Maluti-a-Phofung Water SOC Ltd
Annual financial statements for
the year ended 30 June 2013

General Information

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
Nature of business and principal activities	Municipal entity providing basic water and sanitation services
Board of directors	
Non executive directors	Mokhesi N Netshivhodza MG
Acting chief executive officer	Mofokeng AM
Acting chief finance officer (CFO)	Mokwena T
Registered office	Old Government Building 2nd Industrial Area Phuthaditjhaba 9870
Business address	5 Andries Pretorius Street Harrismith 9880
Postal address	PO Box 666 Harrismith, 9880 or Private Bag X874 Phuthaditjhaba, 9870
Controlling entity	Maluti-a-Phofung Local Municipality
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Secretary	Companies House Secretarial Services (Pty) Ltd
Attorneys	Sunil Narian Incorporated

Index

Index

The reports and statements set out below comprise the annual financial statements presented to the board of directors:

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
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Index

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Companies Act of South Africa (Act 71 of 2008) and 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 municipal entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipal entity’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipal entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipal entity's annual financial statements. The annual financial statements have been examined by the municipal entity's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

Accounting Officer
Mofokeng AM

30 August 2013

Chief Executive Officer's Report

The accounting officer submits his report for the year ended 30 June 2013.

1. Incorporation

The municipal entity was incorporated on 20 September 2005 and obtained its certificate to commence business on the same day.

2. Review of activities Main

business and operations
The company is a municipal entity and a wholly owned subsidary of Maluti-a-Phofung Local Municipality. The municipal entity is engaged in supply of basic water, sanitation and revenue collection services in the Maluti-a-Phofung district namely: Phuthaditjhaba, Harrismith and Kestell.

The operating results and state of affairs of the municipal entity are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

3. Going concern

We draw attention to the fact that at 30 June 2013, the municipal entity had accumulated deficits of R(3,185,236) and that the municipal entity's total liabilities exceed its assets by R(3,184,936).

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

The ability of the municipal entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding from the parent municipality for the ongoing operations for the municipal entity.

4. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

5. Directors

The non-executive directors of the municipal entity during the year and to the date of this report are as follows:

Name Nationality Mokhesi N South African Netshivhodza MG
South African

6. Secretary

The secretary of the municipal entity is Companies House Secretarial Services (Pty) Ltd.

7. Parent municipality

The Maluti-a-Phofung Local Municipality entity owns 100% of the entity's shares and is the ultimate parent municipality.

Maluti-a-Phofung Water SOC Ltd

(Registration number 2005/033425/07) Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Restated Figures in Rand Note(s) 2013 2012

Assets

Current Assets Inventories Receivables from non-exchange transactions VAT receivable Receivables from exchange transactions Cash and cash equivalents

Non-Current Assets Property, plant and equipment

Total Assets

Liabilities

Current Liabilities Finance lease obligation Payables from exchange transactions

Total Liabilities

Net Assets

Share capital
Accumulated deficit

Total Net Assets

Legal form of entity

Nature of business and principal activities

Board of directors

Non executive directors

Acting chief executive officer

Acting chief finance officer (CFO)

Registered office

Business address

Postal address

Statement of Financial Performance

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
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Statement of Changes in Net Assets

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
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Cash Flow Statement

Maluti-a-Phofung Water SOC Ltd

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Index

Appropriation Statement

Legal form of entity Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008

Nature of business and principal activities Municipal entity providing basic water and sanitation services

Board of directors

Non executive directors Mokhesi N

2013

Financial performance									
410 Transfers	-	-	-	-		-	33,925,169		33,925,169
recognised - operational Other own	73,598,000	(3,536,000)	70,062,000	-		70,062,000	77,723,000		7,661,000
revenue	-	-	-	-		-	1,326,049		1,326,049
Total revenue (excluding capital transfers and contributions)	**73,598,000**	**(3,536,000)**	**70,062,000**	**-**		**70,062,000**	**112,974,218**		**42,912,218**

-

Legal form of entity Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008

-

Nature of business and principal activities Municipal entity providing basic water and sanitation services

Board of directors

Non executive directors Mokhesi N

Netshivhodza MG

Acting chief executive officer Molokeng AM

Surplus / (Deficit) (46,743,000) (1,103,000) (47,846,000) **(47,846,000) (274,854)** **47,571,146**

