



MALUTI-A-PHOFUNG LOCAL MUNICIPALITY
Annual Financial Statements for the year ended
30 June 2013

| | |
|---|--|
| Legal form of entity | Municipality |
| Municipal demarcation code | FS194 |
| Nature of business and principal activities | Local governance activities |
| Mayoral committee | Lebesa MJ Mboso SL Mohlabi ML Mokoena M Mokotso G Mokubung ML Mosia MM Mositi M Nhlapo MA Thebe TR |
| Executive Mayor | Moleleki SSM |
| Chief Whip | Tshabalala V |
| Speaker | Nthedi AM |
| Councillors | Crockett M Hlatswayo TF Khambule M Khoapa NA Khoari MI Kleynhans LM Komako M Lebesa MB Lebesana PJ Letawana T Letooane S Mahlambi TJ Mahlatsi A Mahumuza LP |

General Information

| | |
|---|--|
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General Information

Hill Mchardy & Herbst Ing.
Peyper Attorneys
Rossouws Attorneys Sunil
Narian Incorporated Uys
Mathebula Attorneys

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

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Abbreviations

- GRAP Generally Recognised Accounting Practice
- MEC Member of the Executive Council
- MFMA Municipal Finance Management Act
- MIG Municipal Infrastructure Grant (Previously CMIP)

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 101, 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:

Ntombela LMD
Municipal Manager

Dhatee

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 2 number of meetings were held.

Name of member Number of meetings attended

Ntsala GS (Chairperson) 2 Mohlahlo EM 0 Mothekge MP 2
Tshake MP (Deceased) 1

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Chairperson of the Audit Committee

Date:

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Accounting Officer's Report

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

1. Review of activities Main

business and operations

The municipality is engaged in local governance activities and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment. Net deficit of the municipality was R 206,114,734 (2012: deficit R 320,315,719).

2. Going concern

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

3. Subsequent events

The accounting officer identified the following subsequent events: After year end a litigation was brought against the municipality by Rural Maintenance in terms of a contract cancelled by council. This is still an ongoing issue.

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Ntombela LMD

7. Auditors

Auditor General - Free State will continue in office for the next financial period.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

| | |
|---|--|
| Legal form of entity | Municipality |
| Municipal demarcation code | FS194 |
| Nature of business and principal activities | Local governance activities |
| Mayoral committee | Lebesa MJ Mboso SL Mohlabi ML Mokoena M Mokotso G Mokubung ML Mosia MM Mositi M Nhlapo MA Thebe TR |
| Executive Mayor | Moleleki SSM |
| Chief Whip | Tshabalala V |
| Speaker | Nthedi AM |
| Councillors | Crockett M Hlatswayo TF Khambule M Khoapa NA Khoari MI Kleynhans LM Komako M Lebesa MB Lebesana PJ Letawana T Letooane S Mahlambi TJ Mahlatsi A Mahumuza LP |

Statement of Financial Performance

| | |
|---|---|
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| Nature of business and principal activities | Local governance activities |
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| Executive Mayor | Moleleki SSM |
| Chief Whip | Tshabalala V |
| Speaker | Nthedi AM |
| Councillors | Crockett M Hlatswayo TF Khambule M Khoapa NA Khoari MI Kleynhans LM Komako M Mabasa M |

Statement of Changes in Net Assets

| | |
|---|---|
| Legal form of entity | Municipality |
| Municipal demarcation code | FS194 |
| Nature of business and principal activities | Local governance activities |
| Mayoral committee | Lebesa MJ Mboso SL Mohlabi ML Mokoena M Mokotso G Mokubung ML Mosia MM Mositi M Nhlapo MA Thebe TR |

Cash Flow Statement

Figures in Rand Note(s) 2013 2012 Restated

Cash flows from operating activities

Receipts

Sale of goods and services
Grants Interest income
Other receipts

Payments

Employee costs
Suppliers
Finance costs
Other payments

Net cash flows from operating activities

Cash flows from investing activities

Purchase of property, plant and equipment Proceeds
from sale of property, plant and equipment Purchase
of intangible assets Proceeds from sale of financial
assets Proceeds from sale of long term receivable

Net cash flows from investing activities

Cash flows from financing activities

Proceeds from other financial liabilities
Repayment of other financial liabilities
Movement in long service liability
Finance lease payments Finance lease
receipts

Net cash flows from financing activities

Net increase / (decrease) in cash and cash equivalents

Cash and cash equivalents at the beginning of the year
Cash and cash equivalents at the end of the year

Legal form of entity

Municipal demarcation code

Nature of business and principal activities

Mayoral committee

Executive Mayor

Chief Whip
(275,864,181) (318,063,599)

Speaker

-8,595,140 (1,189,242) -
5,047,000 717,000
(4,155,066) -11,202,000

Legal form of entity

Municipal demarcation code

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis
Approved Adjustments Final budget Actual amounts Difference Reference budget on comparable between final basis budget
and Figures in Rand actual

Statement of Financial Performance

Revenue

Revenue from exchange transactions Service charges 452,731,049 (48,299,800) 404,431,249 330,428,022 (74,003,227)
Note 58 Rental of facilities and equipment 1,200,000 350,000 1,550,000 1,000,633 (549,367) Interest received (trading)
17,127,000 -17,127,000 21,775,993 4,648,993 Note 58 Revaluation reserve -300,000,000 300,000,000 -(300,000,000)
Note 58 Other income - (rollup) 4,545,977 138,771,614 143,317,591 11,859,028 (131,458,563) Interest received -
investment 2,423,545 -2,423,545 1,902,787 (520,758)

Total revenue from exchange 478,027,571 390,821,814 868,849,385 366,966,463 (501,882,922) transactions

Revenue from non-exchange transactions

Taxation revenue Direct taxes (Income tax, estate 3,051,000 -3,051,000 938,254 (2,112,746) Note 58 duty) Property
rates 204,308,906 -204,308,906 147,150,223 (57,158,683) Note 58 Government grants & subsidies 621,560,759
24,044,000 645,604,759 634,002,409 (11,602,350) Note 58

Total revenue from non-828,920,665 24,044,000 852,964,665 782,090,886 (70,873,779) exchange transactions

Total revenue 1,306,948,236 414,865,814 1,721,814,050 1,149,057,349 (572,756,701)

Expenditure Personnel (216,040,642) (11,324,030) (227,364,672) (198,611,117) 28,753,555 Remuneration of
councillors (24,148,709) (477,000) (24,625,709) (19,389,954) 5,235,755 Note 58 Administration (419,920,121)
(39,765,846) (459,685,967) (43,391,679) 416,294,288 Note 58 Depreciation and amortisation (49,000,000) (251,000,000)
(300,000,000) (295,600,062) 4,399,938 Note 58 Finance costs (16,500,000) (100,000) (16,600,000) (8,919,020) 7,680,980
Note 58 Debt impairment (66,594,084) -(66,594,084) (56,209,276) 10,384,808 Note 58 Repairs and maintenance
(78,942,981) (31,912,010) (110,854,991) (79,800,240) 31,054,751 Note 58 Bulk purchases (331,228,000) -(331,228,000)
(382,096,875) (50,868,875) Note 58 Contracted services (29,300,763) (66,012,530) (95,313,293) (84,030,643) 11,282,650
Grants and subsidies paid (77,723,300) -(77,723,300) (77,723,000) 300 General expenses (117,431,920) (71,116,928)
(188,548,848) (109,486,621) 79,062,227

Operating deficit (19,882,281) (59,942,238) (156,822,500) (206,724,139) (296,719,374) 129,389,920 Basis
as Presented in the Budget (1,422,200,000) (1,422,200,000) (1,422,200,000) (1,422,200,000) (1,422,200,000) 1,422,200,000

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis
Approved Adjustments Final budget Actual amounts Difference Reference budget on comparable between final basis budget
and Figures in Rand actual

Cash Flow Statement

Cash flows from operating activities

Receipts Rate payers and other 652,964,000 -652,964,000 1,085,284,858 432,320,858 Government - operating
348,037,000 -348,037,000 -(348,037,000) Government - capital 273,524,000 24,044,000 297,568,000 -
(297,568,000) Interest income 2,424,000 9,065,000 11,489,000 1,902,787 (9,586,213)

