification.

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

Metsimaholo Local Municipality

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Accounting Policies

1.9 Financial instruments (continued)

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. 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.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

Financial liabilities

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

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

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another 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).

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Accounting Policies

1.9 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.10 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts is 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 statement of financial performance.

Operating leases - lessee

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

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

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

1.11 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.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.11 Inventories (continued)

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

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.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Water Inventory

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the FIFO Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.12 Fruitless and Wasteful expenditure recoverable

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 and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 50 - Fruitless and wasteful expenditure.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Metsimaholo Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount is the higher of a cash-generating asset's or cash-generating unit's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows: the current profitability of the unit, as well as management's assessment of the possibility of a unit becoming profitable.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

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.

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.

Metsimaholo Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments, where applicable.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

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.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

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Accounting Policies

1.13 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 use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

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

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

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

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

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

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

Accounting Policies

1.13 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 entity estimates the recoverable amount of that asset.

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows: consideration is given to the nature of the asset, whether it is primarily to provide a service to the community, and whether there is any realistic possibility of the asset being used in a commercial and profitable manner.

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Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of the municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

Identification

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.15 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

1.16 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the Value-added Tax Act (Act No. 89 of 1991).

The municipality accounts for VAT on the payment basis.

1.17 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Metsimaholo Local Municipality

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Accounting Policies

1.17 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity 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 entity 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 entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

Post-employment benefits

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

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

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.

Metsimaholo Local Municipality

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Accounting Policies

1.17 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Metsimaholo Local Municipality

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Accounting Policies

1.17 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 entity 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 entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise 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 entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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 entity 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 entity 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 entity 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;

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.17 Employee benefits (continued)

- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity 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, an entity shall attribute 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, an entity shall attribute 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 entity 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 entity re-measure 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 [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity 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) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

Metsimaholo Local Municipality

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Accounting Policies

1.17 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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

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

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

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

1.18 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

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.

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 deficit.

Metsimaholo Local Municipality

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Accounting Policies

1.18 Provisions and contingencies (continued)

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

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

A contingent liability is:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity 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 1.13 and 1.14.
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The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

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

1.19 Commitments

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

Disclosures are made in respect of unrecognised contractual commitments, which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to leases. Refer to notes 16 Finance lease obligation and 42 - Commitments.

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

The municipality discloses capital commitments (Property Plant and Equipment, Investment properties, Intangible assets and Heritage assets) in the financial statements, as well as future minimum lease payments for each of the following periods if applicable:

- Within one year;
- In second to fifth year inclusive; and
- Later than five years

Metsimaholo Local Municipality

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Accounting Policies

1.20 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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.

Metsimaholo Local Municipality

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Accounting Policies

1.20 Revenue from exchange transactions (continued)

Rendering of services

Service charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

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 services performed to date as a percentage of total services to be performed.

Metsimaholo Local Municipality

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Accounting Policies

1.20 Revenue from exchange transactions (continued)

Interest and dividends

Revenue arising from the use by others of entity 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 methods.

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

1.21 Revenue from non-exchange transactions

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

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

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.

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

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

Measurement

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

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

Metsimaholo Local Municipality

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Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Property Rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

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

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

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

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

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 recognise 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. The debt is written off and recognised as an expense.

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

Fines

Fines constitute both spotfines and summonses.

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

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

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

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

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Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Services in-kind

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise 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 disclose the nature and type of services in-kind received during the reporting period.

Government Grants and Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

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.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

Unspent conditional grants are financial liabilities that are separately reflected on the statement of financial position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

*Unspent conditional grants are recognised as a liability when the grant is received.

*When grant conditions are met an amount equal to the conditions met are transferred to revenue in the statement of financial performance.

*The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.

*Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the statement of financial performance.

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the statement of financial position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in Surplus or Deficit.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

1.22 Investment income

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

1.23 Borrowing costs

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

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

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.24 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 44 - Comparative figures.

1.25 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 50 - Unauthorised expenditure..

1.26 Fruitless and wasteful expenditure

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

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

For details on fruitless and wasteful expenditure, refer to note 51 - Fruitless and wasteful expenditure..

1.27 Irregular expenditure

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

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

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 and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on irregular expenditure, refer to note 52 - Irregular expenditure.

1.28 Budget information

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.28 Budget information (continued)

The approved budget covers the fiscal period from 01-Jul-19 to 30-Jun-20.

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

1.29 Related parties

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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.

Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control over those policies.

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 those family members who may be expected to influence or be influenced by that person in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

1.30 Events after reporting date

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

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

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

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

1.31 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) 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 credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.32 Grants 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 of 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 event giving rise to the transfer has occurred.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18 (as amended 2016)	01 April 2020	Unlikely there will be a material impact
Guideline on the Application of Materiality to Financial Statements	April 1, 2021	Unlikely there will be a material impact
Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
IGRAP 20: Accounting for Adjustments to Revenue	April 1, 2020	Unlikely there will be a material impact
GRAP 34: Separate Financial Statements	April 4, 2020	Unlikely there will be a material impact
GRAP 35: Consolidated Financial Statements	April 1, 2020	Unlikely there will be a material impact
GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	Unlikely there will be a material impact
GRAP 37: Joint Arrangements	April 1, 2020	Unlikely there will be a material impact
GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020	Unlikely there will be a material impact
GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact
IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	April 1, 2020	Unlikely there will be a material impact

Additional text

- Additional text
- Additional text
- Additional text

The effective date of the is for years beginning on or after .

The municipality expects to adopt the for the first time in the 2000 annual financial statements.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	472,384,777	(27,505,519)	444,879,258	472,384,777	(26,447,435)	445,937,342

Reconciliation of investment property - 2020

	Opening balance	Transfers	Depreciation	Total
Land and buildings	445,937,342	15,230	(1,073,314)	444,879,258

Reconciliation of investment property - 2019

	Opening balance	Disposals	Depreciation	Total
Land and buildings	447,513,148	(476,060)	(1,099,746)	445,937,342

Pledged as security

No investment property was pledged as security.:

Rental income generated

During the year, rental income of R5 944 313 (2019: R5 585 582) was generated from investment property (primarily hostels).

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 June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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3. Investment property (continued)

Maintenance of investment property

Expenditure during the year	10,000	2,500
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Maintenance is low due to cash constraints and necessary cost cutting.

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Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	-	-	-	-	-	-
Buildings	52,763,371	(20,405,586)	32,357,785	52,535,871	(20,428,134)	32,107,737
Leasehold property	11,432,825	(4,241,453)	7,191,372	11,889,827	(3,239,748)	8,650,079
Plant and machinery	53,444,441	(29,931,841)	23,512,600	49,942,933	(29,154,018)	20,788,915
Furniture and fixtures	8,838,595	(6,170,039)	2,668,556	7,212,030	(6,289,120)	922,910
Motor vehicles	21,490,671	(11,968,854)	9,521,817	28,334,304	(12,227,340)	16,106,964
IT equipment	19,832,770	(15,185,222)	4,647,548	19,426,836	(16,123,763)	3,303,073
Infrastructure	2,344,637,064	(1,348,185,922)	996,451,142	2,304,284,696	(1,311,280,111)	993,004,585
Community	178,272,508	(28,809,581)	149,462,927	155,203,928	(6,143,374)	149,060,554
Total	2,690,712,245	(1,464,898,498)	1,225,813,747	2,628,830,425	(1,404,885,608)	1,223,944,817

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Donations	WIP Additions	Adjustment of opening balances	Transfers	Depreciation	Total
Buildings	32,107,737	-	-	-	1,603,304	-	(1,353,256)	32,357,785
Leased assets	8,650,079	-	-	-	(357,981)	-	(1,100,726)	7,191,372
Plant and machinery	20,788,915	853,897	-	-	6,636,049	-	(4,766,261)	23,512,600
Furniture and fixtures	922,910	174,239	-	-	2,339,801	-	(768,394)	2,668,556
Motor vehicles	16,106,964	-	601,069	-	(5,435,236)	-	(1,750,980)	9,521,817
IT equipment	3,303,073	433,895	-	-	2,876,571	-	(1,965,991)	4,647,548
Infrastructure	993,004,585	1,036,148	5,818,717	45,551,037	17,809,948	(5,818,714)	(60,950,579)	996,451,142
Community assets	149,060,554	-	206,218	4,497,190	(1,855,851)	(206,218)	(2,238,966)	149,462,927
	1,223,944,817	2,498,179	6,626,004	50,048,227	23,616,605	(6,024,932)	(74,895,153)	1,225,813,747

Metsimaholo Local Municipality

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

Reconciliation between fixed asset register and annual financial statements

	Opening balance as per 2018/19	WIP completed & capitalised in prior years	Donations included in opening balance	Restated opening balance as per Asset register
Property plant and equipment	1,223,944,817	17,591,673	6,024,935	1,247,561,425

	Opening balance	Additions	Donations	Disposals	WIP additions	Depreciation	Total
Buildings	33,352,116	-	-	-	-	(1,244,379)	32,107,737
Leasehold property	9,781,272	-	-	-	-	(1,131,193)	8,650,079
Plant and machinery	16,201,499	3,540,101	5,021,679	36,326	-	(4,010,690)	20,788,915
Furniture and fixtures	1,628,814	82,365	-	-	-	(788,269)	922,910
Motor vehicles	15,138,711	-	2,558,897	-	-	(1,590,644)	16,106,964
IT equipment	8,607,768	416,916	-	(1,859,272)	-	(3,862,339)	3,303,073
Infrastructure	951,100,250	121,842	18,160,457	(3,909,834)	86,852,813	(59,320,943)	993,004,585
Community	151,146,213	-	-	(459,453)	612,800	(2,239,006)	149,060,554
	1,186,956,643	4,161,224	25,741,033	(6,192,233)	87,465,613	(74,187,463)	1,223,944,817

Pledged as security

None of the above property, plant and equipment have been pledged as security, other than obligations under finance leases that are secured by lessor's charge over the leased assets - refer to note: 16

Transport assets	-	7,895,610
Terms and conditions		
Office Equipment	-	581,188
Terms and conditions		
Assets subject to finance lease (Net carrying amount)	-	8,650,079
Terms and conditions		

Metsimaholo Local Municipality

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4. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Motor vehicles	7,191,372	8,650,079
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Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	358,701,472	1,132,221	227,500	360,061,193
Additions/capital expenditure	50,048,226	4,497,190	-	54,545,416
Other movements [specify]	(1,211,176)	-	-	(1,211,176)
Transferred to completed items	(65,486,032)	-	-	(65,486,032)
	342,052,490	5,629,411	227,500	347,909,401

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	295,542,746	20,040,375	227,500	315,810,621
Additions/capital expenditure	86,852,814	612,800	-	87,465,614
Transferred to completed items	(23,694,088)	(19,520,954)	-	(43,215,042)
	358,701,472	1,132,221	227,500	360,061,193

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
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4. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

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

Electrical Infrastructure -Contracted Services	2,308,218	3,604,539
Electrical Infrastructure -Inventory	6,398,724	1,110,200
Roads Infrastructure - Inventory	1,772,514	1,880,835
Sanitation Infrastructure - Contracted Services	2,127,998	2,554,801
Sanitation Infrastructure Inventory	12,183,249	149,437
Water Supply Infrastructure Contracted Services	-	799,030
Water Supply Infrastructure Inventory	674,392	912,182
Community Assets Inventory	-	11,196
Furniture and Office Equipment Contracted services	566,609	517,840
Furniture and Office Equipment Inventory	250,857	703,963
Furniture and Office Equipment other operational costs	3,115,628	2,284,848
Machinery and Equipment Contracted Services	-	100,387
Machinery and Equipment Inventory	65,329	772,259
Other Assets - Buildings Contracted Services	194,527	153,875
Other Assets Buildings Inventory	229,342	507,407
Transport Assets -Contracted Services	1,363,578	2,864,946
Transport Assets Inventory	3,186,236	2,848,057
	34,437,201	21,775,802

Delayed projects

Gortin Sanitation Phase 4

Contractor went into liquidation and could not complete project. New contractors were brought in to complete the remaining works

Refengkgotso Sports Complex

Project went under investigation due to high expenditure and low output

Refengkgotso WasteWater treatment Plant

Contractor terminated project, however re-negotiation talks are in place to re- start the project

Zamdela Roads ward 08

Additional funding was applied to complete the project. Project was completed however not finalised contractually

Oranjeville Water treatment work

Poor performance by contractor which lead to site suspensions

Maintenance of property, plant and equipment

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.

5. Intangible assets

		2020	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying amount
Computer software	21,899,467	(17,343,547)	4,555,920

Metsimaholo Local Municipality

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Figures in Rand

5. Intangible assets (continued)

Reconciliation of intangible assets - 2020

	Opening balance	Adjustment opening balance	Amortisation	Total
Computer software	4,189,199	2,685,826	(2,319,105)	4,555,920

Reconciliation of intangible assets - 2019

	Opening balance	Disposals	Amortisation	Total
Computer software	6,734,644	(27,519)	(2,517,926)	4,189,199

Repair and Maintenance

Contracted Services	996,754	-
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Pledged as security

No intangible assets were pledged as security:

Sale of stands

Sale of stands of R 225,881 (2019: R 396,849) were recognised in Operating Surplus during the year under review. These properties were derecognised in prior years as the municipality concluded that it did not control the land after applying the criteria in GRAP 18. Legal ownership will only be transferred after full and final settlement of the purchase price.

6. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	561,000	-	561,000	561,000	-	561,000

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

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6. Heritage assets (continued)

Recreational parks	3,866,967	-	3,866,967	3,866,968	-	3,866,968
Mayoral chain	1	-	1	1	-	1
Total	4,427,968	-	4,427,968	4,427,969	-	4,427,969

Reconciliation of heritage assets 2020

	Opening balance	Transfers	Total
Historical buildings	561,000	-	561,000
Recreational parks	3,866,968	(1)	3,866,967
Mayoral Chain	1	-	1
	4,427,969	(1)	4,427,968

Reconciliation of heritage assets 2019

	Opening balance	Transfers	Total
Historical buildings	561,000	-	561,000
Recreational parks	3,872,343	(5,375)	3,866,968
Mayoral Chain	1	-	1
	4,433,344	(5,375)	4,427,969

Pledged as security

No heritage assets were pledged as security.:

7. Other financial assets

Designated at fair value

Listed shares	2,717,665	3,603,880
2020: R58.94		
2019: R78.16		

Metsimaholo Local Municipality

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7. Other financial assets (continued)		
At amortised cost		
Investment - ceded	12,810	36,477
Terms and conditions		
Total other financial assets	2,730,475	3,640,357
Current assets		
At fair value	2,717,665	3,603,880
At amortised cost	12,810	36,477
	2,730,475	3,640,357
Financial assets at fair value		
Fair values of financial assets measured or disclosed at fair value		
Sanlam Limited shares	2,717,665	3,603,880
Valued with reference to the ruling price of shares (being listed on a public exchange) at year end.		
Fair value hierarchy of financial assets at fair value		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
The municipality received shares in SANLAM in a prior year.		
Listed Shares are investments in shares of public companies with no specific maturity dates or interest rates.		
Listed shares are measured at fair value using quoted market prices.		
The fair value of Investments was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions..		
Level 1		
Sanlam Limited Shares	2,717,665	3,603,880
Financial assets at amortised cost		
Nominal value of financial assets at amortised cost		
Investment ceded	12,810	36,477
This investment was ceded to FNB as collateral for housing loan of employee. The investment may be held in perpetuity, and is invested in a financial institution with strong credit rating (First National Bank Pty Ltd), therefore this is not considered impaired.		

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

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8. Employee benefit obligations

Defined benefit plan

Reconciliation of employee benefits obligation - 2020	Opening Balance	Additions	Total	Less current portion	Non current portion
Employee benefit cost medical	39,122,000	3,199,460	42,321,460	(1,951,083)	40,370,377
Employee benefits long service awards	15,559,000	(96,000)	15,463,000	(1,749,000)	13,714,000
	54,681,000	3,103,460	57,784,460	(3,700,083)	54,084,377

Reconciliation of employee benefits obligation - 2019	Opening Balance	Additions	Total	Less Current Portion	Non Current Portion
Employee benefit cost medical	33,994,000	5,128,000	39,122,000	(2,418,000)	36,704,000
Employee benefits long service awards	15,135,000	424,000	15,559,000	(2,147,000)	13,412,000
	49,129,000	5,552,000	54,681,000	(4,565,000)	50,116,000

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
8. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(54,681,000)	(49,129,000)
Current service cost	(1,991,000)	(2,552,000)
Interest cost	(5,804,000)	(4,725,000)
Benefits paid	4,565,000	4,144,000
Actuarial loss/(gain)	126,540	(2,419,000)
	(57,784,460)	(54,681,000)

Employee benefit obligation - medical

Continued 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 dependents 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 dependents. 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 dependents 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 most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 30 June 2020 by Mr DT Mureriwa, Fellow of the Actuarial Society of South Africa.

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

Accrued liability

In - service members	18,534,916	17,208,000
Continuation member	23,786,544	21,914,000
All members		
Total liability	42,321,460	39,122,000

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	42,321,460	39,122,000
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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.

Liabilities: (gain) / loss	1,295 460	3,534,000
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Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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8. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	39,122,000	33,994,000
Current service cost	536,000	534,000
Interest cost	3,786,000	3,304,000
Benefits paid	(2,418,000)	(2,244,000)
Actuarial loss/(Gains)	1,295,460	3,534,000
	42,321,460	39,122,000

Best estimate of benefits payments expected in next annual period 2020/2021 (comparatives are for 2019/2020)

Opening accrued liability	42,321,460	39,122,000
Current service cost	756,144	536,000
Interest cost	3,903,055	3,786,000
Actuarial (gains) losses	-	1,295,460
Benefits vesting	(1,951,083)	(2,418,000)
Total annual expense	45,029,576	42,321,460

History of liabilities (R millions)	30/6/2020	30/06/2019	30/06/2018	30/06/2017	30/06/2016
Accrued liability	42.321	39.122	33.994	27.294	25.140

Key financial assumptions

The table summarises the financial assumption used.

Discount rate:	Yield Curve
Consumer price index (CPI)	Difference between nominal and yield curves
Medical cost inflation	CPI + 1%
Net effective discount rate	Relationship between discount rate and health care inflation rate

Note: The valuation method calls for a basket of discount rates (matching bonds based on their remaining term to the expected lifespan of each individual); therefore it is not meaningful to indicate a single rate and not practical to indicate all rates used. This approach was used in 2018/19 and 2019/20

Average retirement age	63
Proportion assumed married at retirement	90%
Mortality during employment	SA 85-90
Mortality post-retirement PA	90 ultimate
Number of in-service members	64
Number of continuation members (pensioners)	50

Summarised results of the sensitivity analysis

Sensitivity analysis on the accrued liability (R Millions)

Assumption	Change	Valuation Assumption
Central assumptions		42 321 460
Mortality rate	-20%	45 321 342
	+20%	39 873 810
Medical aid inflation	-1%	37 799 338
Medical aid inflation	+1%	47 670 948

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
8. Employee benefit obligations (continued)		
Long service awards		
Balance at beginning of year	15,559,000	15,135,000
Current service cost	1,455,000	1,967,000
Interest cost	2,018,000	1,421,000
Actuarial (gain)/loss	(1,422,000)	(1,064,000)
Employer Benefits payments.	(2,147,000)	(1,900,000)
	15,463,000	15,559,000

Best estimate of benefits payments expected in next annual period 2020/2021(comparative figures 2019/2020)

Opening accrued liability	15,463,000	15,559,000
Interest cost	1,378,000	2,018,000
Actuarial gains (losses)	-	(1,422,000)
Service cost	1,741,000	1,455,000
Employer Benefits payments	(1,749,000)	(2,147,000)
Total actual expense	16,833,000	15,463,000

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	205	522	727
Average annual salary			229 079
Average past service(years)			14.33

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	2.0%	(5/250 + 2%) x annual salary
10	3.0%	(10/250 + 3%) x annual salary
15	4.0%	(15/250 + 4%) x annual salary
20	5.0%	(15/250 + 5%) x annual salary
25,30,35,40,45	6.0%	(15/250 + 6%) x annual salary

727 Employees benefit from this policy

Special leave pay

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

Retirement gifts

260 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 most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 30 June 2020 by Mr DT Mureriwa, Fellow of the Actuarial Society of South Africa.

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

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
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8. Employee benefit obligations (continued)

Key financial assumptions

The table summarised the financial assumptions used.

Discount rate:	Yield Curve
Consumer price index (CPI)	Difference between nominal and yield curves
Salary inflation	CPI + 1%
Net effective discount rate	Yield Curve based

Note: The valuation method calls for a basket of discount rates (matching bonds based on their remaining term to the expected lifespan of each individual); therefore it is not meaningful to indicate a single rate and not practical to indicate all rates used. This approach was used in 2018/19 and 2019/20.

The salaries used in the valuation include an assumed increase on 1 July 2020 of 6.25%.
The next salary increase was assumed to take place in July 2020

Average retirement age	63
Mortality during employment	SA 85-90

Sensitivity analysis on the accrued liability (R Millions)

Assumption	Change	Valuation Assumption
Central assumptions		15 463 000
Salary inflation	-1%	14 538 000
	+1%	16 480 000

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6.5% higher than that shown.

Other assumptions

History of liabilities (R millions)

	30/6/2020 R	30/6/2019 R	30/6/2018 R	30/6/2017 R	30/6/2016 R
Accrued Liability	15,463	15,559	15,135	13,299	14,013

9. Inventories

Water (purified water in reservoirs and pipes)	682,314	658,664
Fuel (diesel, petrol)	97,800	270,488
Stores and materials	450,026	538,281
	1,230,140	1,467,433

After the inventory count, obsolete and/or lost Inventories was written off and recognised in Profit and loss during the period.

Inventories recognised as an expense during the year	2,600,932	4,352,000
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Inventory pledged as security

During the year no inventory was pledged as security.

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
10. Receivables from exchange transactions		
Prepayments (if immaterial)	6,884,225	4,787,039
RD Cheques	20,199	-
Control, Clearing and Interface Accounts	13,181,109	17,977,745
Merchandise, job and control	1,280,388	-
Electricity	50,385,319	44,401,824
Water	135,640,376	97,584,397
Sewerage	6,889,071	3,987,579
Refuse	8,362,963	5,160,323
Other service charges	13,707,545	6,906,005
Sale of land	45,118	567,217
	236,396,313	181,372,129
Non-current assets	45,118	567,217
Current assets	236,351,195	180,804,912
	236,396,313	181,372,129

Trade and other receivables pledged as security

No receivables from exchange transactions were pledged as security.

Credit quality of trade and other receivables

The credit quality of trade and other receivables 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:

Trade receivables

Included in Service Debtors is an amount of R22 924 619 (2019: R 22 716 323) in respect of the consumption of metered services not billed as at 30 June.

The municipality receives applications for basic services that it processes. Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Receivables.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 2 months past due are not considered to be impaired. Receivables from government are not subject to impairment either. At June 30, 2020, R 215 103 954 (2019: R 158,607,345) were past due but not impaired.

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

1 month past due	10,338,743	13,621,625
2 months past due	6,458,692	49,747,226
3 months past due	137,637,991	75,090,414

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
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10. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of June 30, 2020, trade and other receivables of R1 402 424 286 - (2019: R 1,177,022,953) were impaired and provided for.

The amount of the provision was R 199,863,755 as of June 30, 2020 (2019: R 211,707,655).

The ageing of these receivables (gross) is as follows:

Current	77,069,527	90,357,363
30 - 60 Days	29,133,850	39,941,729
60 - 90 Days	25,099,578	26,217,798
91 Days and over	1,486,151,723	1,179,549,247

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(1,177,022,953)	(992,773,890)
Provision for impairment	(199,863,755)	(211,707,655)
Amounts written off as uncollectible	2,586,000	45,743,171
Movement in VAT due to impairment	(28,123,577)	(18,284,579)
	(1,402,424,285)	(1,177,022,953)

11. Receivables from non-exchange transactions

Traffic fines	390,080	462,210
Deposits	2,552,824	2,052,824
Fruitless and Wasteful expenditure recoverable	18,451,758	18,451,758
Receivables	1,706,632	1,692,632
Rates	46,243,412	30,953,624
	69,344,706	53,613,048

Receivables from non-exchange transactions pledged as security

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions

Fruitless expenditure: This amount of R18 451 758 (2018: nil) relates to expenditure on a sport ground, where the value was paid to the supplier, but the related work was not performed. The amount was paid in 2018, however, the investigation into the transaction was not sufficiently advanced to determine how to classify and disclose it.

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

Fair value of receivables from non-exchange transactions

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratios of Other Debtors were also taken into account for fair value determination.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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11. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

Receivables relating to traffic fines are impaired according to a recoverability rate and, therefore, it is not possible to split the ageing between impaired and unimpaired.

Receivables from non-exchange transactions (Rates), where the debtor has nothing outstanding for more than 2 months past due are not considered to be impaired; receivables from government are not subject to impairment either. At June 30, 2020, R 46 243 412 (2019: R 30,953,624) were past due but not impaired.

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

1 month past due	4,304,997	3,691,204
2 months past due	2,369,872	1,283,949
3 months past due	29,383,583	18,416,173

Receivables from non-exchange transactions impaired

As of June 30, 2020, other receivables from non-exchange transactions of R 141,416,745 (2019: R 113,551,144) were impaired and provided for.

The amount of the provision was R 29,064,386 as of June 30, 2020 (2019: R 19,225,939).