Surplus / (Deficit) for the year (46,743,000) (1,103,000) (47,846,000) **(47,846,000) (274,854)** **47,571,146 1 %**

Capital expenditure and funds sources

Total capital expenditure 4,600,000 -4,600,000 4,600,000 3,175,756 (1,424,244) 69 %

Maluti-a-Phofung Water SOC Ltd

(Registration number 2005/033425/07) Annual Financial Statements for the year ended 30 June 2013

Appropriation Statement

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
Nature of business and principal activities	Municipal entity providing basic water and sanitation services
Board of directors	
Non-executive directors	Mokhesi N

Cash flows

used) ---

		-(2,754,880)	(2,754,880) DIV/0 % DIV
cash from (used) ---		-(403,114)	(403,114) DIV/0 % DIV
5,356,842 DIV/0 % DIV/0 % operating Net cash from (used) ---	-5,356,842		
Net increase / --- (decrease) in cash and cash equivalents		-2,198,848	2,198,848
Cash and cash equivalents at the beginning of the year		-4,791,794	4,791,794
Cash and cash equivalents at year end		-6,990,642	(6,990,642)

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with the Municiapal 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 unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables / loans and receivables

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

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value (or current replacement cost where inventory are held for distribution or for consumption in the production process at no charge or for a nominal charge). Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable (service) 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 risk assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

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

Useful lives of property, plant and equipment and other assets

The municipal entity's management determines the estimated useful lives and related depreciation / amortisation charges for property, plant and equipment on a yearly basis. These assessments require judgements and assumptions to be made by management, which includes the asset's technological innovation, maintenance program and physical condition.

Effective interest rate

The municipality used the government bond rate to discount future cash flows.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.2 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 municipal entity; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

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

Where an asset is acquired at no cost or for a nominal cost, 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 municipal 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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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	**Average useful life**

Accounting Policies

1.2 Property, plant and equipment (continued)

Land Indefinite life Plant and machinery 10 years Furniture and fixtures 6 years
Motor vehicles 5 years Office equipment 6 years Computer equipment 3 years

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

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

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

1.3 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from the municipal entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, excluding rights granted by statue, regardless whether those rights are transferable or separate from the municipal entity or from other rights and obligations.

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 municipal entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

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

Accounting Policies

1.3 Intangible assets (continued)

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

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

Item Useful life
Computer software 3 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 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 intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.4 Financial instruments

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

Classification

The municipal entity 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
Trade and other receivables from exchange transactions Financial asset measured at amortised cost
Cash and cash equivalents Financial asset measured at amortised cost

The municipal entity 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
Trade and other payables from exchange transactions Financial liability measured at amortised cost

Initial recognition

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

The municipal entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipal entity measures a financial asset and financial liability, other than those subsequently measured at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipal entity measures all other financial assets and financial liabilities initially at its fair value.

Subsequent measurement of financial assets and financial liabilities

The municipal entity 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.

Accounting Policies

1.4 Financial instruments (continued)

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

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 rate 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 uncollectability in the case of a financial asset.

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 municipal entity 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 entity 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 municipal entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Gains and losses

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

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

1.4 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipal entity derecognises financial assets using trade date accounting.

The municipal entity derecognises a financial asset only when:

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

The carrying amount of the transferred asset is 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.

1.4 Financial instruments (continued)

Financial liabilities
The municipal entity 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).

1.5 Leases

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

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

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.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition. Subsequently inventories are measured at the lower of cost and net realisable value. Inventories are measured at the lower of cost and current replacement cost where they are held for:

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

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

1.6 Inventories (continued)

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula, except for water inventory which used the average cost method. The same cost formula is used for all inventories having a similar nature and use to the municipal entity.

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.

1.7 Non-current assets held for sale and disposal groups

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

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

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

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

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipal entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

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

The municipal entity 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. The recoverable amount of cash generating assets or cash generating unit is the higher of it's fair value losts to sell and before the end of the current reporting period.

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

Value in use

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

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

1.8 Impairment of cash-generating assets (continued)

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipal entity 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 municipal entity 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.

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

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

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

In allocating an impairment loss, the municipal 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.

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipal entity 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 municipal 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.

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.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipal entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

Identification

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

The municipal entity 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 municipal entity estimates the recoverable service amount of the asset.

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

The municipal entity 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 municipal entity estimates the recoverable service amount of that asset.