1,276,949,000 33,109,000 1,310,058,000 1,087,187,645 (222,870,355)

Payments Suppliers and employee costs (774,887,000) -(774,887,000)(1,080,482,647) (305,595,647)
Finance costs (16,000,000) -(16,000,000) (5,016,979) 10,983,021 Transfers and grants (177,723,000) -
(177,723,000) (75,286,135) 102,436,865

(968,610,000) -(968,610,000)(1,160,785,761) (192,175,761)

Net cash flows from operating 308,339,000 33,109,000 341,448,000 (73,598,116) (415,046,116) activities

Cash flows from investing activities

Purchase of property, plant and (244,524,000) (173,544,000) (418,068,000) -418,068,000 equipment Proceeds
from sale of property, 2,000,000 (2,000,000) --

plant and equipment
Decrease/ (Increase) in non-(130,976,000) -(130,976,000) (872,635) 130,103,365 current debtors Decrease /
(Increase) in other 2,568,000 -2,568,000 -(2,568,000)

non-current receivables Decrease / (Increase) in non-5,689,000 -5,689,000 20,184,891 14,495,891 current
Investments

Net cash flows from investing (365,243,000) (175,544,000) (540,787,000) 19,312,256 560,099,256 activities

Cash flows from financing activities

Repayment of other financial (22,000,000) -(22,000,000) (1,189,242) 20,810,758 liabilities Movement in long,
Net increase / (decrease) in cash 19,096,000 142,435,000 (123,339,000) (55,475,102) 67,863,898 and cash
service liability 98,000,000 -98,000,000 -(98,000,000)
Cash and cash equivalents at 24,146,000 (335,435,000) (1,002,89,000) 443,005,523 73,279,048 the end of
the year
Net cash flows from financing 76,000,000 -76,000,000 (1,189,242) (77,189,242) activities

Financial Performance

Maluti-a-Phofung Local Municipality

| | |
|--|-----------------------------|
| Legal form of entity | Municipality |
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| Nature of business and principal activities | Local governance activities |

[illegible]

Figures in Rand

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

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Maluti-a-Phofung Local Municipality
(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Appropriation Statement

Figures in Rand

| | Original Budget (i.t.o. council outcome expenditure MFMA policy) | Final Shifting of Virement (i.t.o. s28 and budget s31 of the MFMA) | Final budget s31 of the approved | Actual s31 of the | Unauthorised budget adjustments | budget adjustments | funds | Variance outcome of final | Actual outcome as % of original | Actual outcome as % of budget |
|------------------|--|--|--|----------------------|---------------------------------|--------------------|---------------|------------------------------|------------------------------------|----------------------------------|
| Cash flows | | | | | | | | | | |
| | used) 308,339,000 | 33,109,000 | 341,448,000 | | | | | | | |
| | | | | | (540,787,000) | (275,864,181) | investing Net | | | |
| cash from (used) | 76,000,000 | -76,000,000 | | | | | | | | |
| | 341,448,000 | 229,293,942 | operating Net cash from (used) | (365,243,000) | (175,544,000) | (540,787,000) | | | | |
| | decrease) 19,096,000 | (142,435,000) | (123,339,000) | | | | | | | |
| | (123,339,000) | (46,867,547) | in cash and cash equivalents | | | | | | | |
| | 5,050,000 | 4,000,000 | 9,050,000 | | | | | | | |
| | 9,050,000 | 12,229,810 | equivalents at the beginning of the year | | | | | | | |
| | 24,146,000 | (138,435,000) | (114,289,000) | | | | | | | |
| | (114,289,000) | (34,637,737) | equivalents at year end | | | | | | | |

Maluti-a-Phofung Local Municipality
(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Appropriation Statement

| | | | | |
|--|---|---|---|----------------------|
| Figures in Rand Reported Expenditure Balance to be Restated unauthorised authorised in recovered audited expenditure terms | | | | 172,500,680 |
| | | | | 331,038,724 |
| | | | | 2,017,989 |
| | | | | 318,769,659 |
| | | | | 764,082,683 |
| | | | | 1,588,409,735 |
| | - | - | - | (193,973,458) |
| | - | - | - | (17,501,532) |
| | - | - | - | (96,509,285) |
| | - | - | - | (458,714,888) |
| | - | - | - | (7,462,798) |

Financial Performance

Property rates Service charges
Investment revenue Transfers
recognised - operational Other
own revenue

Total revenue (excluding capital transfers and contributions)

Employee costs Remuneration of councillors Debt impairment Depreciation and asset impairment Finance charges Materials and bulk purchases --- (374,011,629) Transfers and grants --- (74,387,000) Other expenditure --- (980,544,699)

| | | |
|---|----|---------------|
| Capital expenditure (excluding transfers and contributions) | 17 | 1,239,959,797 |
|---|----|---------------|

Maluti-a-Phofung Local Municipality
(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Appropriation Statement

Figures in Rand Reported Expenditure Balance to be Restated unauthorised authorised in recovered audited expenditure terms of outcome section 32 of MFMA

Cash flows

Net cash from (used) operating
Net cash from (used) investing
Net cash from (used) financing
Net increase / (decrease) in cash and cash equivalents
Cash and cash equivalents at the beginning of the year
Cash and cash equivalents at year end

Legal form of entity

Municipal demarcation code

Nature of business and principal act

Mayoral committee

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

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.

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.

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

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

The impairment for trade 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.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 Provisions.

Useful lives of property, plant and equipment and other assets

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

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 23.

Effective interest rate

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

Allowance for debt impairment

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

1.2 Investment property

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

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

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

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Cost model

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

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

Item Useful life

Property - land indefinite Property - buildings 5 - 30 years

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

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Accounting Policies

1.2 Investment property (continued)

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment are initially measured at cost on acquisition date.

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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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.

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

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

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1.3 Property, plant and equipment (continued)

| Item | Average useful life |
|-------------------------------|---------------------|
| Land | Indefinite |
| Buildings | 5-30 years |
| Ⓢ Furniture and fixtures | 1-20 years |
| • Furniture and fittings | 3-15 years |
| • Kitchen equipment Motor | 5-10 year |
| vehicles | |
| • Fire engines | 5-10 years |
| • Heavy duty vehicles | 5-7 years |
| • Other Office equipment | 4-20 years |
| • Airconditioners | |
| • Office machines IT | 3-5 years |
| equipment Computer software | 5-7 years |
| Infrastructure | 3-10 years |
| • Electricity | 2-5 years |
| • Sewerage | |
| • Water | 3-80 years |
| • Bridges | 10-60 years |
| • Storm water | 5-100 years |
| • Roads | 10-80 years |
| • Airport | 25-100 years |
| • Solid waste disposal | 3-60 years |
| • Rail ways | 10-30 years |
| • Gas supplies systems | 5-55 years |
| • Cemetery Community | 15-30 years |
| Landfill sites Audio visual | 10-50 years |
| equipment Emergency equipment | 25-30 years |
| | 25-30 years |
| | 10-55 years |
| | 5-10 years 5- |
| | 10 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.

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

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

Items of property, plant and equipment 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 item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. Such difference is recognised in surplus or deficit when the item of property, plant and equipment is derecognised.

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

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

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

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, excluding rights granted by statute, regardless whether those rights are transferable or separate from the municipality 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 municipality; 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 the amortisation method for intangible assets are reviewed at each reporting date.

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 estimates.

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.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any cost incurred to register these servitudes are expensed. Servitudes, however, that are created through an agreement (contract) are recognised as intangible assets.

Accounting Policies

1.5 Intangible assets (continued)

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

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since the most closely reflects the expected pattern of consumption to the future economic benefits embodied in the asset.

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 | 2-5 years |

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

The gain or loss 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.

1.6 Investment in controlled entity

Investment in controlled entity are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

1.7 Financial instruments

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

Classification

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

| Class | Category |
|--|--|
| Trade and other receivables | |
| • Receivables from exchange transactions | Financial asset measured at amortised cost |
| • Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Other receivables | Financial asset measured at amortised cost |
| Investments | Financial assets measured at fair value |

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

| Class | Category |
|--------------------------------------|--|
| Trade and other payables | |
| -Payables from exchange transactions | Financial liability measured at amortised cost |
| -Consumer deposits | Financial liability measured at amortised cost |
| Other payables | Financial liability measured at amortised cost |
| Bank overdrafts and borrowings | Financial liability measured at amortised cost |

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1.7 Financial instruments (continued)

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, 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 municipality measures all other financial assets and financial liabilities initially at its fair value.