The ageing of these receivables (gross) is as follows:

Current	13,392,572	10,187,793
30 - 60 Days	7,977,058	6,134,233
60 - 90 Days	6,076,650	3,681,168
91 days and over	160,213,877	124,065,735

Reconciliation of allowance for impairment of receivables from non-exchange transactions

Opening balance	(125,007,765)	(105,797,758)
Allowance for impairment traffic fines	(1,838,217)	(13,892,460)
Amounts written off as uncollectible traffic fines	-	9,025,858
Allowance for impairment rates	(29,061,396)	(19,225,939)
Amounts written off as uncollectible Rates	759,956	4,882,534
	(155,147,422)	(125,007,765)

The municipality does not hold any collateral as security.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
12. Statutory receivables		
Utilisation of transitional provisions	-	-
GRAP 108 Statutory Receivables became effective on 1 April 2019 and, in accordance with the transitional provisions for the Standard provided in Directive 3, entities are not required to change their accounting policies in respect of the classification and measurement of statutory receivables for reporting periods beginning on a date within three years following the date of first adoption of GRAP 108. Entities shall comply with the disclosure requirements of GRAP 108 as and when statutory receivables are classified and measured in accordance with the Standard of GRAP. The municipality is taking advantage of the transitional provisions by not classifying or measuring its Statutory Receivables in accordance with GRAP 108, and, therefore, no disclosures required by GRAP 108 has been made. The Statutory Receivables that exists in the municipality's books at year-end are those relating to Property Rates. The municipality intends to fully apply the requirements of GRAP 108 by 30 June 2021.		
13. Consumer debtors disclosure		
Gross balances		
Rates	187,660,157	144,068,929
Electricity	114,410,149	99,289,241
Water	1,208,782,076	981,726,970
Sewerage	59,938,817	51,905,154
Refuse	87,742,161	75,336,153
Other service charges	141,163,131	122,021,866
Sale of land	5,418,344	5,350,914
	1,805,114,835	1,479,699,227
Less: Allowance for impairment		
Rates	(141,416,745)	(113,115,305)
Electricity	(64,024,830)	(54,887,417)
Water	(1,073,141,700)	(884,142,573)
Sewerage	(53,049,746)	(47,917,575)
Refuse	(79,379,198)	(70,175,830)
Other service charges	(127,455,586)	(115,115,861)
Sale of land	(5,373,226)	(4,783,697)
	(1,543,841,031)	(1,290,138,258)
Net balance		
Rates	46,243,412	30,953,624
Electricity	50,385,319	44,401,824
Water	135,640,376	97,584,397
Sewerage	6,889,071	3,987,579
Refuse	8,362,963	5,160,323
Other service charges	13,707,545	6,906,005
Sale of land	45,118	567,217
	261,273,804	189,560,969

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
13. Consumer debtors disclosure (continued)		
Included in above is receivables from exchange transactions		
Electricity	50,385,319	44,401,824
Water	135,640,376	97,584,397
Sewerage	6,889,071	3,987,579
Refuse	8,362,963	5,160,323
Sale of land	45,118	567,217
Sundry receivables	13,781,107	6,883,526
	215,103,954	158,584,866
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	46,243,412	30,953,624
Net balance	261,347,366	189,538,490
Rates		
Current (0 -30 days)	13,392,572	10,187,793
31 - 60 days	7,977,058	6,134,233
61 - 90 days	6,076,650	3,681,168
Over 90 days	160,213,877	124,065,735
Impairment	(141,416,745)	(113,115,305)
	46,243,412	30,953,624
Electricity		
Current (0 -30 days)	21,523,527	20,546,495
31 - 60 days	5,183,560	3,546,687
61 - 90 days	3,875,212	2,914,409
Over 90 days	83,827,850	72,281,650
Impairment	(64,024,830)	(54,887,417)
	50,385,319	44,401,824
Water		
Current (0 -30 days)	49,386,426	62,025,833
31 - 60 days	19,106,673	30,488,536
61 - 90 days	17,278,484	19,229,586
Over 90 days	1,123,010,493	869,983,016
Impairment	(1,073,141,700)	(884,142,574)
	135,640,376	97,584,397
Sewerage		
Current (0 -30 days)	2,079,868	2,134,879
31 - 60 days	1,587,956	1,493,289
61 - 90 days	1,329,397	1,174,015
Over 90 days	54,941,596	47,102,971
Impairment	(53,049,746)	(47,917,575)
	6,889,071	3,987,579

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
13. Consumer debtors disclosure (continued)		
Refuse		
Current (0 -30 days)	2,483,242	2,878,326
31 - 60 days	2,005,078	1,979,485
61 - 90 days	1,781,727	1,645,177
Over 90 days	81,472,114	68,833,165
Impairment	(79,379,198)	(70,175,830)
	8,362,963	5,160,323
Other service charges		
Current (0 -30 days)	1,551,346	2,044,309
31 - 60 days	1,250,583	2,403,249
61 - 90 days	834,758	1,229,209
91 - 120 days	137,526,444	116,345,099
Impairment	(127,455,586)	(115,115,861)
	13,707,545	6,906,005
Sale of Land		
Current (0 -30 days)	45,118	226,757
31 - 60 days	-	30,483
61 - 90 days	-	25,402
Over 90 days	5,373,226	5,068,272
Impairment	(5,373,226)	(4,783,697)
	45,118	567,217

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
13. Consumer debtors disclosure (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	59,759,955	90,471,240
31 - 60 days	26,742,804	36,376,002
61 - 90 days	23,816,960	26,196,322
Over 90 days	1,469,105,818	1,204,116,098
	1,579,425,537	1,357,159,662
Industrial/ commercial		
Current (0 -30 days)	27,920,654	6,134,982
31 - 60 days	9,682,700	7,664,532
61 - 90 days	6,641,114	2,588,965
Over 90 days	147,635,418	70,302,022
	191,879,886	86,690,501
National and provincial government		
Current (0 -30 days)	2,781,490	3,938,934
31 - 60 days	685,404	2,035,428
61 - 90 days	718,154	1,113,679
Over 90 days	29,624,364	29,196,862
	33,809,412	36,284,903
Total		
Current (0 -30 days)	90,462,099	100,545,156
31 - 60 days	37,110,908	46,075,962
61 - 90 days	31,176,228	29,898,966
Over 90 days	1,646,365,600	1,303,614,982
	1,805,114,835	1,480,135,066
Less: Allowance for impairment		
Current (0 -30 days)	19,682,173	28,061,778
31 - 60 days	22,467,168	28,763,133
61 - 90 days	22,347,664	23,640,791
Over 90 days	1,479,344,026	1,210,108,395
	1,543,841,031	1,290,574,097
Total debtor past due but not impaired		
Current (0 -30 days)	70,779,926	72,483,378
31 - 60 days	14,643,740	17,312,830
61 - 90 days	8,828,564	6,258,174
Over 90 days	167,021,574	93,506,587
	261,273,804	189,560,969
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1,290,138,258)	(1,091,545,789)
Contributions to allowance	(228,925,151)	(229,719,390)
Movement in VAT component due to impairment	(28,123,578)	(19,553,988)
Debt impairment written off against allowance	3,345,957	50,680,909
	(1,543,841,030)	(1,290,138,258)

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
14. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	5,150	5,150
Bank balances	6,605,241	8,845,699
Short-term deposits	38,060,999	5,026,344
	44,671,390	13,877,193

Call Deposits are investments with a maturity period of less than 3 months and earn interest at rates varying from 0.25% to 3.6% (2019: 1.3% to 6.6%)

Funds reserved to support unspent grants:

Integrated National Electrification Programme Grant	728	8,360,979
Water Services Infrastructure Grant	9,034,037	-
Municipal Infrastructure Grant	17,800,469	-
Sector Education Training Authority Grant	280,815	-

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for Guarantee: Eskom as Terms and conditions	990,000	990,000
Total financial assets pledged as collateral for Guarantee:Post Office as Terms and conditions	80,000	80,000

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020			2019		
14. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2020	June 30, 2019	June 30, 2018
Absa Bank Cheque Account 520 0000 038	1,278,959	1,446,695	1,278,369	1,278,959	1,448,695	1,278,369
ABSA BANK - 520 0000 062	-	-	-	-	(1,105)	-
Standard Bank - current account (primary bank account) 24 034 786 2	-	12,200,971	6,228,940	5,325,177	7,398,109	1,401,477
Standard Bank - Revenue Account - 33 197 836 9	-	-	-	-	-	(8,798)
Absa Bank - Call Account 907 840 0708	55,309	255,309	402,455	55,309	255,309	1,055,309
Absa Bank Invest Tracker - 93 5502 8112	10,378,238	-	-	10,378,238	-	-
Absa Bank -Fixed deposit 20-7741-7824	-	-	62,772	-	-	-
Absa Bank -Fixed deposit 20-7741-7072	-	-	77,121	-	-	-
Standard Bank - Call deposit account 228 505 348 005	4,809,982	9,756	6,529,042	4,809,982	21,474	12,863,554
Standard Bank - Call deposit account - 228 505 348 007	4,314,252	334,286	6,658,318	4,314,252	382,264	323,806
Nedbank - Call deposit account -788 103 308 000060	8,058,788	927,095	11,954	8,058,788	1,461,328	1,461,328
Nedbank - Call deposit account -788 103 308 000074	124,519	534,233	42,128	124,519	-	-
Investec -Call account- 1100-523923	5,117,888	709,205	2,634,973	5,117,888	709,205	2,634,974
Rand merchant Bank CDS - DC02J00005	-	-	27,726	-	-	27,726
FNB - Call account - 62772878909	5,203,128	2,196,764	-	5,203,128	2,196,764	-
Total	39,341,063	18,614,314	23,953,798	44,666,240	13,872,043	21,037,745

Additional disclosures

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
15. Finance lease obligation		
Minimum lease payments due		
- within one year	3,522,621	3,920,333
- in second to fifth year inclusive	556,574	4,079,191
	4,079,195	7,999,524
less: future finance charges	(251,164)	(823,898)
Present value of minimum lease payments	3,828,031	7,175,626
Present value of minimum lease payments due		
- within one year	3,287,519	3,347,596
- in second to fifth year inclusive	540,512	3,828,030
	3,828,031	7,175,626
Non-current liabilities	540,509	3,828,028
Current liabilities	3,287,522	3,347,599
	3,828,031	7,175,627

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

The average lease term was 3-5 years and the average effective borrowing rate was 10% (2019: 10%).

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

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	17,800,469	-
Department of Energy	728	8,360,979
Sector Education Training Authority Grant	280,815	-
Water Services Infrastructure Grant	9,034,037	-
	27,116,049	8,360,979

Movement during the year

Grants		
Balance at the beginning of the year	8,360,979	888,350
Additions during the year	86,424,802	140,728,041
Income recognition during the year	(54,357,232)	(131,966,419)
Withheld	(8,360,958)	(1,288,993)
Owed by Regional Bulk Infrastructure	(4,951,542)	-
	27,116,049	8,360,979

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
17. Long term loan		
At amortised cost		
Development Bank of South Africa	-	1,634,939
Current liabilities		
At amortised cost	-	1,634,939
Financial liabilities at amortised cost		
Nominal value of financial liabilities at amortised cost		
Development Bank of South Africa - Current portion Terms and conditions	-	1,634,939
The original loan amount approved was R 19 000 000 but only R 9 000 000 was disbursed in the 2012/2013 financial year. The interest on the loan is fixed at 8.67% with capitalisation every 6 months but will be levied at 10.67% on arrear amounts. The interest and capital repayment is made every 6 months in 14 equal instalments of R 871 356 over 7 years. The loan is unsecured but the application of the loan is conditional to specific projects		

Nominal value of concessionary loans

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
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18. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Unwinding of interest	Change in timing, amount or discount factor	Total
Environmental rehabilitation	84,337,965	6,168,569	(2,886,230)	87,620,304

Reconciliation of provisions - 2019

	Opening Balance	Unwinding of interest	Change in timing, amount or discount factor	Total
Environmental rehabilitation	78,623,978	6,594,185	(880,198)	84,337,965

Provision for landfill closure

The landfill rehabilitation and closure are created for the rehabilitation and closure of the current operational sites which are evaluated at each year-end to reflect the best estimate at reporting date. The sites under consideration are the Sasolburg, Oranjeville and Deneysville landfill sites. The valuation for the landfill sites were performed by B van Schoor from iX Engineers (Professional Engineer and member of the Engineering Council of South Africa) and E Barnard from ZAQfinance (Member of the Institute of Waste Management).

Key financial assumptions used in this calculation were as follows:

Assumption	Sasolburg landfill	Oranjeville landfill	Deneysville landfill
CPI	2.49%	8.27%	3.27%
Discount rate	5.12%	13.36%	7.26%

The original estimated years to rehabilitation was underestimated in the consultants 2018/19 report and the landfill provision was therefore corrected retrospectively as required by GRAP 3.

The 2020 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2020. The size of the landfill sites used up until now and estimate remaining useful lives are as follows

	Sasolburg landfill	Oranjeville landfill	Deneysville landfill
Approximate footprint at 30 June 2019	150,160square meters	12,142square meters	15,716square meters
Remaining useful lives	approximately 2 years	approximately 17 years	approximately 5 years

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
19. Payables from exchange transactions		
Trade payables	255,429	255,428
Payments received in advanced	27,176,589	26,287,307
Retentions	19,207,309	19,611,983
Other payables Auditor General	31,159	402,877
Accrued leave pay	23,560,151	19,479,719
Accrued bonus	6,336,227	5,617,707
Accrued expense	110,716,109	108,592,548
Insurance	1,574,565	1,397,383
Eskom	59,991,766	31,242,180
Rand Water	16,039,688	15,352,126
Control, Clearing and Interface Accounts	8,188,473	21,321,816
Unallocated deposits	5,809,363	5,718,106
	278,886,828	255,279,180
Accrued expenses		
Department of water	33,657,857	33,657,857
Department of Transport - Government Garage	16,349,297	17,185,033
Compensation Commissioner	10,757,389	9,429,444
Creditors - provision various	17,064,407	13,309,567
Creditors control	32,887,159	35,010,647
	110,716,109	108,592,548

Staff Bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Payments Received in Advance are due to payments received for hall prepaid electricity. Payments received in advance also include consumer debtors' accounts paid in advance.