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

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

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

1.10 Share capital

Ordinary shares are classified as equity.

Accounting Policies

1.11 Employee benefits

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

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

The municipal entity recognises the expected cost of bonus, incentive and performance related payments when the municipal 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 municipal entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipal 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 municipal entity during a reporting period, the municipal 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, the municipal 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.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipal entity 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.

Accounting Policies

1.12 Provisions and contingencies (continued)

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 municipal entity 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 expenditure.

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

A constructive obligation to restructure arises only when the municipal entity:

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

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

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

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 municipal entity.

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 municipal entity; or
- a present obligation that arises from past events but is not recognised because: -it is not probably that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; -the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, 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; and
- 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 test 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 1.8 and 1.9.

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.

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

1.13 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 municipal entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipal entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipal entity 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 municipal entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

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

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity;
- 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 services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

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

Interest

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

1.14 Revenue from non-exchange transactions

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

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

Control of an asset arise when the municipal entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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

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

Recognition

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

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

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

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Measurement

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

When, as a result of a non-exchange transaction, the municipal entity 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 a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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 municipal entity and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipal entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been indentifiedin the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustments is made retrospectively as far as is practiable, and the prior year comparative are restated accordingly. Where necessary, comparative figureshave been reclassified to conform to changes in presentation in the current year. Refer to note 32 for detail.

1.17 Unauthorised expenditure

Unauthorised expenditure means: ➓ overspending of a vote or a main division within a vote; and

➓ 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.

Accounting Policies

1.17 Unauthorised expenditure (continued)

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 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 municipal entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

1.20 Offsetting

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

1.21 Conditional grants and receipts

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

1.22 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non adjusting events after the reporting date have been disclosed in the notes to the annual financial statements.

1.23 Budget information

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

The approved budget covers the fiscal period from 01/07/2012 to 30/06/2013.

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and the reconcilation between the statement of financial performance and the budget for the reporting period have been included in the statement of comparison of budget and actual amounts.

1.24 Related parties

The municipal entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Accounting Policies

1.24 Related parties (continued)

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

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

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

1.25 Commitments

Items are classified as commitments where the municipal entity commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when the municipal entity receives value from another party without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipal entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As the municipal entity 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 will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, the municipal entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipal entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where the municipal entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

The adoption of this standard has not had a material impact on the results of the municipal entity, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 21: Impairment of Non-cash-generating Assets

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

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

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.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

GRAP 26: Impairment of Cash-generating Assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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. 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.

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.

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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.

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

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle the municipality to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where the municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

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

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. The municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and ❿ other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. The municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, the municipality can however designate such an instrument to be measured at fair value.

The municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once the municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

The municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, the municipality has transferred control of the asset to another entity.

The municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

The municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for the municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that the municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 105: Transfers of Functions Between Entities Under Common Control

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between entities under common control. This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective. It is unlikely that the

standard will have a material impact on the municipal entity's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values. The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between entities not under common control. This standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomed effective. It is unlikely that the

standard will have a material impact on the municipal entity's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, no acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

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

The municipality expects to adopt the standard for the first time once it becomes effective.

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

GRAP 20: Related Parties

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

The municipality (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- ❿ A person or a close member of that person's family is related to the reporting entity if that person: **-has control or joint control over the reporting entity**; **-has significant influence over the reporting entity**; **-is a member of the management of the entity or its controlling entity**.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The standard elaborates on the definitions and identification of:

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

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

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

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

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

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

The municipality expects to adopt the standard for the first time once it becomes effective.

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

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

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

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2013 The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements. It is unlikely that the amendment will have a material impact on the municipal entity's annual financial statements.

GRAP 7 (as revised 2012): Investments in Associates

Amendments were made to definitions. A requirement to include transaction costs on initial recognition of an investment in an associate under the equity method, has been included in the Standard of GRAP Investments in Associates All amendments to be applied prospectively. The effective date of the amendment is for years beginning on or after 01 April 2013. The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements. It is unlikely that the amendment will have a material impact on the municipal entity's annual financial statements.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Amendments were made to the scope and definitions. All amendments to be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013. The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements. It is unlikely that the amendment will have a material impact on the municipal entity's annual financial statements.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition. All amendments to be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013. The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements. It is unlikely that the amendment will have a material impact on the municipal entity's annual financial statements.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures. All amendments to be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013. The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements. It is unlikely that the amendment will have a material impact on the municipal entity's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 16 (as revised 2012): Investment Property
Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Investment Property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively. The effective date of the amendment is for years beginning on or

after 01 April 2013. The municipality expects to adopt the amendment for the first time in the 2014 annual

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

financial statements.