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1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

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 municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the 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 municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

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

Financial assets measured at amortised cost:

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

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1.7 Financial instruments (continued)

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 directly 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.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

The carrying 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.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

Financial liabilities

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

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

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

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1.8 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 - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

Any contingent rents are recognised separately as revenue in the period in which they are received.

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.

1.9 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 municipality incurs to acquire the asset on the reporting date. The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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1.9 Inventories (continued)

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.

1.10 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.

1.11 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.

Identification

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

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

The recoverable amount of cash generating assets or cash generating unit is the higher of its value in use less cost to sell and its value in use.

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

Value in use

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

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

Discount rate

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

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1.11 Impairment of cash-generating assets (continued)

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 municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

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

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

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

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

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

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

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

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

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

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1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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.

1.12 Impairment of non-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.

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also tests 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.

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

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

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.

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1.13 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

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1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality 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 municipality during a reporting period, the municipality 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 municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the 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.

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1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- any resulting change in the present value of the defined benefit obligation; and

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Accounting Policies

1.13 Employee benefits (continued)

- any resulting change in the fair value of the plan assets.

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

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Accounting Policies

1.13 Employee benefits (continued)

Long service leave benefit

The municipality recognised long service leave benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date;
 - or
 - provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.
- Additional accumulated leave Monetary award (of annual salary)**

Less than 5 years' service 5 days 2% 5 - 10 years' service 10 days 3% 10 - 15 years' service 15 days 4% 15 - 20 years' service 15 days 5% 20 - 25 years' service 15 days 6% 25 - 30 years' service 15 days 6% 30 - 35 years' service 15 days 6% 35 - 40 years' service 15 days 6% 40 - 45 years' service 15 days 6%

On termination of service, an employee shall be paid his leave entitlement, including the leave mentioned above, and calculated in terms of the relevant provision to the Basic Conditions of Employment Act 75 of 1997.

The initial of appointment of an employee shall be maintained for the purpose of determining the actual service period of the employee and the calculation of the long service bonus.

The long service leave must be taken within one year of receiving such leave or may be wholly or partially encashed.

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Provisions are not recognised for future operating expenditure.

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Accounting Policies

1.14 Provisions and contingencies (continued)

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

A constructive obligation to restructure arises only when the municipality:

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

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

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

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

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- 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 47.

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 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

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

1.15 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.

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

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

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

When 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, royalties and dividends

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

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

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

1.16 Revenue from non-exchange transactions

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

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1.16 Revenue from non-exchange transactions (continued)

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.

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality 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.

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

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

Recognition

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

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

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

Measurement

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

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

Transfers

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

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

Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

1.17 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 municipality 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.

If the carrying amount of the qualifying asset exceeds its recoverable amount or recoverable service amount, an impairment loss is recognised for the excess amount.

Borrowing costs that are not capitalised are recognised as an expense in surplus or deficit.

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.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means: ⑩ overspending of a vote or a main division within a vote; and

- ⑩ expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

1.20 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.

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Accounting Policies

1.21 Irregular expenditure

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

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

1.22 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

1.23 Budget information

The approved budget is prepared on a accrual 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.

Refer to the statement of comparison of budget on actual amounts.

Comparative information is not required.

1.24 Related parties

The municipality 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.

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

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

1.25 Commitments

Items are classified as commitments where the municipality 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.

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Accounting Policies

1.26 Grants in aid

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

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

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

1.27 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.

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Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

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 municipality 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 municipality.

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 municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it 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 municipality 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 municipality 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 municipality 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 municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset should be recognised as an asset only if:

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

The standard required judgement in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, the municipality has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

GRAP 103 states that a heritage asset should not be depreciated, but the municipality should assess at each reporting date whether there is an indication that it may be impaired.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The municipality should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The municipality treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- ⑩ on disposal; or
- ⑩ when no future economic benefits or service potential are expected from its use or disposal.

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

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.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 21: Impairment of Non-cash-generating Assets

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

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:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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.

The impact of the standard is not material.

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:

- ⑩ the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- ⑩ 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.

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.

The impact of the standard is not material.

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.

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.

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.

Concessionary loans are loans either received by or granted to another entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

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:

- ⑩ a derivative;

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- 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 ⑩ other instruments that do not meet the definition of financial instruments at amortised cost or cost.

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.

The impact of the standard is set out in note 8 Changes in accounting policy.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

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 has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

2. New standards and interpretations (continued) 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).

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

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

The impact of the amendment is not material.

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 has early adopted the amendment for the first time in the 2013 annual financial statements. The impact of the amendment is not material.

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 has early adopted the amendment for the first time in the 2013 annual financial statements. The impact of the amendment is not material.

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 has early adopted the amendment for the first time in the 2013 annual financial statements. The impact of the amendment is not material.

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 has early adopted the amendment for the first time in the 2013 annual financial statements.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

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 has early adopted the amendment for the first time in the 2013

annual financial statements. The impact of the amendment is not material.

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 has early adopted the amendment for the first time in the 2013 annual financial statements.

The impact of the amendment is not material.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the International Public

Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27). The effective date of

the standard is for years beginning on or after 01 April 2013. The municipality has early adopted the standard for the first

time in the 2013 annual financial statements. The impact of the standard is not material.

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

⑩ 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.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The impact of the standard is not material.

2.3 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 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future;
- and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits; **-all short-term employee benefits; -short-term compensated absences; -bonus, incentive and performance related payments;**
- post-employment benefits: Defined contribution plans; ⑩
- other long-term employee benefits; and

⑩ termination benefits. The major difference between this this standard (GRAP 25) and IAS 19 is with regards to the

treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred. 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. It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of Functions Between Entities Under Common Control

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.

The impact of the standard is currently being assessed.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 becomes effective.

The impact of the standard is currently being assessed.

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:

- Ⓢ 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.**

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

⑩ 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 municipality's annual financial statements.

2.4 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 municipality. 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 municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by the municipality within a particular region.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

| | |
|---|---|
| Legal form of entity | Municipality |
| Municipal demarcation code | FS194 |
| Nature of business and principal activities | Local governance activities |
| Mayoral committee | Lebesa MJ Mboso SL Mohlabi ML Mokoena M Mokotso G Mokubung ML Mosia MM Mositi M Nhlapo MA Thebe TR |
| Executive Mayor | Moleleki SSM |
| Chief Whip | Tshabalala V |
| Speaker | Nthedi AM |
| Councillors | Crockett M Hlatswayo TF Khambule M |

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

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| Councillors | Crockett M Hlatswayo TF Khambule M Khoapa NA Khoari MI Kleynhans LM Komako M Lebesa MB Lebesana PJ Letawana T Letooane S Mahlambi TJ Mahlatsi A Mahumuza LP Majake M Mashiane D Matjale M Mavuso MT Mazibuko MR Mbongo MJ Mkhwanazi TI Mofana MM Mofokeng BD Mofokeng K Mohlekwa TR |

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

3. Consumer receivables (continued) Receivables from exchange

transactions past due but not impaired

Receivables from exchange transactions which are less than 2 months past due are not considered to be impaired. At 30 June 2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | |
|--|------------|
| | 49,656,625 |
| | 43,863,525 |
| | 441,105,30 |
| | 4,175,898 |

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note). Amounts charged to the allowance account are generally written off when there is no possibility of recovering additional cash.

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

4. Receivables from exchange transactions

Deposits 9,945,292 1,721,021 Deposits owed by consumers 12,887,019 13,138,833 Other receivables 4,003,837 3,857,001

26,836,148 18,716,855

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 external credit ratings (if available) or to historical information about counterparty default rates.

5. Long term receivable

Consumer receivables - Non-current portion 5,922,083 10,478,684 Consumer receivables - Current portion 12,866,400 9,706,207

The long term receivable consists of consumer accounts with arrangements. These accounts bear no interest and is repayable in monthly installments of R200 if the debt was less than R15,000 and R250 if the debt was over R15,000. The repayment period is dependant on the balance of the account when the arrangement is made.