No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

20. VAT payable

VAT payable	11,092,173	5,906,118
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Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

21. Consumer deposits

Electricity	230,550	-
Water	23,736,617	22,590,657
Other deposits	1,510,103	1,510,103
	25,477,270	24,100,760

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
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21. Consumer deposits (continued)

Consumer Deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximates their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

22. Service charges

Sale of electricity	298,686,318	270,583,906
Sale of water	407,802,140	365,747,520
Solid waste	32,859,646	30,974,133
Sewerage and sanitation charges	28,184,843	26,214,030
	767,532,947	693,519,589

Forgone income (free portion)

Electricity	(5,652,010)	(8,059,933)
Sewerage and sanitation	(11,392,835)	(7,598,641)
Solid waste	(13,632,362)	(12,657,618)
Water	(9,844,934)	(11,029,105)
	(40,522,141)	(39,345,297)

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

23. Fines, penalties and forfeits

Overdue Books Fines	-	93
Court Traffic Fines	-	859,092
Municipal Traffic Fines	2,447,650	3,019,778
Tender Withdrawal Penalties	60,257	176,154
	2,507,907	4,055,117

24. Lease rentals on operating lease

Motor vehicles		
Contractual amounts	-	1,923,719
Equipment		
Contractual amounts	3,989,115	5,747,482
	3,989,115	7,671,201

The leases are entered in to on month-to-month or ad hoc bases, and, therefore, do not have escalation clauses or commitments.

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
25. Other income		
Cemetery fees	322,737	472,765
Building plan fees	610,852	631,031
Entrance fees	328,242	1,034,424
Billboards	434,634	424,059
Valuation certificate	627	2,708
Private telephone calls	157,927	238,341
Sundry income	110,580	136,569
Fire service	578,437	576,624
	2,544,036	3,516,521
26. Investment revenue		
Dividend revenue		
Dividends Sanlam Limited	123,203	115,088
Interest revenue		
Interest received - short term investments	4,490,865	3,408,691
	4,614,068	3,523,779

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
27. Property rates		
Rates revenue		
Residential	105,737,800	83,458,537
Heavy Industries	34,130,069	11,822,634
State	2,880,224	12,689,594
Municipal	3,590,591	3,949,490
Small holdings and farms	23,333,943	18,428,187
Heavy Industries	67,717,396	33,516,167
Less: Income forgone	(38,113,204)	(20,216,177)
	199,276,819	143,648,432

Valuations

5 year: Tax Holiday	8,590	21,781
Churches	133,535	97,960
State	-	692,751
Heavy/light industries	1,554,038	1,050,736
Small holdings and farms	1,424,774	3,033,719
Public Benefit Organisation/Service Infrastructure	75,003	49,393
Commercial	2,131,933	931,515
Municipal	424,374	450,991
Residential	14,853,372	8,336,680
Allocated, unregistered stands	671,115	169,366
	21,276,734	14,834,892

Valuations on land and buildings are normally performed every four years. The last general valuation came into effect on 1 July 2019. 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 was implemented on 01 July 2019.

Rebates up to R50 000 (2018: 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 owed by a religious body or organisation and residential property occupied by a minister of religion in full time service of the church
- Road reserves
- Railway reserves.

Tariff structure (cents per Rand)

Business	0.0174	0.0178
Industries	0.0436	0.0445
Residential	0.0087	0.0089
State-owned property	-	0.0178
Farmland		
Residential	-	0.0045
Business	-	0.0089
Industries	-	0.0022
Private owned towns, Body Corporate Sectional Titles	-	0.0045
Mining	-	0.0223
Agricultural	0.0023	0.0022
	0.0720	0.1336

Farmland is not categories on their own from 1 July 2019. Only agricultural land has its own tariff.

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
28. Grants and subsidies paid		
Other subsidies		
Bursaries	-	242,958
Burial	175,615	58,075
	175,615	301,033

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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29. Government grants and subsidies

Operating grants

Equitable share	183,063,999	163,296,165
Financial Management Grant	2,235,000	1,770,000
Expanded Public Works Programme Integrated Grant	1,157,000	1,084,773
Sector Education Training Authority Grant	569,651	496,997
Municipal Infrastructure Grant	14,158,484	11,431,618
Disaster Relief Grant	298,000	-
	201,482,134	178,079,553

Capital grants

Municipal Infrastructure Grant	19,693,047	38,354,292
Department of Water Affairs Grant	5,965,963	10,000,000
Department of Energy Grant	9,999,251	3,289,021
Regional Bulk Infrastructure	-	39,450,199
	35,658,261	91,093,512

237,140,395 269,173,065

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	53,208,745	105,379,903
Unconditional grants received	183,931,650	163,793,162
	237,140,395	269,173,065

Equitable Share

In terms of the Constitution of the Republic of South Africa, 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 basic water, basic electricity and basic sewer per month to all households. Indigent households are allocated 6kl of water, 50 kWh of electricity additional sewer, refuse, and R50 per month on Rates.

The allocation of equitable share has been reduced by R8 361 000 due to the non-spending of funds on the Intergrated National Electrification Programme Grant by the municipality as at 30 June 2019, as indicated below.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	(90)
Current-year receipts	51,652,000	49,786,000
Conditions met - transferred to revenue	(33,851,531)	(49,785,910)
	17,800,469	-

Conditions still to be met - remain liabilities (see note 16).

Funds received for installation of infrastructure.

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No moneys have been withheld.

Financial Management Grant

Current-year receipts	2,235,000	1,770,000
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Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
29. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(2,235,000)	(1,770,000)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
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.		
This grant is used to assist in support and implementation of financial management reforms, attendance at accredited training and capacity building programmes on financial management.		
Sector Education Training Authority Grant		
Current-year receipts	850,466	496,997
Conditions met - transferred to revenue	(569,651)	(496,997)
	280,815	-
Conditions still to be met - remain liabilities (see note 16).		
The municipality received funds from Sector Education Training Authority to promote excellence performance by the human resources division. The funds must be utilised towards training.		
Regional Bulk Infrastructure Grant		
Balance unspent at beginning of year	-	(2,654,498)
Current-year receipts	4,951,543	30,824,603
Conditions met - transferred to revenue	-	(39,450,198)
Other -due by RBIG	(4,951,543)	11,280,093
	-	-
Conditions still to be met - remain liabilities (see note 16).		
The municipality received funds from the Department of Water Affairs for water purification.		
The allocation as per Division of Revenue Act was R70 million from which only R4.9 million was received. As at 30 June 2019 R11.3 million was still due by Regional Bulk Infrastructure Grant.		
Disaster Relief Grant		
Current-year receipts	(298,000)	-
Conditions met - transferred to revenue	298,000	-
	-	-
Disaster relief grant received to assist with COVID 19 expenditure.		
SASOL donation		
Current-year receipts	601,069	-
Conditions met - transferred to revenue	(601,069)	-
	-	-
Conditions still to be met - remain liabilities (see note 16).		
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	8,360,979	510,480

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
29. Government grants and subsidies (continued)		
Current-year receipts	10,000,000	11,650,000
Conditions met - transferred to revenue	(9,999,251)	(3,289,021)
Funds withheld	(8,361,000)	(510,480)
	728	8,360,979

Conditions still to be met - remain liabilities (see note 16).

The Integrated Electrification Programme Grant is a conditional grant of which the purpose is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme. The grant was utilised as per intended purpose. Moneys have been withheld.

Water Demand Management (Free State Province)

Balance unspent at beginning of year	-	2,947,684
Current-year receipts	15,000,000	10,000,000
Conditions met - transferred to revenue	(5,965,963)	(10,000,000)
Repayment of unspent	-	(2,947,684)
	9,034,037	-

Conditions still to be met - remain liabilities (see note 16).

This grant has been provided by Department of Water affairs and to try to get water to areas where it was recognised that full services would not become available.

Expanded Public Works Programme Integrated Grant

Balance unspent at beginning of year	-	84,773
Current-year receipts	1,157,000	1,000,000
Conditions met - transferred to revenue	(1,157,000)	(1,084,773)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The Expanded Public Works Programme (EPWP) Grant is a conditional grant of which the purpose is the funding of the department's Extended Public Works Programme. The grant was utilised as per intended purpose. No moneys have been withheld.

30. Public contributions and donations

Public contributions and donations -capital	6,626,005	24,129,741
Government Garage	-	1,611,289
Public contributions and donations - operating	12,363,928	8,182,407
	18,989,933	33,923,437

Conditions still to be met - remain liabilities (see note 16)

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
31. Employee related costs		
Basic	165,993,105	158,236,232
Medical aid - company contributions	20,526,648	19,123,743
UIF	1,346,819	1,336,049
Leave pay and bonus provision	4,798,953	2,069,702
Leave pay accrual	2,055,078	838,002
Group Insurance	230,203	228,308
Actuarial (gain)/loss	(126,540)	2,687,000
Defined contribution plans	28,019,627	26,023,485
Overtime payments	27,153,860	25,044,959
Long-service awards	3,401,812	1,139,252
13th Cheques	13,519,530	12,932,001
Acting allowances	3,908,121	2,636,839
Car allowance	19,786,097	18,533,938
Housing benefits and allowances	2,543,974	2,433,165
Long service award provision	1,326,000	1,488,000
Cell phone allowance	1,325,712	1,224,227
Standby allowance	5,188,571	4,711,274
Industrial council levy contributions	80,928	77,483
Contribution post retirement	1,904,000	1,377,000
Senior management as below	4,841,655	5,928,186
	307,824,153	288,068,845

Remuneration of Accounting Officer

Annual Remuneration	1,488,731	1,488,731
Car Allowance	240,000	240,000
Contributions to UIF, Medical and Pension Funds	2,231	1,785
Telephone allowance	36,000	36,000
Acting allowance to directors/managers	658,252	613,279
Acting allowance secondment by COGTA	139,010	-
Entertainment allowance	85,430	61,602
	2,649,654	2,441,397

Remuneration of Chief Financial Officer

Annual Remuneration	-	341,057
Car Allowance	-	4,000
Contributions to UIF, Medical and Pension Funds	143	297
Telephone allowance	-	5,000
Leave pay	-	367,360
Entertainment	1,634	2,000
Acting allowance by Managers	414,859	476,620
Acting allowance secondment COGTA - Internal Advisor	49,506	-
	466,142	1,196,334

Remuneration of Director Technical Service and Infrastructural Services

Acting allowance by Managers	407,125	561,965
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Remuneration of Director Organisational Development and Corporate Services

Contributions to UIF, Medical and Pension Funds	95	-
Entertainment	1,978	-
Acting allowance secondment by COGTA	41,289	-
Acting allowance by Managers	414,859	569,843

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
31. Employee related costs (continued)	458,221	569,843
Remuneration of - Director Social Services		
Entertainment	1,834	4,820
Acting allowance by Managers	444,652	514,441
	446,486	519,261
Remuneration of Director Economic Development		
Entertainment	1,650	1,748
Acting allowance by Managers	412,377	637,638
	414,027	639,386
32. Remuneration of Councillors		
Executive Mayor	938,250	902,971
Council Whip	714,787	688,103
Mayoral Committee Members	5,718,296	4,384,946
Speaker	759,478	731,075
Councillors	9,163,560	9,851,886
Chairpersons Section 79 committees	2,085,363	995,129
	19,379,734	17,554,110

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
32. Remuneration of Councillors (continued)		
In-kind benefits		
The Executive Mayor, Speaker, Council Whip, Section 79 Chairpersons and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
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.		
The Mayor and Speaker have use of a Council owned vehicle for official duties. The Mayor and Speaker each has a full-time driver.		
The Executive Mayor has two full-time bodyguards.		
Remuneration per councillor		
Executive Mayor		
Tshongwe S L	938,250	902,971
Council Whip		
Nyembe B V (Council Whip from 21 December 2017)	-	622,418
Mashia VL (Council Whip from 29 May 2019)	714,787	65,685
Mayoral Committee Members		
Semonyo LS (from 18 January 2018)	714,787	689,003
Mtshali NM (from 20 March 2019)	714,787	184,356
Mofokeng KB (from 18 June 2019)	714,787	24,804
Mosokweni F (from18 January 2018 - December 2018 and 20 March 2019 to 30 June 2019)	714,787	461,110
Fisher L (18 January 2018- 4 Ooctober 2018; 20 March 2019- 30 June 2019)	714,787	350,408
Mokoena NP (from 18 January 2018 to 4 October 2018 and 20 March 2019 to 30 June 2019)	714,787	350,408
Makhefu LA (from 18 January 2018- 30 November 2018)	-	276,755
Malindi MJ (from 18 January 2018)	714,787	689,003
Nyaku DJ (from 18 January 2018-28 May 2019)	-	659,146
Poho MS (from 18 January 2018)	714,787	689,003
Speaker		
Mabasa KT	759,478	731,075
Chairpersons Section 79 committees		
Molawa M (MPAC chairperson)	695,121	670,093
Kobo SS Chair person Streetnaming 3 April 2019)	695,121	162,518
Makhefu L A (Chairperson Ethics 3 April 2019 -30 June 2019)	695,121	162,518
Councillors		
Barnard JJ	327,270	316,390
Burger GS	327,270	316,390
Du Plooy (till 21 November 2018)	-	127,254
Du Toit T	327,270	316,390
Dywili NN	327,270	316,390
Fisher L (from 1 December 2017 and MAYCO member 28 January 2018 - 4 October 2018 and from 20 March 2019 to 30 June 2019)	-	170,134
Grobbelaar JJ	327,270	316,390
Kobo SS (Chair person Streetnaming 3 April 2019)	-	237,382
Leotlela MG	327,270	316,390
Mbana MT (from15 November 2018)	327,270	199,747
Mahlaela PM	327,270	316,390
Makhefu L A (from 1 February 2017; 1 December 2017; MAYCO 18 January 2018- 30 November 2018: Chairperson Ethics 3 April 2019 -30 June 2019)	-	113,707
Mare AK	327,270	316,390
Maseko ME	327,270	316,390
Matwa SM (from18 July 2018)	327,270	302,680
Meyer R (from 18 July 2018)	327,270	302,680
Mofokeng TH	327,270	316,390
Mohapi P	327,270	316,390