GRAP 17 (as revised 2012): Property, Plant and Equipment
Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

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

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSAS 31).

Changes made comprise three areas that can be summarised as follows:
- consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31;
- the deletion of guidance and examples from interpretations issued by the International Accounting Standards Board (IASB) previously included in GRAP 102; and

➓ changes to ensure consistency between the Standards of GRAP, or to clarify existing principles. All amendments to be applied retrospectively. The effective date of the standard is for years beginning on or after 01 April 2013. The municipality expects to adopt the standard for the first time in the 2014 annual financial statements. The impact of the standard is not material. **IGRAP 16: Intangible Assets - Website Costs** The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality’s own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54 in the Standard of GRAP on Intangible Assets, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If the municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality expects to adopt the interpretation for the first time in the 2014 annual financial statements.

The impact of the interpretation is not material.

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

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

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

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

The municipality expects to adopt the standard for the first time once it becomes effective.

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

IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation of the Standards of GRAP now addresses the manner in which the municipality applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions; and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This interpretation supersedes the interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

The impact of this interpretation is currently being assessed.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

3. Property, plant and equipment

	2013 Cost / Valuation	2013 Accumulated depreciation and accumulated impairment	2013 Carrying value	2012 Cost / Valuation	2012 Accumulated depreciation and accumulated impairment	2012 Carrying value
Buildings	306,922	-	306,922	306,922	-	306,922
Plant and machinery	6,518,555	(5,397,429)	1,121,126	6,614,972	(4,517,017)	2,097,955
Other assets	9,949,559	(6,740,689)	3,208,870	9,220,013	(6,930,211)	2,289,802
Total	**16,775,036**	**(12,138,118)**	**4,636,918**	**16,141,907**	**(11,447,228)**	**4,694,679**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	306,922	-	-	-	306,922
Plant and machinery	2,097,955	230,335	(129,512)	(1,077,652)	1,121,126
Other assets	2,289,802	2,945,422	(291,365)	(1,734,989)	3,208,870
	4,694,679	**3,175,757**	**(420,877)**	**(2,812,641)**	**4,636,918**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Buildings	299,115	7,807	-	-	-	306,922
Plant and machinery	753,039	79,409	(47,845)	2,817,787	(1,504,435)	2,097,955
Other assets	1,349,129	1,367,658	(1,203)	638,418	(1,064,200)	2,289,802
	2,401,283	**1,454,874**	**(49,048)**	**3,456,205**	**(2,568,635)**	**4,694,679**

Pledged as security

None of the assets were pledged as security.

4. Inventories

	2013	2012
Consumable stores	3,796,575	2,968,060
Water	181,146	105,763
Fuel (diesel and petrol)	227,869	138,115
	4,205,590	**3,211,938**

Inventory pledged as security

None of the inventory items was pledged as security.

5. Receivables from non-exchange transactions

	2013	2012
Deposits	2,529	2,529
Pre-paid expenses	-	138,768
Sundry receivables	24,021	126,287
	26,550	**267,584**

Receivables from non-exchange transactions pledged as security

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

5. Receivables from non-exchange transactions (continued)

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

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

Receivables from non-exchange transactions past due but not impaired
Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired.
None of the receivables were impaired.

6. VAT receivable

VAT 4,660,543 17,429,588

VAT is payable on the invoice basis. VAT is paid over to SARS on a monthly basis once billing is done.