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. None of the long term receivables were pledge as security. None of the long term receivables that are fully performing have been renegotiated in the last year. The maximum exposure to credit risk at the reporting date is the carrying value of long term receivable mentioned above. The

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

5

. municipality does not hold any collateral as security.

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality had the following bank accounts

| Account number / description | Bank statement balances 30 June 2013 | Cash book balances 30 June 2012 | 30 June 2011 |
|---|--------------------------------------|---------------------------------|----------------------|
| 30 June 2013 30 June 2012 30 June 2011 | | | |
| First National Bank - Current (8,690,992) | 23,041,068 | 8,410,317 (37,970,227) | 10,329,220 9,282,664 |
| First National Bank - Savings 3,325,443 | 1,895,168 237,959 | 3,325,443 1,895,169 | 237,959 |
| Total (5,365,549) | 24,936,236 | 8,648,276 (34,644,784) | 12,224,389 9,520,623 |

7. Inventories

Consumable stores
Fuel (Diesel, Petrol)

2013, R 31,114,976 (2012: R 78,839,

Inventories (write-downs)

The ageing of amounts past due but i

Current (0-30 days) 31 - 60 days >60

8. Other financial assets

Fair value

Listed shares - Sanlam
Sanlam life policy

Receivables from exchange transa

The amount of the allowance was R €

The ageing of these receivables is as

At amortised cost

First National Bank
Standard Bank

0 - 90 days Over 90 days

5

Total other financial assets

. municipality does not hold any collate

6

Non-current assets

Fair value

.

Cash and cash equivalents consist of

Cash on hand
Bank balances

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1

Listed shares 277,988 211,854

Level 2

Life policy 352,263 331,993

630,251 543,847

Renegotiated terms

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

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

Financial assets at amortised cost Financial assets at

amortised cost past due but not impaired

Financial assets which are less than 3 months past due are not considered to be impaired. At 30 June 2013, no accounts were pasted due.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of the financial assets mentioned above. The municipality does not hold any collateral as security.

Maluti-a-Phofung Local Municipality
(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

9. Receivables from non-exchange transactions

Rates 11,538,377 83,553,023 Money stolen 1,224,787 1,270,195 Insurance paid on behalf of Maluti Water (Pty) Ltd 8,039,554 8,039,554

20,802,718 92,862,772

Details of money stolen:

August 2010 - Fraud of R5,539,228 was detected. The Free State High Court in Bloemfontein ordered the amount of R4,728,903 to be paid back to the municipality.

June 2012 - During a burglary at the municipality's premises an amount of R397,558 was stolen.
2012 year - Fraud was detected of R50,000. A refund of R46,000 was made to the municipality in August 2012.

Rates

Gross balance 211,300,891 258,504,770 Less: Allowance for impairment (199,762,513) (174,951,746)

Net balance 11,538,378 83,553,024

Ageing of rates

Current (0 - 30 days) 2,107,435 182,873 31 - 60 days 785,132 9,187,674 61 - 90 days 338,692 71,158,529 > 91 days 8,307,119 3,023,948

11,538,378 83,553,024

Reconciliation of allowance for impairment

Balance at beginning of the year (174,951,746) (138,976,329) Increase in the allowance for impairment (24,810,767) (35,975,417)

(199,762,513) (174,951,746)

10. VAT receivable

VAT 4,129,178 6,641,675

VAT is payable on the payment basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is made and monies received.

11. Property, plant and equipment

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|-------------|-------------|
| | 43,863,525 | 49,656,625 |
| 0 - 90 days Over 90 days | 494,175,898 | 441,105,307 |

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|-------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

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municipality does not hold any collateral as security.

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Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

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

Current assets

Current assets

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|---|------------|------------|
| | 43.863.525 | 49,656,625 |
| 2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired. | | 441.105.30 |

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|------------|------------|
| | 43.863.525 | 49,656,625 |
| 0 - 90 days Over 90 days | | 441,105,30 |

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

Long term receivable (continued)

5
13. Intangible assets

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|-------------|------------|
| | 43,863,525 | 49,656,625 |
| 0 - 90 days Over 90 days | 494,175,898 | 441,105,30 |

Long term receivable (continued)

5
.
municipality does not hold any collateral as security.

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Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

13. Intangible assets (continued)

Pledged as security

None of the intangible assets have been pledged as security.

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

None of the assets are currently under a finance lease.

14. Investment in controlled entity

Name of company Held by % % Carrying Carrying holding holding amount 2013 amount 2012 2013 2012

Maluti-a-Phofung Water (Pty) Ltd Maluti-a-Phofung Municipality 100.00 % 100.00 % 300 300

The carrying amounts of the controlled entity is shown net of impairment loss.

15. Payables from exchange transactions

Trade payables 51,886,315 42,417,936 Accrued leave pay 25,500,559 21,672,906 Accrued bonus (13th cheque) 5,064,120 4,729,798 Deposits received 127,408 125,814 Sundry payables 179,596,533 156,718,594 Payments received in advance 96,107,272 10,553,579

358,282,207 236,218,627

16. Consumer deposits

Electricity and water 24,614,851 24,654,943

No interest accrues on the balance of the consumer deposits held by the municipality.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Expanded Public Works Programme Incentive Grant (EPWPI) 2,359,953 1,160,170 RDP Houses 3,765,329 3,765,329 Electricity Demand Managment Grant (EDMG) 1,000,000 Serkfontein/Regional Balk Infrastructure Grant (RBIG) -2,194,879 Municipal Infrastructure Grant (MIG) -2,008,785 Municipal Systems Improvement Grant (MSIG) -623 Integrated National Electrification Programme (Eskom) Grant (INEP(Eskom)G) 579,914 1,903 Operation Hlasela Projects 450,000 450,000 Installation and Maintenance of Security Equipment 698,736 698,736

8,853,932 10,280,425

Maluti-a-Phofung Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

17. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year 10,280,425 19,542,164 Received during the year 294,524,641 298,530,948 Income
recognition during the year (295,951,134) (307,792,687)

8,853,932 10,280,425

18. Finance lease obligation

Minimum lease payments due

-within one year 4,544,348 4,801,788
-in second to fifth year inclusive 3,301,559 8,315,174

7,845,907 13,116,962 less: future

finance charges (798,970) (1,914,959)

Present value of minimum lease payments 7,046,937 11,202,003

Present value of minimum lease payments due

-within one year 3,389,208 3,527,472
-in second to fifth year inclusive 3,657,729 7,674,531

7,046,937 11,202,003

Non-current liabilities 3,657,729 7,674,531 Current liabilities 3,389,208 3,527,472

7,046,937 11,202,003

A contract was entered into by the municipality on 01 February 2012 with Bytes Document Solutions (Pty) Ltd for 26
printer/fax/scanner machines. The period of the contract is 36 months ending March 2014. The monthly rental amounts to
R55,407.49. excluding VAT with a 8% escalation charge per annum as calculated from the commencement date 1 February
2012.

The interest rate implicit to the lease is calculated between 21% - 23% per annum.

Another contract has been entered into with Solar Spectrum on 31 December 2012 for the installation of energy efficient street
lights. The period of the lease is 3 years ending on 31 December 2015. The monthly rentals varies from one phase to the next,
however the average rental per quarter is R956,56. The rental amounts are payable quarterly in advance with no escalation
throughout the lease period.

The interest rate implicit is determined at 7.55%

The entity did not default on any of the principal or interest repayments during the period of the lease agreements. No terms of
the lease contract were renegotiated.

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

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

19. Other financial liabilities

At amortised cost

Annuity loans 19,501,874 17,258,819 All annuity loans are from the Development Bank of South Africa and repayments are made on a six monthly basis.

Loan acc no Interest rate Redeem date Interest amount

11019/105 15.00% 31/12/2015 135,069.61 11021/102 15.00%
31/12/2015 35,050.72 11076/103 15.00% 30/06/2018 134,793.93
11076/202 15.00% 30/06/2018 138,805.93 11084/103 15.00%
31/12/2015 332,270.09 13768/102 15.63% 31/12/2020 110,850.07
13768/202 15.63% 31/12/2020 96,865.45 13766/302 15.63%
31/12/2021 124,679.46 61006/823 10.82% 30/06/2017
1,205,065.78 61006/824 11.50% 31/12/2031 165,978.09

First National Bank Intabazwe Corridor -3,432,297 The loan was unsecured, bore interest at 11.45% per annum and was repayable in biannual instalments of R3,538,176.