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Figures in Rand	2020	2019
32. Remuneration of Councillors (continued)		
Mokoena MP	327,270	316,390
Mokoena NP (from 1 December 2017; MAYCO 18 January 2018 30 September 2018; April 2019 -30 June 2019)	-	170,134
Mokoena TS	-	26,356
Mosokweni F (from18 January 2018 - December 2018 and 20 March 2019 to 30 June 2019)	-	113,215
Motaung TA	327,270	316,390
Motjeane SM	327,270	316,391
Motlhale S (from December 2017 -23 October 2018)	-	99,346
Motlounj TM	327,270	316,391
Mtshali NM (from 1 December 2017: MAYCO member from 20 March 2019)	-	234,714
Nhlapo LL	327,270	316,391
Nkheloane M	327,270	316,391
Nnune GB	327,270	316,391
Nteso SJ	327,270	316,391
Taats TJ	327,270	316,391
Telane MM	327,270	316,391
Tsotetsi J L	327,270	316,391
Van der Merwe FJ	327,270	316,391
Van Heerden (from 4 January 2019)	327,270	172,116
Zwane ZJ	327,270	316,391
	19,379,734	17,554,110
33. Depreciation and amortisation		
Property, plant and equipment	45,676,282	76,845,498
Investment property	1,058,086	23,020
Intangible assets	(366,722)	936,617
	46,367,646	77,805,135
34. Finance costs		
Non - current borrowings	107,773	240,826
Trade and other payables	2,504,323	1,655,749
Finance leases	552,359	818,300
Bank	379,912	372,980
Unwinding of interest on provision	3,282,338	5,713,988
	6,826,705	8,801,843
35. Debt impairment		
Contributions to debt impairment - non-exchange	30,899,613	22,878,336
Contributions to debt impairment - exchange	199,863,755	211,707,655
	230,763,368	234,585,991
36. Bulk purchases		
Electricity - Eskom	270,112,633	225,639,059
Water	179,289,161	171,780,725
	449,401,794	397,419,784

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand				2020	2019
36. Bulk purchases (continued)					
2020	Total sales (units)	Less total purchases	(Loss)/gain (units)	% loss on purchases	Rand value of loss at
Electricity	194,528,351	220,622,127	(26,093,776)	(12)	34,572,353
Water	16,625,524	20,718,272	(4,092,745)	(20)	35,492,405
	211,153,875	241,340,399	(30,186,521)	-	70,064,758
2019	Total sales (units)	Less total purchases	(Loss)/gain (units)	% loss on purchases	Rand value of loss at
Electricity	205,644,368	218,799,914	(13,155,546)	(6)	15,278,740
Water	16,607,069	19,847,089	(3,240,020)	(16)	28,093,100
	222,251,437	238,647,003	(16,395,566)	-	43,371,840

Unaccounted consumption can be a result of:

- Distributions losses;
- Internal use that is not metered and not read;
- Illegal connections and theft.
- Supply to informal areas that have not yet been formalised.

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water and the Department of Water and Sanitation.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
37. Contracted services		
Outsourced Services		
Administrative and support staff (printing service)	1,601,398	2,976,975
Business : Advisory and Research	-	2,500
Catering services	15,500	191,651
Cleaning services	2,733,623	2,971,917
Connection/disconnection	953,240	1,222,492
Traffic fines management	42,485	143,477
Transport services	281,070	560,164
Consultants and Professional Services		
Business and advisory	11,544,632	13,201,288
Infrastructure and planning	208,272	873,094
Legal cost	12,914,372	10,580,351
Contractors		
Catering services	241,260	744,715
Gardening Services	1,351,424	1,406,843
Graphic designers	-	183,000
Maintenance of buildings and facilities	941,234	880,331
Maintenance of equipment	3,457,959	6,536,585
Maintenance of unspecified assets	2,352,306	1,129,093
Plants, Flowers and Other Decorations	5,060	-
Traffic and street lights	62,600	672,313
Safeguard and security	20,209,010	18,901,662
Sewerage services	20,203,713	19,000,345
Stage and sound crew	379,320	480,940
	79,498,478	82,659,736
38. Operating expenditure		
Advertising	477,916	576,180
Auditors remuneration	7,503,083	9,054,815
Bank charges	807,207	632,950
Commission paid	7,991,350	9,402,431
Inventory consumables	46,452,639	35,025,210
Entertainment	31,129	54,340
Hire	44,575	39,152
Insurance	4,560,084	4,768,933
IT expenses	7,613,713	7,033,935
Skills development levies	2,074,925	2,310,328
Postage and courier	1,509,426	2,029,157
Printing and publications	-	190
Royalties and license fees	486,443	474,599
Subscriptions and membership fees	3,788,097	3,050,876
Telephone	2,262,903	2,234,050
Travel - local	978,081	1,443,119
Uniforms	2,650,810	932,582
Workmens' Compensation Fund	1,327,945	1,265,890
Ward committee remuneration	1,122,205	1,127,489
Bursaries	95,706	246,482
Other expenses	515,270	499,234
	92,293,507	82,201,942

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
39. Cash generated from operations		
Surplus	51,251,883	2,424,142
Adjustments for:		
Depreciation and amortisation	78,287,572	77,805,135
(Gain)/loss on disposal of assets and liabilities	-	-
(Gain)/loss on inventory count	41,802	193,720
Fair value adjustments - financial assets	886,215	(374,946)
Finance cost - non-current borrowings	107,773	240,826
Finance costs - finance leases	552,359	818,300
Debt impairment - Provision for doubtful debts (Exchange Service charges)	199,863,755	211,707,655
Debt Impairment losses - Provision for doubtful debts (Non-exchange - Rates)	29,061,396	19,225,939
Debt Impairment losses - Provision for doubtful debts (Non-exchange - Fines)	1,838,217	13,892,460
Contribution to Employee Benefit Liabilities - Non-current	4,094,917	2,447,000
Contribution to Employee Benefit Liabilities - Current	(864,917)	418,000
Finance costs - Trade and other payables	2,504,323	1,655,749
Profit on disposal of assets	-	(1,513,879)
Finance cost - Discounting of provision for rehabilitation of landfill site	3,282,338	5,713,988
Assets received as donations	(6,626,004)	(25,741,033)
Provision for staff bonus	718,518	527,466
Provision for staff leave	4,080,432	1,542,238
Employee cost - actuarial gains	(126,540)	2,687,000
Increase in Long-term receivables	522,099	(203,536)
Changes in working capital:		
Inventories	195,491	(260,513)
Receivables from exchange transactions	(255,410,038)	(241,580,088)
Trade receivables from non-exchange transactions - Rates	(44,351,184)	(23,187,718)
(Increase)/Decrease in Trade receivables from non-exchange transactions - Fines	(2,280,087)	(3,965,742)
(Increase)/Decrease in Other Financial Assets	23,667	-
(Increase)/Decrease in VAT	5,186,055	8,000,463
Unspent conditional grants and receipts	18,755,070	7,472,628
Increase/(Decrease) in Trade payables from exchange	16,304,376	(538,917)
Increase/(Decrease) in Consumer deposits	1,376,510	3,106,976
	109,275,998	62,513,313

40. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	2,717,665	12,810	2,730,475
Receivables from exchange transactions	-	236,351,195	236,351,195
Receivables from non-exchange transactions	-	69,344,706	69,344,706
Cash and cash equivalents	-	44,671,390	44,671,390
Receivables from non-exchange transactions (non-current)	-	45,118	45,118
	2,717,665	350,425,219	353,142,884

Financial liabilities

	At amortised cost	Total
Consumer deposits	25,477,270	25,477,270
Employee benefit obligation	57,784,460	57,784,460
Payables from exchange transactions	278,886,828	278,886,828

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
40. Financial instruments disclosure (continued)		
VAT Payable	11,092,173	11,092,173
Finance lease obligation	3,828,031	3,828,031
Unspent conditional grants and receipts	27,116,049	27,116,049
	404,184,811	404,184,811

2019

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	3,603,880	36,477	3,640,357
Receivables from exchange transactions	-	180,804,912	180,804,912
Receivables from non-exchange transactions	-	53,613,048	53,613,048
Cash and cash equivalents	-	13,877,193	13,877,193
Receivables from non-exchange transactions (non- current)	-	567,217	567,217
	3,603,880	248,898,847	252,502,727

Financial liabilities

	At amortised cost	Total
Consumer deposits	24,100,760	24,100,760
Employee benefit obligation	54,681,000	54,681,000
Long term loan	1,634,939	1,634,939
Payables from exchange transactions	255,279,180	255,279,180
VAT Payable	5,906,118	5,906,118
Finance lease obligation	7,175,623	7,175,623
Unspent conditional grants and receipts	8,360,979	8,360,979
	357,138,599	357,138,599

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	92,382,229	111,712,998
Total capital commitments		
Already contracted for but not provided for	92,382,229	111,712,998
Total commitments		
Total commitments		
Authorised capital expenditure	92,382,229	111,712,998

This committed expenditure relates to other: specify and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Operating Leases relate to the rental of machinery, vehicles and plant & equipment for construction and waste collection purposes, on an ad hoc basis from a panel of contractors on instances where the municipal-owned plant and machinery have breakdowns or any other reasons where the municipal plant and machinery are not available. The tender is awarded on a rotational basis. The Municipality does not have an option to purchase the leased asset at the expiry of the lease period. These rentals are classified as contingent rentals due to uncertain lease periods. The operating lease payments are therefore not subject to straight-lining and it is impracticable to disclose the future minimum lease payments expected to be paid for each of the following periods as required by GRAP 13:

- no later than one year
- later than one year and not later than five years
- later than five years

The municipality has operating lease agreements for the following classes of assets:

construction and waste collection vehicles	-
machinery and equipment	-

Operating leases - as lessor (income)

Operating Leases relate to property leases for municipal houses. The lessee does not have an option to purchase the leased asset at the expiry of the lease period. These rentals are classified as contingent rentals due to some uncertain lease periods which are on a month to month basis. The operating lease payments are therefore not subject to straight-lining and it is impracticable to disclose the future minimum lease payments expected to be received for each of the following periods as required by GRAP13:

- no later than one year
- later than one year and not later than five years
- later than five years

The municipality has operating lease agreements for the following classes of assets:

- Buildings

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
42. Contingencies		
Housing loans		
Various attorneys		
Ukwazi Force CC / Metsimaholo Municipality	-	6,500,000
SAMRO NPC / Metsimaholo Municipality	-	500,000
Isak A van der Watt/Metsimaholo LM	-	47,265
Nkadimeng M R & Mofokeng M O / Metsimaholo Municipality	-	100,000
Steven Murray & associates/Metsimaholo Municipality	-	41,034
Calitz ACJ/Metsimaholo Municipality	-	11,182
Johan van Zyl/Metsimaholo Municipality	-	12,135
Christo van der Vyfer/Metsimaholo Municipality	-	13,186
Multi Talent/Metsimaholo Municipality	-	20,790
Tjatja Nelson/Metsimaholo Municipality	-	110,060
Teboho Sylvester Khoathela //Metsimaholo LM	-	22,322
DDP Valuers (Pty) LTD/Metsimaholo Municipality	-	350,000
Loots Willem/Metsimaholo Municipality	-	51,913
Du Plooy T L/Metsimaholo Municipality	-	15,000
Mkwanazi Melato Inc		
Metsimaholo Municipality / J Schoultz	-	58,364
Dreyer Albertus JP /Metsimaholo Municipality	-	5,713,000
Ponoane Attorneys		
Ernest L Lehani / Metsimaholo Local Municipality	-	176,348
Thabo Twala / Metsimaholo Local Municipality	100,000	77,729
Taats - EFF/Metsimaholo Local Municipality	-	209,455
Safcrete Construction/Metsimaholo Municipality	60,000	24,419,308
Liezel Trust / Metsimaholo Local Municipality	300,000	-
MEC- Fisher group / Metsimaholo Local Municipality	80,000	-
Mokobe SS / Metsimaholo Local Municipality	85,000	-
Dreyer /Metsimaholo Municipality	150,000	-
Lawrence Melato Attorneys		
John Motloun/ Metsimaholo Local Municipality	154,906	-
Raphela Incorporated Attorneys and Conveyancers		
SM Molala/Metsimaholo Local Municipality	1,611,549	-
Lizelle Trust/Metsimaholo Local Municipality	200,000,000	-
	202,541,455	38,449,091

Other contingent liabilities

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.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand 2020 2019

43. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Ultimate controlling entity	
Councillors	
Nthebe MD	Alaska One Enterprise (Pty) Ltd
Grobbelaar JJ	In his footprints (Non-profitable Charity organisation
Semonyo L S	MATLA Dynamics
Tshongwe SL	WHIPHOLD
	Omqusi-Amantimand Amahle Trading and Projects (PTY)(LTD)
	Flavius Mareka TVET College - ministerial appointee
	Life V/A Kasi -private company
	Botho Keng PTY LTD
	Financial Penicea PTY LTD
	MONYESEMANE PTY LTD
	Gojeni Project - construction
	Themba Mtshali construction
	Phuthuma Natai
	Jacques Barnard Consultants
	Eclipz Doggy Parlour
	Ingwe Emergency Fire and Risk Consultants
	Name
	Afriscapes CC (Capacity building)
	MTN Shares
	Refer to note]
	Refer to note
	Refer to note
Key management	
Molala SM	
Ndaba M D	
Post employment benefit plan for employees	
Members of key management	
Executive Council Members	

There were no transactions with the above listed entities subject to control by council members.