7. Receivables from exchange transactions

Gross balances
Water and sanitation 51,642,786 38,279,031

Net balance
Water and sanitation

Included in above is receivables from exchange transactions
Water and sanitation

Net balance

Water and sanitation
Current (0 -30 days)
31 - 60 days 61 - 90
days 91 - 120 days
121 - 365 days >
365 days

Legal form of entity

Nature of business and principal ac

Board of directors

Non executive directors

Acting chief executive officer

Acting chief finance officer (CFO)

Registered office

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

7. Receivables from exchange transactions (continued)

Summary of receivables by customer classification

National and provincial government	
Current (0 -30 days)	10,036,723 2,865,406 -
31 - 60 days	4,903,513 1,657,443 -
61 - 90 days	20,661,000 8,592,892
91 - 120 days	11,518,701 29,686,139
121 - 365 days	
> 365 days	
	51,642,786 38,279,031

Total	
Current (0 -30 days)	10,036,723 2,865,406 -
31 - 60 days	4,903,513 1,657,443 -
61 - 90 days	20,661,000 8,592,892
91 - 120 days	11,518,701 29,686,139
121 - 365 days	
> 365 days	
	51,642,786 38,279,031

Total debtor past due but not impaired	
Current (0 -30 days)	10,036,723 2,865,406 -
31 - 60 days	4,903,513 1,657,443 -
61 - 90 days	20,661,000 8,592,892
91 - 120 days	11,518,701 29,686,139
121 - 365 days	
> 365 days	
	51,642,786 38,279,031

Credit quality of receivables from exchange transactions

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

The municipal entity has a service level agreement with Maluti-a-Phofung Local Municipality in terms of which the entity renders water, sanitation and revenue collection services to the municipality.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions were not impaired as the amount is receivable from the parent municipality and were

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
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Notes to the Annual Financial Statements

Figures in Rand 2013 2012

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Acting chief finance officer (CFO)	Mokwena T

30 June 2013 30 June 2012 30 June 2011 30 June 2013 30 June 2012 30 June 2011 First National Bank - Current 11,520,971 5,349,792 9,912,482 6,990,481 4,791,794 8,858,355 account (620 9384 2667)

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The municipal entity entered into a contract on 1 December 2009 for the rental of 41 colour printers and 6 digital copier machines. The period of the contract is 36 months ending 30 November 2012. The monthly rental amounts to R107 047 excluding VAT with a 15% escalation charge per annum as calculated from the commencement date of 1 December 2009. The interest rate implicit to the lease is calculated at 10.5% per annum.

The municipal entity did not default on any of the principal or interest repayments during the period of the financial lease agreements. No terms were renegotiated before the financial statements were authorised.

The municipal entity's obligations under finance leases are secured by the lessor's charge over the leased assets. The lease was paid off in December 2012 and the obligation has now been fulfiled.

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Business address	5 Andries Pretorius Street Harrismith 9880
Postal address	PO Box 666 Harrismith, 9880 or Private Bag X874 Phuthaditjhaba, 9870
Controlling entity	Maluti-a-Phofung Local Municipality
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Secretary	Companies House Secretarial Services (Pty) Ltd
Attorneys	Sunil Narian Incorporated

Index

Abbreviations

SAMWU	South African Municipal Workers Union

Notes to the Annual Financial Statements

Figures in Rand 2013 | 2012

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
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Attorneys	Sunil Narian Incorporated

Included in above are the following grants and subsidies received. The details are indicated hereunder:

Equitable Share

In terms of the service delivery agreement with Maluti-a-Phofung Local Municipality, this grant is used for services in particular for the delivery of free basic water services to low income households and all infrastructural development of the

Legal form of entity	Company per municipal entity as contemplated in the Municipal Systems Act 32 of 2000 and the Companies Act 71 of 2008
Nature of business and principal activities	Municipal entity providing basic water and sanitation services
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Non executive directors	Mokhesi N Netshivhodza MG

All the conditions were met and the amount were transferred to revenue.

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to the entity by Maluti-a-Phofung Local Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Other income

Gain on sale of assets
Sundry income
Revaluation of R1 assets

17. General expenses

Advertising Auditors remuneration Awareness campaigns Bank charges Branding programme Cleaning Corporate social responsibility Credit control charges Entertainment Operating lease expense Fleet management costs General costs Health and safety / AIDS campaign Insurance Lease rentals on operating lease Legal fees Motor vehicle expenses Municipal rates and taxes Penalties and interest Plant hire Postage and courier Printing and stationery Promotions and sponsorships Recruitment costs Redemption Shows and exhibitions Staff study support Stock adjustments Student training Telephone and fax Training Transport and subsistance

Legal form of entity

Nature of business and principal ac

Board of directors

Non executive directors

Acting chief executive officer

Acting chief finance officer (CFO)