19,501,874 20,691,116

Total other financial liabilities 19,501,874 20,691,116

The municipality did not default on any principal or interest repayments during the period for loans payable. No terms were renegotiated before the financial statements were authorised for issue.

Non-current liabilities

At amortised cost 17,016,609 14,146,848

Current liabilities

At amortised cost 2,485,265 6,544,268

20. Taxes and transfers payable (non-exchange)

National revenue fund -3,855,234 Other payables from non-exchange transactions 36,447 36,447

36,447 3,891,681

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|-------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

The rehabilitation cost provision is for the rehabilitation programme of the landfill sites of the municipality. It is required from the municipality to execute an environmental management program to restore the landfill site after its useful life. The sites under consideration are Harrismith and Phuthaditjhaba. Both landfills accept only general waste. These sites are both operational, only Harrismith has a permit in terms of Section 20 of the Environment Conservation Act (Act 73 of 1989).

In order to determine the rehabilitation costs for each site the minimum requirements issued by the Department of Water Affairs and Forestry (DWAF) was used as guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is permitted/licensed, the relevant rehabilitation requirements are obtained from the above documentation according to the site's classification or as required in each permit. If a site is unpermitted/unlicensed, the classification is assumed according to the volume of waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e. the factors that determine the classification of a licensed site.

The actual costs are determined by calculating the volumes of excavations, materials required and legal requirements according to the footprint of each individual site. For a new estimated the rates used for each item of work is based on current rates for similar activities. If a previous estimate was done for a specific site then the previous year's figures are escalated using CPI. The individual rates are then again cross-checked to determine if they are still in line with current rates for similar activities and adjusted accordingly.

Provision has been made for this cost based on the estimated present value of future cash flows arising from the rehabilitation cost expected as at 30 June 2017 for the Phuthaditjhaba landfill site and 30 June 2024 for the Harrismith landfill site. The nett present values of the sites are based on a discount rate of 6%.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|-------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

5

. municipality does not hold any collateral as security.

The long service awards are a function of accumulated leave days. The portion of the long service bonus awards that is a function of annual leave days is convertible into cash in the year the employee attains the service eligible for an award. As a result, the portion the award is also function of the employee's annual salary. The annual salary is converted into a daily salary by dividing the annual salary by 250.

The consumer price inflation of 6.25% p.a., rounded to the nearest .25%, is obtained from the differential between the long term market value yields on the index-linked bond (the R197 at 0.54% pa) consistent with the estimated term of the liabilities and those of nominal bonds (the R186 at 6.25% p.a.).

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values.

The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

IAS19 defines the determination of the investment return assumptions to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bond or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligation." As such a discount rate of 7.25% p.a. has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after market closed on 15 May 2013.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

22. Long service liability (continued)

The following key assumptions were used in the valuation:
Discount rate 7.25 % 8.25% CPI 6.25% 6.00% Salary increase rate 7.15% 7.00% Net discount rate 0.09 1.17% Mortality
SA85-90 SA85-90 Normal retirement age 63 63

The following withdrawal assumptions were applicable over the 30 June 2013 financial year end:

Example at stated age Withdrawal rates
20 12.0% 25 6.6% 30 5.1% 35 3.6% 40 2.6% 50 1.1% 55+

The following ill-health early retirement assumptions were applicable over the 30 June 2013 financial year end:

Example at stated age Ill-health early retirement rates
31 0.02% 35 0.10% 40 0.20% 45 0.30% 50 0.50% 55 1.00% 60
1.80% 62 2.32%

Liability valuation method

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date.

In order to determine these liabilities, due allowance has been made for future award increases.

For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rate of withdrawal, early retirement and death.

In accordance with the requirements if IAS19, the Projected Unit Credit method of funding has been applied.

30 June 2010 30 June 2011 30 June 2012 30 June 2013

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

25 344 050 22 228 542

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

23. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

| | |
|--|-------------------------|
| Carrying value | |
| Present value of the defined benefit obligation-partially or wholly funded | (9,344,000) (9,344,000) |
| Net actuarial gains or losses not recognised Expenses recognised | (1,472,000) (365,000) |

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

| | |
|--|---|
| Opening balance Benefits paid Net expense recognised in the statement of financial performance | 2013, R 31,114,976 (2012: R 78,839,995) |
| | The ageing of amounts past due but not ii |

Net expense recognised in the statement of financial performance

| | |
|--|--|
| Current service cost | Receivables from exchange transactio |
| Interest cost Actuarial (gains) losses | The amount of the allowance was R 538,(|
| | The ageing of these receivables is as folk |

0 - 90 days Over 90 days

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Figures in Rand 2013 2012 Restated

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

Receivables from exchange transactions impaired

It is the relative of these two discount rates, full health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term averages.

The health care cost inflation was taken at a discount of 0.5% to the discount rate of 7.25%. A lower discount rates was used due to the drastic drop in long yields. This was done in an effort to keep the health care cost inflation above the consumer price inflation, as has been experience in South Africa since 1999.

Demographic assumptions

The demographic assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption Active Pensioners employees

Age difference between spouses 3 years 3 years Proportion married Assumed Actual marital proportion status used married

The following proportion married assumptions in all the valuation periods were applied:

Age Males Females

| | | | | | | | | | | | | | |
|----|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 20 | 5.0% | 5.0% | 25 | 25.0% | 25.0% | 30 | 55.0% | 55.0% | 35 | 78.0% | 78.0% | 40 | 84.0% |
| 45 | 84.0% | 45 | 85.0% | 85.0% | 50 | 86.0% | 86.0% | 55 | 88.0% | 88.0% | 60+ | 92.0% | 92.0% |

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

23. Employee benefit obligations (continued)

Decrement assumptions:

The same pre-retirement mortality table of SA85-90 and post-retirement mortality table of PA(90) as the previous valuation

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|--|------------|------------|
| The liability is taken as the present value of the employer's share of the continuation pensioners' contributions to the medical scheme. Continuation pensioner contributions are projected into each future year using the assumed rate of consumer price inflation and then discounted back using the discount rate. | 25,214,959 | 22,328,543 |
| Current (0-30 days) | 31 | 60 |
| 31 - 60 days | 60 | 60 |
| > 60 days | 4,750,259 | 56,511,452 |

For each active employee, this projection is based on the probability of survival to retirement age and beyond, taking into account the assumed rates of withdrawal, ill-health early retirement and mortality. For each pensioner, the liability stops when the pensioner and any remaining spouses are assumed to have died.

Valuation method

In accordance with the requirements of IAS19, the Projected Unit Credit Method of funding has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age.

Although this liability only vest at retirement (or to remaining beneficiaries in the event of early death in early retirement age) and is not necessarily affected by the length of service that an employee has had with the employer, accounting standards require that the liability for in-service employee accrue uniformly while in service.

The employer's liability is taken at the present value of the obligation to settle post-employment health care contributions excluding the portion of contribution funded by the pensioners.

It has been assumed that the medical contribution subsidies will increase in line with health care cost inflation. No allowances for volatility in the contributions due to fundamental changes in the underlying demographics of the scheme was made.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

23. Employee benefit obligations (continued)

Other assumptions

The liability derived by this valuation is dependent on the assumptions set out above, which may or may not borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses and will be recognised by the municipality in accordance with consistently applied amortisation process.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

Health care cost inflation

The valuation basis assumes that the health care cost inflation rate (which manifest itself as the annual increase of the total contribution subsidised by the employer) will be 0.47% less than the corresponding discount rate,in the long term. The effect of a one percent increase and decrease in the health care cost inflation rate is as follows:

| | | | One One percentage percentage point increase point decrease Effect on |
|------------------------------|------------|-----------|--|
| employer's accrued liability | 12,811,000 | 9,834,000 | Effect on employer's service cost 198,000 128,000 Effect on |
| employer's interest cost | 909,000 | 693,000 | |

Mortality

The table below shows the impact of a change in the mortality assumption from PA(90) with a two year adjustment to PA(90) with a year adjustment.

| | | | Valuation PA (90) -3 basis PA (90) 2 Employer's accrued liability 11,181,000 |
|------------------------------------|---------|---------|--|
| 11,620,000 Employer's service cost | 158,000 | 164,000 | Employer's interest cost 792,000 823,000 |

Amounts for the current and previous four years are as follows:

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | |
|------------|------------|
| 25,214,959 | 22,328,543 |
|------------|------------|

Maluti-a-Phofung Local Municipality

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the year ended 30 June 2013

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|----------------------------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

. municipality does not hold any collateral as security.