Services rendered to Related Parties

Councillors 2020	Name	Rates Charges	Service Charges	Interest	Sundry Charges	Outstanding Balances
Executive Mayor Proportional	Tsongwe SL	7,012	23,596	280	-	11,079
Councillor: Proportional	Du Toit T	8,718	57,971	945	-	15,308
Councillor: Proportional	Leotlela M	650	716	776	-	23,796
Councillor: Proportional	Malindi MJ	650	1,369	-	-	5,340
Councillor: Proportional	Maseko ME	650	4,023	376	-	52,833
Councillor: Proportional	Mashia VL	1,219	12,479	199	769	101,154
Councillor: Proportional	Matwa SM	650	1,265	56	-	17,659
Councillor: Proportional	Mofokeng KB	600	977	443	-	8,236
Councillor: Proportional	Mofokeng TH	4,928	15,635	3	-	4,775
Councillor: Proportional	Mohapi P	600	333	345	-	5,797
Councillor: Proportional	Motaung TA	1,706	1,001	963	-	15,840
Councillor: Proportional	Motjeane SM	3,743	41,061	464	270	128,254
Councillor: Proportional	Motloung TM	2,656	1,987	-	769	24,239
Councillor: Proportional	Nhlapo LL	871	2,663	-	-	1,142
Councillor: Proportional	Poho MS	650	4,399	6	-	11,276
Councillor: Proportional	Semonyo LS	1,800	8,371	18	-	571
Councillor: Proportional	Taats TJ	650	3,882	459	-	7,964
Councillor: Proportional	Tsotetsi JL	1,185	33,226	486	-	76,614
Councillor: Proportional	Van Heerden L J	6,704	15,270	-	-	1,112
Councillor: Proportional	Zwane ZJ	6,728	6,434	7	-	1,426
Councillor: Ward 1	Mokoena MP	650	927	589	-	8,787
Councillor: Ward 2	Molawa JM	650	6,657	-	-	553
Councillor: Ward 3	Telane MM	650	25,034	-	-	102,446
Councillor: Ward 4	Nnune GB	650	5,172	6	-	3,391

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand			2020		2019	
43. Related parties (continued)						
Councillor: Ward 5	Kobo SS	650	3,912	-	-	29,794
Councillor: Ward 6	Nkheloane M	650	8,273	120	-	56,444
Councillor: Ward 7	Mahlaela PM	1,374	5,531	-	270	11,411
Councillor: Ward 8	Nteso SJ	1,480	6,239	1,320	-	109,478
Councillor: Ward 9	Dywili NN	2,274	7,025	356	270	29,745
Councillor: Ward 10	Mtshali NM	5,728	8,751	2,640	540	84,455
Councillor: Ward 11	Mabasa KT	1,421	6,300	-	-	(3,675)
Councillor: Ward 12	Makhefu LA	1,262	642	-	-	196
Councillor: Ward 13	Mosokweni FD	853	5,273	260	-	63,678
Councillor: Ward 14	Van der Merwe FJ	7,297	36,233	-	-	2,781
Councillor: Ward 15	Grobbelaar JJ	7,770	5,729	11	-	(234)
Councillor: Ward 16	Barnard JJ	6,728	16,468	-	-	1,740
Councillor: Ward 17	Burger GS	7,836	12,196	-	-	11
Councillor: Ward 18	Meyer R	13,496	12,471	-	-	2,274
Councillor: Ward 19	Mare AK	1,279	716	-	-	(558)
Councillor: Ward 20	Fisher L	1,863	9,844	79	-	1,259
Councillor: Ward 21	Mokoena NP	650	13,057	1	-	55,448
Subtotal	-	117,581	433,108	11,208	2,888	1,073,839
		117,581	433,108	11,208	2,888	1,073,839

Section 57 personnel 2020		Name	Rates Charges	Service Charges	Interest	Sundry Charges	Outstanding Balances
Acting Municipal Manager	Mathe M		8,272	11,341	2	270	2,704
Acting Municipal Manager and Director Social Services	Mokoena SJ		18,024	55,583	2	396	9,028
Acting Director Corporate Services	Molotsi B		10,274	11,116	2,583	3,930	45,577
Acting Director Corporate Services	Moholi KA		3,519	7,869	3	-	696
Acting Director Social Services	Alberts G		9,752	44,242	-	126	2,019
Acting Director LED	Theko M		15,760	19,944	2,583	3,929	11,673
Subtotal		-	65,601	150,095	5,173	8,651	71,697
			65,601	150,095	5,173	8,651	71,697

Councillors 2019		Name	Rates Charges	Service Charges	Interest	Sundry Charges	Outstanding balances
Executive Mayor Proportional	Tsongwe SL		5,290	12,511	44	-	5,867
Councillor: Proportional	Du Plooy A		5,290	3,497	-	285	(4,485)
Councillor: Proportional	Du Toit T		9,468	41,365	1,033	-	11,865
Councillor: Proportional	Leotlela M		480	609	752	-	21,779
Councillor: Proportional	Malindi MJ		480	1,478	15	-	5,252
Councillor: Proportional	Maseko ME		480	2,824	303	-	10,839
Councillor: Proportional	Mashia VL		667	17,761	81	515	86,487
Councillor: Proportional	Matwa SM		480	1,116	99	258	20,046
Councillor: Proportional	Mofokeng KB		480	573	487	-	7,768
Councillor: Proportional	Mofokeng TH		3,067	10,785	-	-	(48)
Councillor: Proportional	Mohapi P		480	300	311	-	4,517
Councillor: Proportional	Motaung TA		480	789	849	-	12,439
Councillor: Proportional	Mothale S		-	5,762	1,111	-	16,673
Councillor: Proportional	Motjeane SM		1,200	28,435	419	-	86,258
Councillor: Proportional	Motloung TM		667	2,266	-	515	18,827
Councillor: Proportional	Nhlapo LL		480	(408)	-	-	3,176
Councillor: Proportional	Nyembe B V		480	5,998	1,483	-	21,818
Councillor: Proportional	Poho MS		667	3,981	154	-	17,621
Councillor: Proportional	Semonyo LS		845	8,430	44	-	546
Councillor: Proportional	Taats TJ		480	3,669	127	-	4,625
Councillor: Proportional	Tsotetsi JL		480	7,875	407	-	42,320

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand		2020		2019		
43. Related parties (continued)						
Councillor: Proportional	Van Heerden L J	5,823	10,147	-	-	718
Councillor: Proportional	Zwane ZJ	5,467	5,247	1	-	1,210
Councillor: Ward 1	Mokoena MP	480	7,827	1,083	-	16,130
Councillor: Ward 2	Molawa JM	480	5,650	3	-	(911)
Councillor: Ward 3	Telane MM	480	29,050	-	-	77,408
Councillor: Ward 4	Nnune GB	480	3,029	12	-	1,121
Councillor: Ward 5	Kobo SS	480	7,886	-	-	30,344
Councillor: Ward 6	Nkheloane M	480	12,938	41	-	52,642
Councillor: Ward 7	Mahlaela PM	480	2,137	-	-	4,477
Councillor: Ward 8	Nteso SJ	933	6,537	1,330	1,248	100,439
Councillor: Ward 9	Dywili NN	1,289	6,187	353	-	24,508
Councillor: Ward 10	Mtshali NM	1,200	3,934	3,575	-	43,833
Councillor: Ward 11	Mabasa KT	667	5,309	-	-	2,617
Councillor: Ward 12	Makhefu LA	667	363	-	-	14
Councillor: Ward 13	Mosokweni FD	480	18,736	297	-	63,051
Councillor: Ward 14	Van der Merwe FJ	5,734	35,650	8	-	2,781
Councillor: Ward 15	Grobbelaar JJ	5,645	9,865	66	-	3,008
Councillor: Ward 16	Barnard JJ	4,667	11,033	-	-	1,369
Councillor: Ward 17	Burger GS	6,623	13,034	-	-	2,887
Councillor: Ward 18	Meyer R	11,913	20,229	57	-	1,673
Councillor: Ward 19	Mare AK	480	609	1	-	392
Councillor: Ward 20	Fisher L	667	5,959	204	-	1,564
Councillor: Ward 21	Mokoena NP	480	8,981	239	-	31,944
Subtotal	-	88,536	389,953	14,989	2,821	857,409
		88,536	389,953	14,989	2,821	857,409

Section 57 Personnel 2019		Name	Rates Charges	Service Charges	Interest	Sundry Charges	Outstanding Balances
Acting Municipal Manager	Steenkamp GP		7,068	12,870	-	-	944
Acting Director Social Service	Moshodi M D		4,578	6,378	-	-	794
Acting Director LED	Theko M		11,468	24,758	88	-	2,037
Subtotal	-		23,114	44,006	88	-	3,775
			23,114	44,006	88	-	3,775

2020: Revenue of family of key management personnel and councillors that are employed at the municipality		Name	Family member	Department	Relationship	Remuneration	Total
Organisation Development and Corporate Services	E Sediane	SS Sediane	Human Resources	Wife		906,268	906,268
Social Service	MD Moshodi	DB Moshodi	Finance	Wife		235,727	235,727
Councillor	NN Dywili	N Dywili	Parks	Wife		376,512	376,512
Councillor	PM Mahlaela	RM Mahlaela	Technical Services	Daughter		141,143	141,143
Subtotal	-	-	-	-		1,659,650	1,659,650
						1,659,650	1,659,650

2019: Revenue of family of key management personnel and councillors that are employed at the municipality		Name	Family member	Department	Relationship	Remuneration	Total
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Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand					2020	2019
43. Related parties (continued)						
Organisation Development and Corporate Services	E Sediane	SS Sediane	Human Resources	Wife	860,994	860,994
Social Service	MD Moshodi	DB Moshodi	Finance	Wife	223,428	223,428
Councillor	NN Dywili	N Dywili	Parks	Wife	356,395	356,395
Councillor	PM Mahlaela	RM Mahlaela	Technical Services	Daughter	133,262	133,262
Councillor	NM Mtshali	VA Mtshali	Waste managment	Son	133,097	133,097
Subtotal	-	-	-	-	1,707,176	1,707,176
					1,707,176	1,707,176

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Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand

43. Related parties (continued)

Remuneration of management

Management class: Councillors

2020

	Basic salary	Other benefits received	Total
Name			
Mayoral committee members	5,391,896	326,400	5,718,296
Mayor	897,450	40,800	938,250
Chief Whip	673,987	40,800	714,787
Speaker	718,678	40,800	759,478
Chairpersons Section 79 Committees	1,962,963	122,400	2,085,363
Other Councillors	8,021,160	1,142,400	9,163,560
	17,666,134	1,713,600	19,379,734

2019

	Basic salary	Other benefits received	Total
Name			
Mayoral committee members	4,123,146	261,800	4,384,946
Mayor	862,171	40,800	902,971
Chief Whip	647,303	40,800	688,103
Speaker	690,275	40,800	731,075
Chairpersons Section 79 committees	933,929	61,200	995,129
Other Councillors	8,590,893	1,260,992	9,851,886
	15,847,717	1,706,392	17,554,110

Management class: Section 57 personnel - Refer to Note 30

Metsimaholo Local Municipality

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Figures in Rand 2020 2019

44. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Current Assets					
Inventories		1,400,640	-	-	1,400,640
Other financial assets		3,265,411	-	-	3,265,411
Receivables of exchange transactions		151,237,665	(305,187)	-	150,932,478
Receivables of non- exchange transactions		61,766,820	(2,188,833)	-	59,577,987
Cash and cash equivalents		21,042,894	-	-	21,042,894
VAT receivable		2,094,345	-	-	2,094,345
Non-current Assets		-	-	-	-
Investment property		295,221,476	-	150,736,507	445,957,983
Property Plant and equipment		1,359,565,341	6,356,822	(156,126,507)	1,209,795,656
Intangible Assets		3,484,671	-	1,657,017	5,141,688
Heritage Assets		561,001	-	3,732,983	4,293,984
Long-term receivables		363,681	-	-	363,681
Current liabilities		-	-	-	-
Consumer deposits		(20,993,784)	-	-	(20,993,784)
Finance lease obligation		(3,257,767)	-	-	(3,257,767)
Current portion of long-term liabilities		(1,501,886)	-	-	(1,501,886)
Payables from exchange transactions		(226,925,897)	(25,166,747)	-	(252,092,644)
Employee benefit obligation		(4,147,000)	-	-	(4,147,000)
Unspent grants		(1,672,391)	784,040	-	(888,351)
Non-current liabilities		-	-	-	-
Finance lease obligation		(7,175,623)	-	-	(7,175,623)
Employee benefit obligation		(44,982,000)	-	-	(44,982,000)
Long term loan -long term portion		(1,634,939)	-	-	(1,634,939)
Provisions		(77,980,482)	(643,495)	-	(78,623,977)
Net Assets		-	-	-	-
Accumulated Surplus		(1,509,732,176)	21,163,400	-	(1,488,568,776)
		-	-	-	-