Registered office

Business address

Postal address

Controlling entity

Bankers

Auditors

Secretary

Attorneys

Index

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

18. Employee related costs

Basic Bonus and leave paid out Company contributions - Medical aid Company contributions - UIF Company contributions - Pension and Group Life SDL Compensation fund payment Travel, motor car, accommodation, subsistence and other allowances Overtime payments Acting allowances Shift and standby allowances Telephone / cellphone allowance

37,109,799 33,904,206
2,536,505 6,627,293
2,982,337 2,920,035
409,531 372,012 6,337,818
5,589,098 518,796 471,939
325,457 2,639,380
3,887,995 5,942,107
6,680,001 412,138 324,770
1,394,472 1,361,640 -129

60,608,340 62,139,118

Remuneration of Ms LM Letsela - Chief Executive Officer

Annual remuneration	-279,636	
Car allowance	-68,682	-51,434
Contributions to UIF, medical and pension fund		
		-399,752

Ms Letsela passed away in December 2011 and the post has been vacant since then. Mr AM Mofokeng is acting in this

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Mr Mofokeng has been acting as Chief executive officer since the passing of Ms Letsela. This position of acting CFO is currently being filled by Mr Mokwena.

Remuneration of Mr NAA Emmenes - Acting Director Operations

Annual remuneration 431,470 403,243 Car allowance 92,237 92,820 Bonuses 35,956 33,604 Contributions to UIF, medical and pension fund 128,275 119,473 Acting allowance 36,188 63,000

724,126 712,140

Remuneration of Mr TC Mokwena - Acting Chief Financial Officer

Annual remuneration 370,548 Car allowance 92,237 Bonuses 30,879 Contributions to UIF, medical and pension fund 96,899 - Acting allowance 10,163

600,726

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

18. Employee related costs (continued)

Remuneration of Ms M Mabena - Acting Director of Human Resources

Annual remuneration 370,548 341,196 Car allowance 92,237 92,820 Bonuses 30,879 24,585 Contributions to UIF, medical and pension fund 93,465 74,736 Acting allowance 66,112 37,350

653,241 570,687

19. Remuneration of directors

Sitting fees for non-executive directors 30,000 90,000

Refer to Note 31 for the details of the payments.

20. Debt impairment

Debt impairment -1,879,163

No allowance was made for debt impairment in the current year as the receivable relates to the parent municipalilty and the amount is considered to be recoverable.

21. Depreciation and amortisation

Property, plant and equipment 2,812,643 2,568,632

22. Impairment of assets

Impairments
Property, plant and equipment 263,342 Assets that could not be verified during the physical verification (stolen) and assets that were found to be damaged beyond repair were written off in the current year. Inventories -118,246 The impairment is due to the writting off of inventory. After the stock count was conducted, it was identified that the stock amounts recorded on the system did not agree to the amount of stock counted, hence the impairment.

263,342 118,246

23. Finance costs

Finance charges on SARS account 366,095 Finance charges on finance leases 304,733 1,462,350

670,828 1,462,350

24. Taxation

No provision has been made for tax, as the entity is exempt from tax according to Section 10(1)(d) of the Income Tax Act.

25. Auditors' remuneration

Fees 2,394,147 1,392,434

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

26. Contracted services

Information Technology Services	4,360,670 3,771,519
Specialist services Security	2,873,459 4,583,913
services Meter reading	717,671 603,978 984,152
contractors	1,381,239
	8,935,952 10,340,649

The specialist services relates to management services rendered to Maluti-a-Phofung water. Management services were performed in house for the 2013 financial year.

27. Bulk purchases

Water treatment	7,538,753 7,364,613
Water	3,025,274 1,526,791
	10,564,027 8,891,404

28. Cash generated from (used in) operations

(Deficit) surplus	(274,854) 8,222,646
Adjustments for:	
Depreciation and amortisation	2,812,643 2,568,632
Impairment deficit Debt	263,342 118,246
impairment	-1,879,163
Changes in working capital:	
Inventories Other receivables from non-exchange	(993,652) (872,723)
transactions Receivables from exchange	241,034 (265,055)
transactions Payables from exchange transactions	(7,487,312) (23,822,503)
VAT	(1,973,404) 27,612,336
	12,769,045 (17,964,344)
	5,356,842 (2,523,602)

29. Commitments

Authorised capital expenditure

Already contracted for but not provided for

- Property, plant and equipment 3,928,811

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

A tender was accepted and approved for Savuma Construction for the Namahadi and Bolata elevated tanks and associated works on the 8th of April. The anticipated delivery date of this contract is September 2013. The total cost of the project is expected to be R3 928 811.