6

.

Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

Current assets
Current liabilities

Credit quality of cash at bank and short term deposits, excluding cash on hand

| | |
|---|----------|
| | 2,295,68 |
| | 53,10 |
| | 2,348,78 |
| 2,675,538 236 2,675,774 (3,184) 2,672,590 | (3,184 |
| | 2,345,60 |

277,988 352,262 630,251

2,249,035 69,365 2,318,400 2,948,651

277,989

Current assets Fair value At amortised cost

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|----------------------------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

. municipality does not hold any collateral as security.

6

.

Cash and cash equivalents consist of:

- Cash on hand
- Bank balances
- Other cash and cash equivalents
- Bank overdraft

- Current assets
- Current liabilities

Credit quality of cash at bank and short term deposits, excluding cash on hand

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

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| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on a bi-annual basis to take into account changes in individual property values due to alterations and subdivision.

General rates applied in valuations 2013 2012

Residential properties 0.0076 0.0076 Business and industrial properties 0.0380 0.0380 State owned, agricultural and public benefit organisations 0.0951 0.0951

Rebates granted 2013 2012

Agricultural land and undeveloped properties (excl rural state owned properties) 90% 90% Residential development properties 98% 98% Developed properties 95% 95% State owned properties 0% 0% Pensioners, indigents and public benefit organisations 100% 100%

27. Service charges

Sale of electricity 230,005,891 231,466,936 Sale of water 50,190,761 52,542,585 Sewerage and sanitation charges 28,885,115 26,130,310 Refuse removal 21,346,255 20,898,893

330,428,022 331,038,724

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

28. Government grants and subsidies

Operating grants

| | | |
|---|-------------|------------------|
| Equitable share Municipal Systems Improvement Grant | 338,051,274 | 305,453,000 |
| (MSIG) RDP House Grant Water Services Operating | 800,623 | 790,000 -121,087 |
| Subsidy (DWAF) Grant (WSOSG) Local Government | 7,661,000 | 7,661,003 |
| Financial Managment Grant (LGFMG) Installation and | 1,500,000 | 1,450,170 - |
| Maintenance of Security Equipment | | 3,294,399 |

Capital grants

| | |
|--|--|
| Expanded Public Works Programme Incentive Grant (EPWPIG) Electricity | 2013, R 31,114,976 (2012: R 78,839,995) |
| Demand Management Grant (EDMG) Sterkfontein/Regional Bulk Infrastructure | The ageing of amounts past due but not i |
| Grant (RBIG) Integrated National Electrification Programme (Eskom) Grant | |
| (INEP(Eskom)G) Municipal Infrastructure Grant (MIG) | Current (0-30 days) 31 - 60 days >60 day |

Receivables from exchange transactio

Conditional and Unconditional

Included in above are the following grants and subsidies received:

| | |
|-------------------------------|--------------------------|
| Conditional grants received | |
| Unconditional grants received | 0 - 90 days Over 90 days |

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 6kl of free water and 50kW of free electricity, which is credited tot their

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|---|------------|------------|
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| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired
Conditions still to be met - remain impaired (see Note 17). Projects still in progress, all conditions to be met in next financial year.

The purpose of the grant is to improve quality of life of poor people and increase soscial stability through engaging the previously unemployed in paid and productive activities; to reduce levels of poverty; contribute towards increased levels of employment and improve opportunities for sustainable work through experience and learning gained.

Local Government Financial Managment Grant (LGFMG)

| | | | |
|--|-------------|-------------|-----------|
| Balance unspent at beginning of year | -170 | 1,500,000 | 1,450,000 |
| Current year receipts Conditions met - | (1,500,000) | (1,450,170) | |
| transferred to revenue | | | |

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

28. Government grants and subsidies (continued)

The purpose of the grants is to promote and support reforms in financial management by building capacity in municipalities to

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---------------------|------------|------------|
| Current (0-30 days) | 25,214,959 | 22,328,543 |
| 31 - 60 days | 4,750,259 | 56,511,452 |
| >60 days | 1,149,758 | - |

Conditions still to be met - remain liabilities (see note 17). Project still in progress, expected to be complete in next financial year.
Receivables from exchange transactions impaired

The purpose of the grant is for the construcion of low cost housing in the municipal area.

Electricity Demand Management Grant (EDMG)

Current year receipts 3,000,000 Conditions met - transferred to revenue (2,000,000)

1,000,000

Conditions still to be met - remain liabilities (see note 17) Projcet still in progress, expected to be completed in next financial year..

The purpose of the grant is to provide subsidies to the municipality to implement Electricity Side Demand Management in municipality infrastructure in order to reduce electricity consumption and improve energy efficiency.

Sterkfontein/Regional Balk Infrastructure Grant (RBIG)

Balance unspent at beginning of year 2,194,879 2,433,261 Current year receipts 50,615,642 71,543,630 Conditions met - transferred to revenue (52,810,521) (71,782,012)

-2,194,879

The purpose of the grant is to develop infrastructure required to connect or augment a water resource, to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large arew within the municipality.

Water Services Operating Subsidy Grant (DWAF) (WSOSG)

Current year receipts 7,661,000 7,661,000 Conditions met - transferred to revenue (7,661,000) (7,661,000)

The purpose of the grant is subsidies and build capacity in water schemes owned and/or operated by the Department of Water Affairs (DWA) or by other agencies on behalf of the department and transfer these schemes to local government.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year 2,008,785 29,831 Current year receipts 207,842,000 171,336,000 Conditions met - transferred to revenue (209,850,785) (169,357,046)

-2,008,785

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

28. Government grants and subsidies (continued)

The purpose of the grant is to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The purpose of the grant is to assist municipalities to build in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act (MSA) and related legislation, policies and the local government turnaround strategy.

Integrated National Electrification Programme (Eskom) Grant (INEP(Eskom)G)

Balance unspent at beginning of year 1,903 Current year receipts 10,000,000 39,600,000 Conditions met - transferred to revenue (9,421,989) (39,598,097)

579,914 1,903

Conditions still to be met - remain liabilities (see note 17). Projects is still in progress, expected to be complete in next financial year.

The purpose of the grant is for the municipality to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure to order to improve quality of supply.

Operation Hlasela Projects

Balance unspent at beginning of year 450,000 450,000

Conditions still to be met - remain liabilities (see note 17). Projects is still in progress, expected to be complete in next financial year.

The purpose of the grant is to capacitate local businesses through training and transformation.

Installation and Maintenance of Security Equipment

Balance unspent at beginning of year 698,736 3,993,134 Conditions met - transferred to revenue -(3,294,398)

698,736 698,736

Conditions still to be met - remain liabilities (see note 17). Projects is still in progress, expected to be complete in next financial year.