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019		
44. Prior-year adjustments (continued)				
2019				
Note	As previously reported	Correction of error	Re-classification	Restated
Inventories	1,467,433	-	-	1,467,433
Other financial assets	3,640,357	-	-	3,640,357
Receivables from exchange transactions	152,499,183	(1,326,643)	29,632,374	180,804,914
Receivables from non-exchange transactions	67,416,533	(2,624,672)	(11,178,816)	53,613,045
Cash and cash equivalents	13,877,193	-	-	13,877,193
Fruitless and wasteful expenditure recoverable	18,451,758	-	(18,451,758)	-
Non Current assets				
Investment property	295,200,836	-	150,736,506	445,937,342
Property, plant and equipment	1,390,096,253	(10,024,936)	(156,126,505)	1,223,944,812
Intangible assets	2,532,182	-	1,657,017	4,189,199
Heritage assets	561,001	133,986	3,732,982	4,427,969
Receivables from exchange transactions	1,643,807	(1,076,590)	-	567,217
Current liabilities				
Payables from exchange transactions	(222,661,126)	(34,126,357)	1,508,303	(255,279,180)
VAT payable	(5,906,118)	-	-	(5,906,118)
Finance lease obligation	(3,347,599)	-	-	(3,347,599)
Consumer deposits	(22,590,657)	-	(1,510,103)	(24,100,760)
Unspent conditional grants and receipts	(9,145,020)	784,040	-	(8,360,980)
Employee benefit obligation	(4,565,000)	-	-	(4,565,000)
Short term portion -long term loan	(1,634,939)	-	-	(1,634,939)
Non- current liabilities				
Finance lease obligation	(3,828,028)	-	-	(3,828,028)
Employee benefit obligation	(50,116,000)	-	-	(50,116,000)
Provisions	(85,161,553)	823,587	-	(84,337,966)
Net Assets				
Accumulated surplus	(1,538,430,496)	47,437,585	-	(1,490,992,911)
	-	-	-	-

Statement of financial performance

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019			
44. Prior-year adjustments (continued)					
2019					
	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges		698,481,721	(4,962,133)	-	693,519,588
Licences and permits		105,569	-	(105,569)	-
Operational revenue		3,471,562	44,958	-	3,516,520
Income legal costs		2,755,174	-	-	2,755,174
Interest received - investment		3,408,691	-	-	3,408,691
Dividends received		115,088	-	-	115,088
Interest received - consumers		37,326,833	-	(5,791,011)	31,535,822
Sale of stands		396,849	-	-	396,849
Adjustments to assets		1,513,879	-	-	1,513,879
Fair value adjustments on other financial assets		374,946	-	-	374,946
Rental of facilities and equipment		5,852,302	1,990	-	5,854,292
Revenue from non-exchange transactions		-	-	-	-
Property rates		143,648,432	-	-	143,648,432
Government grants and subsidies		269,173,065	-	-	269,173,065
Public contributions and donations		25,690,347	8,233,090	-	33,923,437
Fines, penalties and forfeits		4,055,117	-	-	4,055,117
Interest, Dividends and Rent on Land Earned		-	-	5,791,011	5,791,011
Licence and permits		-	-	105,569	105,569
Employee related costs		(288,617,758)	(383,674)	932,582	(288,068,850)
Remuneration of councillors		(17,554,110)	-	-	(17,554,110)
Depreciation and amortisation		(72,118,140)	(5,686,996)	-	(77,805,136)
Finance costs		(8,063,255)	(738,587)	-	(8,801,842)
Lease rentals on operating lease		(7,671,201)	-	-	(7,671,201)
Debt impairment		(234,585,991)	-	-	(234,585,991)
Bulk purchases		(397,279,610)	(140,174)	-	(397,419,784)
Contracted services		(80,843,545)	(409,349)	(1,406,843)	(82,659,737)
Transfers and subsidies		(296,533)	(4,500)	-	(301,033)
Inventories losses/write-downs		(193,720)	-	-	(193,720)
General expenditure		(60,447,392)	(22,228,810)	474,261	(82,201,941)
Surplus for the year		28,698,320	(26,274,185)	-	2,424,135

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
44. Prior-year adjustments (continued)		
Reclassifications		
The following reclassifications adjustment occurred:		
Reclassification 1		
Protective clothing was classified as expenditure under Employee related costs but now re-classified as general expenditure		
Statement of financial performance		
Employee related cost	-	932,582
Operating expenditure	-	(932,582)
	-	-
Reclassification 2		
Advertisement revenue re-classified from sundry income to Billboards in note - Other income, R423 863		
Reclassification 3		
Re-classify subscription fees from other expenses to subscriptions and membership fees, note Operating expenditure, R25 600		
Reclassification 4		
Reclassifying cutting of grass from operating expenditure to contracted services.		
Statement of Performance		
Contracted services -contractors	-	(1,406,843)
Operating expenditure -Horticulture	-	1,406,843
	-	-
Reclassification 5		
Other service charges reclassify from Receivables from non- exchange transactions to Receivables from exchange transactions		
Statement of Position		
Receivables from non- exchange transactions	-	(6,867,590)
Receivables from exchange transactions	-	6,867,590
	-	-
Reclassification 6		
Other deposits classified from Payables from exchange transactions to Consumer deposits		
Statement of Position		
Consumer deposits	-	(1,510,103)
Payables from exchange transactions	-	1,510,103
	-	-
Reclassification 7		
Reclassify interest from exchange transaction to non-exchange transactions		
Statement of performance		

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
44. Prior-year adjustments (continued)		
Interest, dividends and rent on land	-	5,791,011
Interest Consumers	-	(5,791,011)
	-	-
Reclassification 8		
Fruitless expenditure transfer to Receivables from non-exchange transactions		
Statement of Position		
Fruitless expenditure	-	(18,451,758)
Receivables from non-exchange transaction	-	18,451,758
	-	-
Reclassification 9		
Reclassify prepaid electricity payments and Control, Clearing and Interface accounts from receivables from non-exchange transactions to Receivables from exchange transactions		
Statement of Position		
Receivables from exchange transactions -prepaid electricity payments	-	4,787,039
Receivables from exchange transactions - Control, clearing and interface accounts	-	17,975,945
Receivables from non-exchange transactions	-	(22,762,984)
	-	-
Reclassification 10		
Licenses fees and permits reclassified from Revenue from exchange transaction to revenue from non- exchanges transactions		
Reclassification 11		
Non-current assets reclassified to be in line with the general ledger and asset register		
Statement of Position		
Investments	-	150,736,506
Property plan and equipment	-	(156,126,505)
Intangible Assets	-	1,657,017
Heritage Assets	-	3,732,982
	-	-
Reclassification 12		
Reclassification of MIG between operating and capital grant - sewer connections Gortin, R9 336 250		
Reclassification 13		
Correction of classification of RD Cheques R1 800 as Receivables from exchange instead as Payables from exchange transactions.		
45. Comparative figures		
Certain comparative figures have been restated, refer to note 42 - Prior-year adjustments for the detail.		

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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46. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price 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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the 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 June 30, 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	25,477,270	-	-	-
Finance lease obligation	3,287,522	540,509	-	-
Payables from exchange transactions	278,886,828	-	-	-
Unspent conditional grants and receipts	27,116,049	-	-	-
At June 30, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	24,100,760	-	-	-
Finance lease obligation	3,347,599	3,828,028	-	-
Other financial liabilities	1,634,939	-	-	-
Payables from exchange transactions	255,279,180	-	-	-
Unspent conditional grants and receipts	8,360,979	-	-	-

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis, taking past payment behaviour into account.

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

Financial instrument	2020	2019
Cash and cash equivalents	44,671,390	13,877,193
Receivables from exchange transactions	236,351,195	180,804,912
Receivables from non-exchange transactions	69,344,706	53,613,048
Receivables from exchange transactions (non-current)	45,118	567,219
Other financial assets	2,730,475	3,640,357

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Market risk

Metsimaholo Local Municipality

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46. Risk management (continued)

Interest rate risk

The municipality invests funds in short term investments; as such, there is some cash flow risk.

The municipality's borrowings are in fixed rate instruments. During 2020 and 2019, the municipality's borrowings were denominated in the Rand.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income on the value of its holdings in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks on the manner which it manages and measures the risk.

Fair value interest rate risk

The municipality is exposed to fair value risk as it regularly invests capital in fixed deposit accounts. This risk is managed by investing the funds for less than a year (depending on cash flow requirements), thus allowing the interest rate to be updated regularly throughout the year.

Assuming all such investments at year end were invested for a year, the effect of a 1% change in interest rate (applicable for the entire year) would be: R50 263 (2019: R50 263).

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality at fair value of R2 730 475 (2019: R3 603 880). The impact of a 10% change in price would be R 271 767 (2019: R360 388).

This investment consists of equity in one listed entity (Sanlam Ltd), and the municipality does not actively trade in equity instruments or conduct any hedging activities.

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

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47. Going concern

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

Management considered the following matters in relation to the Going Concern position of Metsimaholo Local Municipality:

- (i) On 26 June 2020 Council adopted the 2020/21 to 2022/23 budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF), fund the elementary operations of the Municipality to support the ongoing delivery of municipal services to residents, reflected that the Budget was cash-backed over the three-year period.
- (ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council
- (iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the budget. The cash management processes is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- (iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an on-going inflow of revenue to support the on-going delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.
- (v) We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 1 542 244 802 and that the municipality's total assets exceed its liabilities by R4 767 981, 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.
- (vi) A cost containment program is in place and it is regarded by Council as a high priority in order to contain cost and improve service delivery.
- (vii) Metsimaholo Local Municipality is a grade 9 municipality it is in public interest that the municipality remains solvent and continue as an ongoing concern.

Taking the aforementioned into account, Management has prepared the Annual Financial Statements on the Going Concern Basis.

The COVID-19 pandemic continues to have a devastating impact on the macro economy and a significant component of the institutions which operate therein. The municipality has not been immune to the impact of the pandemic. The impact and duration of the COVID-19 pandemic in the Province and Metsimaholo's jurisdiction is uncertain at the date of this submission. Management of the municipality is however of the opinion that regardless of the possible effect of the COVID-19 pandemic, the municipality will continue to operate for the foreseeable future, which is usually regarded as at least the next 12 months from the reporting date, however not limited to this timeframe.

48. Events after the reporting date

Background information: National State of Disaster issued for the COVID-19 pandemic

A national state of disaster was declared on 15 March 2020 under the Disaster Management Act (Act no 57 of 2002) as result of the COVID-19 pandemic.

Submission of financial statements

Sections 126(1) and (2), 127(1) and (2), 129(1) and 133(2) of the Local Government Municipal Finance Management Act, 2003 (Act No 56 of 2003) states that the Accounting Officers for municipalities and municipal entities must submit financial statements within two months after the end of the financial year to the Auditor-General for auditing.

An exemption from the sections included the MFMA was issued in Government Gazette number 43582. This stated that the institution must comply with two months after the deadline in the applicable section.

This resulted in the date of submission of the financial statements being moved to 31 October 2020 (the previous statutory submission date being 31 August 2020). GRAP 14 on Events after the reporting date are all events, both favourable and unfavourable, that occur between the reporting date (30 June 2020) and the date when the financial statements are authorised for issue (two months after the financial statements were issued to the auditors). The period between the reporting date and the date on which the financial statements are authorised for issue, is thus extended due to the exemption provided above.

Metsimaholo Local Municipality

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48. Events after the reporting date (continued)

2020/21 Adjustments Budget

The 2020 National Supplementary Budget was delivered by the Minister of Finance in Parliament on the 24th of June 2020. The 2020 Supplementary Budget responds to the Covid-19 pandemic and its impact on the economy. This includes the R 20 billion allocation for local government announced by the President to assist in funding COVID-19 expenditure. This allocation consists of R11 billion added to the local government equitable share and just over R9 billion that was repurposed for the provision of water and sanitation and for sanitising public transport facilities within existing grant allocations to local government. In terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the municipal Budget and Reporting Requirements (MBRR), municipalities must adjust their 2020/21 MTREF budgets to account for revised funding allocations that were made available.

A letter was received from SASOL, indicating to withdraw the donations made to the municipality. Thus is the outcome of assets that were donated by SASOL, were attached to be auctioned on 15th August 2020. The action was stopped in time and no assets on the municipality were auctioned. Sasol requested that the two vehicles, bailer and grass cutting equipment that were donated be returned to SASOL.

The municipality used this adjustments budget to reprioritise the 2020/21 budget to respond to the impact of the COVID-19 pandemic on the budget.

The following adjustments to grant funding were received:

R'000		2020/21 Main allocation	Adjustments	Total
Equitable Share	-	202,505	31,224	233,729
Integrated National Electrification Programme Grant	-	23,956	(18,956)	5,000
Upgrading of Deneysville WWTW	-	25,000	(5,000)	20,000
Regional Bulk Infrastructure Grant	-	25,000	24,685	49,685
	-	276,461	31,953	308,414

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

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49. COVID-19 EXPENDITURE

Background information

On 31st December 2019 the government in Wuhan, China, confirmed that health authorities were treating dozens of pneumonia cases of unknown cause. A few days later, Chinese researchers identified a new virus which had infected many people in Asia, but at that point time there was no evidence that the virus was readily spread by humans. The first death in China as a result of the virus was reported on 11th January 2020, shortly before one of China's biggest holidays whereby millions of people travelled across the country. According to the first situation report by World Health Organisation (W.H.O), the first confirmed cases outside China had occurred in Japan, South Korea and Thailand by 20th January 2020. The next day the USA reported their first confirmed case where a man in his 30s developed symptoms after returning from his trip to Wuhan, China.

A "public health emergency of international concern" was officially declared by the W.H.O. on 30th January 2020. On 11th February 2020 the W.H.O. proposed that 'Covid-19' be the official name for the disease that the coronavirus causes, an acronym that stands for coronavirus disease 2019. On 14th February 2020 France announced a death by from coronavirus. This was the fourth death from the virus outside of mainland China. On 23rd February 2020 Italian officials locked down 10 towns after a cluster of cases emerged near Milan. The World Health Organisation declared the COVID- 19 outbreak as a global pandemic on 11th March 2020.