Operating leases - as lessee (expense)

Minimum lease payments due

-within one year -160,272

Operating lease consists of a contract that was entered into by the municipal entity on 12 June 2008 for the rental of 63 C-Track Vehicle Monitoring Systems. The period of the contract is 60 months with no escalation charges during this period. The monthly rental is R13 356 excluding VAT.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

30. Contingencies

Department of Water and Enviromental Affairs

The contingency disclosed for the Department of Water and Environmental Affairs pertains to a dispute of a liability to the value of R83 069 305 (2012 : R67 965 340) which includes interest charged in prior years amount to R10 046 834. An amount of R22 235 825 were incorrectly included in accounts payable in the previous year and has been corrected now. This is due to the fact that the department charges the municipal entity for water used from Trans Caledon Tunnel Authority (TCTA). The municipal entity does not purchase water from this entity. The interest was charged on invoices not applicable to the municipal entity.

South African Revenue Services

The contingency disclosed for the South African Revenue Service where VAT declarations were timeously submitted however SARS returned a correspondence that the municipal entitiy should submit supporting documents for the VAT inputs claimed. This was not submitted and the inputs were reversed and the VAT statement indicated that the municipal entity now owes money to SARS. An objection was submitted due to the fact that the VAT receivable is valid. Should the submission for objection be denied, the municiipal entity will have a liability of about R4 538 000.

31. Related parties

Relationships
Controlling entity Maluti-a-Phofung Local Municipality Members of management Refer to note 5 of the accounting officers report

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Notes to the Annual Financial Statements

Figures in Rand 2013 2012

32. Prior period errors

1.**VAT Reveivable**

VAT were incorrectly declared on grants received for the period February 2008 to July 2011. The total claimed back from SARS in March 2013 amounted to R16 775 293.

2. **Maluti-A-Phofung Local Municipality - Creditor**

Insurance was paid (R2 938 221) by Maluti-A-Phofung Local Municipality on behalf of MAP Water SOC Ltd in prior years. Since July 2012, MAP Water is paying for its own insurance. This inter-group loan were never accounted for by MAP Water SOC Ltd.

3. **DWAF contingent liability included in creditors**

An amount of R22 121 011 (2011 : R11 373 013) was incorrectly included as part of the Departement of Water and Environmental Affairs (DWAF) creditors at year-end. This relates to invoices issued to Maluti-a-Phofung Water SOC Ltd for water from the Trans Caledon Tunnel Authority (TCTA), but this entity does not buy water from TCTA. Also refer to note 30 on contingent liabilites.

4. **Accruals for 2011 not written back in 2012**

Accruals of R2 230 140 in 2011 were not written in the 2012 financial statement. This resulted in the overstatement of payables and accumulated surplus in the 2012 financial statements.

The correction of the errors / change in accounting policies resulted in adjustments as follows:

Statement of financial position
VAT receivable 16,775,289 Trade and other payables 23,034,199 Accumulated surplus (30,561,178) Trade receivables 5,040,038 Cash and cash equivalents (52,315)

Statement of financial performance
Bulk purchases (10,747,999) Grants 867,857

Statement of Financial Performance for the year ended 2012 Balance as Prior period Reclassified Restated previously error balance Revenue reported

Grants and subsidies (74,387,000) (867,857) -(75,254,857)

Total revenue (74,387,000) (867,857) -(75,254,857)

Expenditure

Contracted services --5,321,658 5,321,658 Bulk purchases 12,274,790 (10,747,998) -1,526,792 General expenses 20,898,702 -(5,321,658) 15,577,044

Total expenditure 33,173,492 (10,747,998) -22,425,494

32. Prior period errors (continued) Statement of Financial Position as at 2012 Balance as Prior period Restated

previously error balance Assets reported

Current Assets

Receivables from exchange transactions 42,053,657 2,101,817 44,155,474 Cash and cash equivalents 4,844,109 (52,315) 4,791,794 VAT receivable 654,296 16,775,293 17,429,589

Total current assets 47,552,062 18,824,795 66,376,857

Liabilities Current

Liabilities

Payables from exchange transactions 94,215,875 (23,034,199) 71,181,676 Total current liabilities 94,215,875 (23,034,199) 71,181,676

33. Risk management

Financial risk management

The municipal entity's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate.