The purpose of the grant is for the installation and maintenance of security around the Lesotho and Maluti-a-Phofung border.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

29. Other income

| | | | |
|------------------------------------|-----------|-------------|-----------|
| Accompanying vehicles Advertising | 22,469 | 20,154 | 87,469 |
| Blockages Commission received | 47,497 | 18,451 | 18,311 |
| Connection and reconnections fees | 198,445 | 287,558 | 526,575 |
| Conservancy services Donations | 555,007 | 24,234 | 20,625 - |
| Income from valuations Insurance | 70,000 | 44,919 | 52,520 |
| claims received Private work Other | 107,232 | 1,002,576 | 307 |
| income Storage fees Sale of erven | 5,191 | 3,860,334 | |
| Sale of tender documents | 3,696,594 | 37,520 | 25,340 |
| Searching fees Telephone income | 3,036,590 | 1,725,913 | |
| Dividends received Medical Aid | 350,375 | 282,070 | 20,949 |
| income Clearance certificates | 21,915 | 43,799 | 136,114 - |
| Income from festivals Sundry | 6,933 | 393,551 | 370,920 |
| credits Photocopies Restatement of | 29,162 | 26,912 | 2,023,500 |
| assets Training income | 333,661 | 5,874,902 | 7,090 |
| | 17,483 | -87,622,276 | |
| | 692,396 | 871,392 | |

11,859,028 102,758,203

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

30. General expenses

| | | | |
|------------------------------------|-----------|------------|-----------------|
| Advertising Auditors remuneration | 550,154 | 542,123 | 4,083,977 |
| Bank charges Capacity building | | 4,454,069 | 1,803,390 |
| Cleaning Consulting and | 1,691,507 | 136,452 | 189,673 |
| professional fees Consumables | | 462,455 | 280,792 947,852 |
| Departmental charges | | 2,531,529 | 1,273,642 |
| Entertainment Insurance Impairment | | 1,069,346 | 7,134,936 |
| IT expenses Lease rentals on | | 14,045,203 | 732,296 |
| operating lease Acturial loss | | 943,723 | 41,971,467 |
| Indigent subsidy Magazines, books | | 33,292,314 | -695,108,738 |
| and periodicals Mayoral fund Motor | 303,389 | 568,148 | 4,145,416 |
| vehicle expenses MSIG Expenditure | | 741,037 | 4,754,000 |
| Fuel and oil Other expenses | | 2,368,121 | 10,390,469 |
| Postage and courier Promotions and | | 6,149,258 | 17,010 17,900 |
| sponsorships Protective clothing | | 472,917 | 190,570 253,724 |
| Project maintenance costs Staff | 405,362 | 800,000 | 1,042,175 |
| welfare Subscriptions and | | 5,903,117 | 5,956,416 |
| membership fees Telephone and fax | 730,804 | 912,436 | 2,509,038 |
| Training Travel - local Valuation | | 2,114,018 | 2,179,107 |
| costs Service costs Venue expenses | | 368,493 | 5,640,412 |
| Bursaries | | 2,304,749 | 24,700 38,620 |
| | | 2,585,492 | 396,741 |
| | | 2,221,356 | 575,765 |
| | | 2,738,551 | 2,784,308 |
| | 813,927 | 1,070,976 | 71,850 |
| | 119,876 | 547,880 | 3,234,608 |
| | | 1,958,000 | 1,859,000 |
| | | 1,196,900 | 3,353,680 |
| | | | 131,941 |

109,486,621 790,721,274

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|----------------------------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

. municipality does not hold any collateral as security.

6

.

Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

Current assets
Current liabilities

Credit quality of cash at bank and short term deposits, excluding cash on hand

| | |
|---|----------|
| | 2,295,68 |
| | 53,10 |
| | 2,348,78 |
| 2,675,538 236 2,675,774 (3,184) 2,672,590 | (3,184 |
| | 2,345,60 |

277,988 352,262 630,251

2,249,035 69,365 2,318,400 2,948,651

277,989

Current assets Fair value At amortised cost

Financial assets at fair value

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

31. Employee related costs (continued)

Mr TJ Ramulondi was the Chief Finance Officer for the period July 2012 to November 2012. No new Chief Finance Officer has yet been appointed. Mr N Molefe is currently the acting Chier Finance Officer.

Remuneration of the Director of Municipal Infrastructure

Annual Remuneration 753,828 538,332 Cellphone Allowance 18,000 12,740 Travel Allowance 199,342 125,546 Municipality contributions to UIF, medical and pension funds 52,368 42,284 Travel Reimbursive Allowance 17,314 2,643 Leave payout - 9,573

1,040,852 731,118

Mr HW Ungerer was the Director of Municipal Infrastructure for the period July 2012 to June 2013.

Remuneration of the Director of Local Economic Development & Tourism

Annual remuneration 660,526 725,373 Cellphone allowance 18,000 18,000 Travel allowance 168,302 120,000 Municipality contributions to UIF, medical and pension funds 73,465 9,941 Travel reimbursive allowance 7,465 Leave pay-out 140,745

1,068,503 873,314

There were two Directors of Local Economic Development & Tourism for the period July 2012 - June 2013: Mr S Mhlambi was for the period July 2012 to December 2012. Mr FP Mothamaha was for the period January 2013 to June 2013.

Remuneration per Director of Local Economic Development & Tourism was as follows:

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|---|------------|------------|
| | 25,214,959 | 22,328,543 |
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| | 1,149,758 | - |

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The ageing of these receivables is as follows:

| | | |
|--------------------------|----------------------------------|------------|
| | 43,863,525 | 49,656,625 |
| 0 - 90 days Over 90 days | 494,175,898 | 441,105,30 |
| | 7 | 7 |
| | Long term receivable (continued) | |

5

. municipality does not hold any collateral as security.

6 Mr MW Matjele was the Director of Public Safety for the period July 2012 to June 2013.

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Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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| | | |
|---|------------|------------|
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| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

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The ageing of these receivables is as follows:

| | | |
|--------------------------|----------------------------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

· municipality does not hold any collateral as security.

6

·

Cash and cash equivalents consist of:

Cash on hand
Bank balances
Mr. T. Tsane was the Director of Parks, Sport, Recreation, Arts & Culture for the period March 2013 to June 2013.
Other cash and cash equivalents

Remuneration of the Director of Community Services

| | | | | | |
|--|---------------------|------------------|---------|---------|---------|
| Annual remuneration | Cellphone allowance | Travel allowance | 701,386 | 533,421 | 18,000 |
| Municipality contributions to UIF, medical and pension funds | | | 12,740 | 173,313 | 120,705 |
| Travel reimbursive allowance | Leave payout | | 126,955 | 86,550 | 12,189 |
| | | | | | -8,804 |

1,031,843 762,220

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| | 1,149,758 | - |

Receivables from exchange transactions impaired

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|--------------------------|----------------------------------|------------|
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| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

-

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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|---|------------|------------|
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| | 1,149,758 | - |

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| | | |
|--------------------------|---|------------|
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| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

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municipality does not hold any collateral as security.

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Cash and cash equivalents consist of:

- Cash on hand
- Bank balances
- Other cash and cash equivalents
- Bank overdraft

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

32. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The remuneration of the political office-bearers and councillors are within the upper limits of the framework envisaged in section

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|---|------------|------------|
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|--------------------------|-------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

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.
municipality does not hold any collateral as security.

6

.

Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

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|---|------------|------------|
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Receivables from exchange transactions impaired

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Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

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| | 1,149,758 | - |

Receivables from exchange transactions impaired

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| | | |
|--------------------------|----------------------------------|------------|
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| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

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Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

Current assets
Current liabilities

Credit quality of cash at bank and short term deposits, excluding cash on hand

| | |
|---|----------|
| | 2,295,68 |
| | 53,10 |
| | 2,348,78 |
| 2,675,538 236 2,675,774 (3,184) 2,672,590 | (3,184 |
| | 2,345,60 |

277,988 352,262 630,251

2,249,035 69,365 2,318,400 2,948,651

277,989

Current assets Fair value At amortised cost

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

33. Community project expenditure

| | | |
|--|-------------------|--------------------|
| Capital expenditure acquired during the year | 285,763,989 | 243,639,662 |
| Less: Asset capitalised | (242,372,310) | (138,985,285) |
| | 43,391,679 | 104,654,377 |

34. Debt impairment

| | | |
|--|-------------------|-------------------|
| Contributions to debt impairment provision | 47,277,490 | 69,149,854 |
| Debts impaired | 8,931,786 | 27,359,431 |
| | 56,209,276 | 96,509,285 |

35. Investment revenue

| | | |
|-------------------------|-----------|-----------|
| Interest revenue | | |
| Interest on investment | 1,902,787 | 2,017,989 |

36. Fair value adjustment

| | | | |
|----------------------------|-------------|---------|---|
| Financial assets Property, | 86,404 | 540,557 | - |
| plant and equipment | 624,200,098 | | |

37. Depreciation and amortisation

| | |
|---------------------------------------|--|
| Property, plant and equipment | 2013, R 31,114,976 (2012: R 78,839,995) |
| Investment property Intangible assets | The ageing of amounts past due but not i |
| | Current (0-30 days) 31 - 60 days >60 day |

38. Finance costs

| | |
|------------------------|---|
| Non-current borrowings | Receivables from exchange transactio |
| Bank | The amount of the allowance was R 538,1 |
| | The ageing of these receivables is as foll |

39. Auditors' remuneration

| | |
|------|--------------------------|
| Fees | 0 - 90 days Over 90 days |
|------|--------------------------|

40. Rental of facilities and equipment

| | |
|-----------------|--|
| Premises | 5 |
| Premises | . municipality does not hold any collateral a |

Facilities and equipment

| | |
|----------------------|--|
| Rental of facilities | 6 |
| | . Cash and cash equivalents consist of: |
| | Cash on hand |
| | Bank balances |
| | Other cash and cash equivalents |
| | Bank overdraft |

Current assets
Current liabilities

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|-------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

5
.
municipality does not hold any collateral as security.