Covid-19 in South Africa

Although the coronavirus was international news since December 2019, it was only on 5th March 2020 that the South African National Institute for Communicable Diseases confirmed that a suspected case of COVID-19 had tested positive. On 23rd March 2020 President Cyril Ramaphosa announced the nationwide lockdown. On 30th March 2020 the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Thus, there will not be any prior year information regarding expenditure in lieu of Covid-19.

The table below indicates the total Covid-19 response expenditure (excluding VAT) for the period ending 30 June 2020:

COVID-19 Expenditure

Operating Expenditure

Operating expenditure: Inventory	1,357,918	-
Operating expenditure: Inventory - food parcels	326,800	-
Operating expenditure: Advertisement	25,500	-
Operating expenditure: Protective clothing	532,871	-
Contracted Services: Loudhauling	220,500	-
Employee related cost: COVID 19 Allowance	640,500	-
Employee related cost: Overtime	1,164,296	-
	4,268,385	-

The table below indicates the Funding sources for the total Covid-19 response expenditure (excluding VAT) for the period ending 30 June 2020:

No COVID 19 expenditure was classified as irregular expenditure

Funding sources of COVID-19 exp

Own Revenue	3,941,585	-
Public contributions	28,800	-
Disaster Management Grant	298,000	-
	4,268,385	-

Metsimaholo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
50. Unauthorised expenditure		
Opening balance as previously reported	96,945,336	19,380,908
Opening balance as restated	96,945,336	19,380,908
Add: Expenditure identified - current	-	77,564,428
Closing balance	96,945,336	96,945,336

Unauthorised expenditure: Budget overspending – per municipal department

Disciplinary steps taken/criminal proceedings

Recoverability of unauthorised expenditure

Details of unauthorised expenditure

Technical Services	-	77,094,915
Budget: R686 244 230		
Actual expenditure: R763 339 145		
Social Services	-	469,513
Budget: R140 075 130		
Actual: R140 544 643		
	-	77,564,428

51. Fruitless and wasteful expenditure

Opening balance as previously reported	28,191,960	5,819,225
Opening balance as restated	28,191,960	5,819,225
Add: Expenditure identified - current	2,777,794	725,281
Add: Expenditure identified - prior period	1,776,348	21,647,454
Closing balance	32,746,102	28,191,960

Expenditure identified in the current year include those listed below:

Analysis of expenditure

Telkom- payment of telephone accounts. Interest charged on the late payment of accounts
 Sheriff Sasolburg - payment of interest
 Auditor General - interest on late payment
 Sasol Infrachem -interest on the late payment for sewer treatment
 ESKOM - interest paid on the late payments of electricity accounts
 Free State Provincial Government - late payment of license fees
 Metsimaholo Sports complex - work not done
 SA Post Office - interest on late payment
 Department of Water - interest on late payment
 SARS: Penalty & Interest charged VAT 201 Rand Water
 Safcrete -interest paid
 Auqa: Cost and interest paid to lawyers
 Lizelle trust Interest 17/18
 Lizelle trust Interest 18/19
 Lizelle trust Interest 19/20

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Figures in Rand	2020	2019
52. Irregular expenditure		
Opening balance as previously reported	352,547,150	255,058,412
Opening balance as restated	352,547,150	255,058,412
Add: Irregular Expenditure - current	37,444,981	58,040,885
Add: Irregular Expenditure - prior period	20,007,003	39,447,853
Closing balance	409,999,134	352,547,150
Analysis of expenditure awaiting condonation per age classification		
Not submitting the minimum quotations for acquiring goods and services	618,241	4,730,350
Other (lowest quotation not selected, not on CSD, etc)	2,528,559	24,091
Contract / SLA expired i.e. exceeds three years, no valid approval for extension	16,114,747	48,256,560
Work performed without authorised order being issued	6,232,358	1,882,342
Regulation 32 Non- compliance (no cost/benefit analysis performed)	1,643,171	3,142,542
Not regarded as deviations	10,307,905	-
Identified as per audit 2019	20,007,003	-
	57,451,984	58,035,885
53. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	3,721,289	2,926,730
Amount paid - current year	(3,721,289)	(2,926,730)
	-	-
PAYE and UIF		
Opening balance	3,938,347	3,503,916
Current year subscription / fee	49,650,601	47,306,017
Amount paid - current year	(49,263,770)	(46,871,586)
Balance unpaid (Included in Creditors)	4,325,178	3,938,347
Pension and medical aid deductions		
Current year subscription / fee	75,964,649	69,920,589
Amount paid - current year	(72,554,715)	(69,920,589)
Balance unpaid (Included in Creditors)	3,409,934	-
VAT		
VAT payable	11,092,173	5,906,118

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

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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53. 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 June 30, 2020:

June 30, 2020	Outstanding more than 90 days R	Total R
Dywilli N N (Acc no 562734	- 27,256	27,256
Kobo S S (Acc no 830352 and 872353)	- 28,520	28,520
Leotlele P R (Acc no 536637 and 592959)	- 23,354	23,354
Mahlaela P M (Acc no 108353)	- 10,678	10,678
Malindi M J (Acc no 595729)	- 5,340	5,340
Matwa S M (Acc no 59327 and 872070)	- 17,659	17,659
Maseko M (Acc no 109049 ,590648)	- 51,841	51,841
Mokoena N (Acc no 565105 , 594135 and 791179)	- 54,524	54,524
Mothale S (Acc no 12921)	- 21,938	21,938
Mokoena P M (Acc no 568419)	- 8,171	8,171
Mosokweni F (Acc no 830353)	- 62,227	62,227
Motaung T A (Acc no 537934	- 14,992	14,992
Motjeane S (Acc no 106180)	- 117,975	117,975
Mtshali N M (Acc no 103466)	- 40,024	40,024
Nkheloane M (Acc no 108037,575013 and 592910)	- 54,372	54,372
Nnune J G (Acc no 512468)	- 2,073	2,073
Poho M S (Acc no 589204)	- 10,341	10,341
Taats T (Acc no 553229)	- 7,459	7,459
Telane M M (Acc no 512521)	- 100,591	100,591
Tshongwe S L (Acc no 575987)	- 3,169	3,169
Tsotetsi L J (Acc no 511192)	- 74,876	74,876
	- 737,380	737,380

June 30, 2019	Outstanding more than 90 days R	Total R
Dywilli N N (Acc no 108921)	- 21,018	21,018
Kobo S S (Acc no 526816)	- 29,388	29,388
Leotlela M G (Acc no 536637 and 592959)	- 21,307	21,307
Mahlaela P M (Acc no 108353)	- 3,894	3,894
Malindi M J (Acc no 595729)	- 5,130	5,130
Matwa S M (Acc no 593277, 612908 and 872070)	- 19,351	19,351
Maseko M (Acc no 109049 and 590648)	- 47,741	47,741
Mokoena N P (Acc no 596487, 791179, and 594135)	- 52,299	52,299
Mothale S (Acc no 12921)	- 15,141	15,141
Mokoena P M (Acc no 553206)	- 15,498	15,498
Mokoena T S (Acc no 590215)	- 51,146	51,146
Mosokweni F (Acc no 108066 3)	- 62,002	62,002
Motaung T A (Acc no 537934)	- 11,802	11,802
Motjeane S (Acc no 106180)	- 74,490	74,490
Mtshali N M (Acc no 103466)	- 39,922	39,922
Nkheloane M (Acc no 108037,575013 and 592910)	- 45,821	45,821
Nyaku D J (Acc no 830645)	- 11,702	11,702
Poho M S (Acc no 512681)	- 17,541	17,541
Taats T (Acc no 553229)	- 2,084	2,084
Telane M M (Acc no 512521)	- 69,386	69,386
Tsotetsi L J (Acc no 511192)	- 35,713	35,713
	- 652,376	652,376

Metsimaholo Local Municipality

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Figures in Rand	2020	2019
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53. 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 City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

54. 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.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Summary of deviations

Emergency	2,798,479	8,817,928
Other	216,518	4,590
Exceptional/unpractical	417,346	1,872,047
Sole suppliers	407,583	455,673
COVID 19 emergency	1,988,857	-
	5,828,783	11,150,238

55. Budget differences

Material differences between budget and actual amounts

Statement of financial performance:

1. Service charges - Electricity sales were less than the budgeted. Meter readings not taken due to lock down of COVID 19
- Water restrictions contributed to lower revenue on water as well as certain areas that used water without being billed. Meter readings not taken due to lock down of COVID 19
- Lower income from the dumping sites than budgeted.
- Collection from sewerage and refuse services were higher than the budget
2. Licenses and permits - The money collected on licenses and street trading was less than the budgeted amount; this might be a result of generally difficult economic circumstances for traders.
3. Other income - cemetery fees and entrance fees at the facilities were lower than anticipated in the budget. Entrance fees were lower due to the close of the resorts from end of March 2020 due to the COVID 19 lockdown
4. Income legal cost - Fewer actions were taken against consumers than anticipated with the budget. No actions for debt recovery were taken during COVID 19 lockdown
5. Interest received - Interest received on investments was higher than the budget and dividends on external investments were received in June 2019.
6. Dividends on the Sanlam Pty Ltd shares were higher than anticipated.
7. Property Rates - Assessment rates billed for the year were less than budgeted. The new valuation was implemented from 1 July 2019 and classification between categories changed.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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55. Budget differences (continued)

8. Government grants and subsidies - less than the budget due to the R8 361 000 from Integrated National Electrification Programme Grant that was withheld and receiving less money the Equitable share. The spending on projects financed by MIG and WSIG were not completed and roll over of funds were requested.

9. Public contributions and donations - the budget did not anticipate the extent of the donations received as these are inherently difficult to predict.

10. Fines revenue was significantly lower the budget, as the municipality was unable to issue cameras based on fines during the year. The service provider cancelled the contact at the end of August 2020 and no new sytem was implemeted.

11. Employee costs were lower than budgeted as many key management positions and general vacancies were not filled during the year. Directors were not appointed in the financial year.

12. The councillors' remuneration actual expenditure was lower than the budgeted amount. The increase for councillors was lower than anticipated.

13. Depreciation - a number of significant assets were brought in during the asset verification exercise.

14. Finance cost - the actual was higher than the budgeted amount. The interest on late payments of service providers as well as interest paid to Lizelle Trust due to Court case.

15. Lease rental on operating lease – the actual amount was lower than the budgeted amount. Control over expenditure and the lockdown due to COIVD 19 result in lower expenditure.

16. Non-payment by debtors lead to a higher impairment expense; in addition, the impairment calculation impaired indigent debtors at 100%. The implementation of Operation Patala was not sucessful. The economic influence of COVID 19 also contribute to lower payments.

17. Water purchased were lower than the budgeted amount by 93.35% and electricity purchases were lower than the budgeted amount by 94.10%. A national lockdown was enforced from end of March 2020. It result in businesses and industries either scale down or closed for a period or permanent. This result in a lower demand for water and elctricity. The growth in supply of elctricity also did not realised.

18. Transfers and subsidies were higher than the budgeted amount due to bursaries that were paid during the year and more pauper burial cost .

19. Due to cost containment measures, the spending on contracted services was lower than budgeted for. The cash flow as well as the lock down also contibute to lower expenditure.

20. Every effort was made to contain costs, resulting in lower general expenditure.

21. The unit price of Sanlam dereased when the state of disaster was decleared.

Metsimaholo Local Municipality

Annual Financial Statements for the year ended June 30, 2020

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Figures in Rand	2020	2019
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55. Budget differences (continued)

22. The sale of land was less than anticipated. The projects were not implemented

Statement of Financial Position

23. The Stores sections was not fully in operation as problems were experienced with the fuel pumps and security systems not in place

24. Other financial assets - due to COVID 19 the share price is R20 per share lower than the previous year

25. The collection rate was lower than anticipated due to COVID 19 and the implementation of Operation Pataala that was not successful.

26. Included in cash and cash equivalents is the grant funds that was not spent.

27. Reclassifications were done on all categories in the fixed asset register.

28. The spending of grants were slow and due to cash constraints other capital projects were not implemented.

29. New loans were to be obtained as per capital budget that was approved by Council.

30. Payables from exchange transactions increase due to arrangement with ESKOM. Provision is also made for Compensation Commissioner as no assessment is received since 2016.

31. Unspent grants was not anticipated. Grant spending on capital projects were slow.

Metsimaholo Local Municipality

Appendix F

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

June 2020

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
			Sept	Dec	March	June	0	Sept	Dec	March	June	0	Sept	Dec	March	June			
SETA	LGSETA	-	-	596	124	130	-	-	180	189	200	-	-	-	-	-		Yes	
Local Government Financial Management Grant	National Treasury	-	2,235	-	-	-	-	286	307	917	725	-	-	-	-	-		Yes	
Expanded Public Works Programme Integrated Grant for Municipalities	National Treasury	-	290	-	346	521	-	368	301	427	61	-	-	-	-	-		Yes	
Water Services Infrastructure Grant	National Treasury	-	8,750	3,800	2,450	-	-	2,212	2,569	473	712	-	-	-	-	-		Yes	
Municipal Infrastructure Grant	National Treasury	-	20,661	12,585	18,406	-	-	6,448	15,058	4,776	8,043	-	-	-	-	-		Yes	
Integrated National Electrification Programme Grant(INEG)	National Treasury	-	-	3,000	7,000	-	-	-	3,897	-	6,102	-	-	8,361	-	-		Yes	
Regional Bulk Infrastructure Grant	National Treasury	-	4,951	-	-	-	-	-	-	-	4,951	-	-	-	-	-		Yes	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	36,887	19,981	28,326	651	-	9,314	22,312	6,782	20,794	-	-	8,361	-	-			

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