Liquidity risk
The municipal entity's risk to liquidity is a result of the funds available to cover future commitments. The municipal entity 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 municipal entity's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting

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Notes to the Annual Financial Statements

Figures in Rand 2013 2012

33. Risk management (continued)

Credit risk

Credit risk is managed on a group basis.
Credit risk consists mainly of cash deposits, cash equivalents, trade receivables from exchange transactions and other receivables from non-exchange transactions. The municipal entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

Financial instrument 2013 2012
Receivables from exchange transactions 49,339,455 42,053,657 Cash and cash equivalents 6,956,868 4,844,133

Interest rate risk

As the municipal entity has no significant interest-bearing assets, the municipal entity's revenue and operating cash flows are substantially independent of changes in market interest rates.

34. Going concern

We draw attention to the fact that at 30 June 2013, the municipal entity had accumulated deficits of R(3,185,236) (2012 : R30 157 286) and that the municipal entity's total liabilities exceed its assets by R(3,184,936) (2012 : R30 156 986).

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

The ability of the municipal entity to continue as a going concern is dependent on an agreement with Maluti-a-Phofung Local Municipality to transfer revenue billed for water and sewerage, and debtors to the municipal entity.

35. Events after the reporting date

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipal entity's operations.

36. Unauthorised expenditure

Overspending of budget 670,828

Interest were paid to SARS on the late payment of VAT and the finance lease during the year. These expenses were not included in the revised budget and these votes were thus overspent.

37. Fruitless and wasteful expenditure

Opening balance 653,746 403,619 Fruitless and wasteful expenditure for the year (Interest and penalties) 670,828 25,436
Payment incorrectly allocated -224,691

1,324,574 653,746

Fruitless and wastefull expenditure (interest and penalties) relates to interest and penalties that were charged for the late payment of difined contribution plan deductions to suppliers amounting to R304 733 (2012: R19 383) and the late submission of returns to SARS fo R366 095 (2012 : R6 053).

The payment made by Maluti-a-Phofung Water SOC Ltd in 2012 was done in the wrong bank account and this part of the money could not be recovered.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

37. Fruitless and wasteful expenditure (continued)

The fruitless and wasteful expenditure is to be laid before the board of directors for condonement.

38. Irregular expenditure

Opening balance 11,915,066 7,670,906 Add: Irregular Expenditure - current year (SCM Policy not followed) -2,147,050 Add: Irregular Expenditure - Inflated prices paid for leased assets 707,789 1,606,503 Add: Lease contracts not cancelled on time -100,270 Add: Financial misconduct by an employee (123,586) 390,337 Less: Condonement by board (11,791,480)

707,789 11,915,066

Details of irregular expenditure – current year Disciplinary steps taken/criminal proceedings

Financial misconduct by employee The amount were recovered from the relevant (123,586)
employee in the current year and are included in
other income The inflated prices paid for leased assets relates Management is still in the
process of condoning the 707,789 to the difference in the cash price and the expenditure amount paid for the leased assets

584,203

Details of irregular expenditure condoned Condoned by (condoning authority)

All previous irregular expenditure were condoned on Board (11,791,480) 28 June 2013

39. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government unions

Opening balance -12,219 Current year subscription / fee 178,580 152,201 Amount paid - current year (162,673) (152,201) Amount paid - previous years -(12,219)

15,907

Audit fees

Current year subscription / fee 2,321,193 1,614,037 Amount paid - current year (2,321,193) (1,614,037)

PAYE and UIF

Opening balance -451,399 Current year subscription / fee 7,108,343 6,144,208 Amount paid - current year (6,490,454) (6,144,208) Amount paid - previous years -(451,399)

617,889

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

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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.

Classification of diviations	**Number of transactions**	**Rand value of transactions**
Emergency	90	2,349,956
Sole supplier	2	11,719
Impractical / impossible to follow procurement process	26	615,662

Notes to the Annual Financial Statements

Figures in Rand 2013

41. Budget differences Material differences between

budget and actual amounts

1. Service charges -due to payment incentives given to the community.

2. Employee cost - this cost is due to vacant positions.

3. Bulk purchases - the decrease in the cost is mainly due to the TCTA rates charged.

4. Capital expenditure - the decrease is due to two projects which are not yet completed.