6
.

Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

Current assets
Current liabilities

Credit quality of cash at bank and short term deposits, excluding cash on hand

| | |
|---|----------|
| | 2,295,68 |
| | 53,10 |
| | 2,348,78 |
| | (3,184 |
| 2,675,538 236 2,675,774 (3,184) 2,672,590 | 2,345,60 |

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

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| | 1,149,758 | - |

Receivables from exchange transactions impaired

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The ageing of these receivables is as follows:

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|--------------------------|----------------------------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

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municipality does not hold any collateral as security.

6

.

Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

Operating lease payments represent rentals payable by the municipality for certain motor vehicles. The operating lease contracts contains variable rental rates and is subject to changes and the contract is cancellable at any time. The above is based on the assumption that the rate will be fixed for the next year and the motor vehicles will be used for the next 12 months.

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The council leases various fixed properties under non-cancellable operating leases to various parties. The lease agreements have contains escalations of 10% or 12% per year with the agreements varying from 5 to 9 years and 11 months. Rental income, from these agreements, to the value of R113,212.10 (2012 R155,930.87) has been recognised in the statement of financial performance during the year.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

47. Contingencies

Management can not reliably estimate the financial effect of the claims due to uncertainties relating to when the cases will be resolved and management are not able to reliably determine the amount payable. The amount disclosed, where applicable, reflects the claim against the council.

There is no reimbursements from any third party for potential obligations of the municipality.

All claims are being contested based on legal advice.

Litigation in the process against the council relating to civil claims include the following: Liabilities

Claims by Council for overpayment and contra claim by supplier for alleged breach of contract:

| | | |
|---|------------|-----------------------------|
| -Claims for alleged breach of contract | 13,000,000 | 16,827,744- |
| -Claim by Council for overpayment to supplier | 4,551,777 | 10,073,975 - |
| Claims for services rendered Claim by individuals for damages Claims on arrear payments Additional litigation from lawyers confirmation | 2,332,639 | 2,432,128 - 962,504 -54,884 |

Assets

| | | |
|--|-----------|-------------|
| Claim by Council for overpayment to supplier Claim by council for tenders unauthorised tenders awarded | (177,429) | (4,732,835) |
|--|-----------|-------------|

20,496,350 24,829,037

Litigations in the process against the Council relating to labour arbitration including the following:

| | |
|------------------------|--------|
| Constructive dismissal | 60,000 |
|------------------------|--------|

48. Related parties

Relationships

Controlled entities Refer to note 14

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties

| | | |
|---|--------------|--------------|
| Maluti-a-Phofung Water (Pty) Ltd Maluti-a-Phofung Water (Pty) Ltd (Insurance) Maluti-a-Phofung Water (Pty) Ltd (Fleet management) | (51,886,315) | (42,376,103) |
| | 8,039,590 | 8,039,590 |
| | 253,525 | 133,534 |

Amounts included in the consumer receivables

| | | | |
|----------------------------------|-----------|---------|---|
| Maluti-a-Phofung Water (Pty) Ltd | 6,428,823 | 472,650 | - |
| Maluti-a-Phofung Water (Pty) Ltd | 150,321 | | |

Amounts included in grants and subsidies paid

| | | |
|----------------------------------|------------|------------|
| Maluti-a-Phofung Water (Pty) Ltd | 77,723,777 | 74,387,000 |
|----------------------------------|------------|------------|

Amounts included in the bulk purchases

| | | |
|----------------------------------|------------|------------|
| Maluti-a-Phofung Water (Pty) Ltd | 33,922,563 | 38,999,679 |
|----------------------------------|------------|------------|

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

49. Prior period errors

1. Payables from Exchange transactions

In the 2011/2012 year a amount of R5,525 was incorrectly allocated to a loan account instead of the other income account named Medical Aid Peb.

The prior year has been amended to account for this error. This will result in a decrease in payables from exchange transaction and an increase in other income.

It was found that the leave payable leave provision was incorrectly calculated the previous year. The leave provision was understated with R20,418,439. The prior year has been amended to account for this error. This will result in increase in payables from exchange transactions and a decrease in Employee related costs.

It was also found that the leave pay provision for the 2009/2010 en 2010/2011 was never reversed. The total leave pay provision to reverse is R10,866,157. The prior year has been amend to account for this error. This will result in decrease in leave pay provision and a decrease in Employee related costs.

2. Inventory

Management concluded that the water inventory management rest with Maluti-a-Phofung Water (Pty) Ltd and no water inventory need to be disclosed in Maluti-a-Phofung. the water inventory, amounting to R37,532, which existed in the books of the municipality was written off against the accumulated surplus.

The prior years has been amended to account for this restatement This will result in a decrease in inventories and decrease in other income.

3. Value Added Tax

It was found that VAT was incorrectly claimed on an invoice for staff training incurred on 20 September 2011. The VAT incorrectly claimed amount to R4,912.

VAT was not declared on an insurance claim received on 12 January 2012, VAT amounting to R152,280.70. VAT was also not declared on commission received on 19 July 2011, VAT amounting to R1,292.

It was found that in the 2010/2011 year VAT was incorrectly calculated on a portion of the revenue recognition of the Unconditional Grant Serkfontein/RBIG Grant. The VAT amounts to R2,194,879

The prior years have been amended to account for this errors.

4. Cash and cash equivalents

It was found that the cash float doesn't agree to the confirmations received from cashiers. The difference of R400 was carried over from the prior year.

The prior year have been amended to account for this error.

5. Other matters

During the year the following error/adjustments were found relating to the 2011/2012 year:

- Salary payments in terms of the prior month (prior year) of R35,739 was paid July 2012, as determined by a councilor's resolution.
 - Salary and wages of R6,847.69 was identified that was never paid and allocated to salary suspense account.
- Cheque's amounting to R29,028 was identified to be stale and was written back to the expenses.
-2 reversal of R7,178 and R33,619 was incorrectly reversed against the Stock control vote nr.

In the 2012/2011 year Professional fees was supplied by Deloitte.The invoice was never received by the municipality. After legal proceedings, Deloitte supplied the municipality with a new invoice date 2012/10/12 and it was paid by the municipality end of October 2012. The expenses was never recorded by the municipality in the 2011/2012 year.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

49. Prior period errors (continued)

At the end of the 2011/2012 financial year, the municipality cleared the RD/Reversal Receipt vote against sundry income. However, at the beginning of the 2012/2013 financial year a posting was made to the RD/Reversal Receipt vote by the debtors department. This posting should have been done at the end of the 2011/2012 financial year and this would have had the effect that the RD/Reversal Vote would have been zero. The prior year have been amended to account for error. This will result a decrease in the Payables from exchange transactions and a decrease in other income.

6. Finance leases obligation

During the preparing of the amortisation schedule on the office machine leases, it was found that the interest was incorrectly calculated and recorded in the prior year with R506,401.

The prior year have been amended to account for this error. This will result in a increase in the finance lease obligation balance and a increase in finance charges.

7. Property, plant and equipment

With the complying of the fixed asset register for the 2012/2013 year, certain opening balance of the infrastructure assets was revalued by a total amount of R473,962,488. The prior year has been amended to account for this adjustment. This will resulting a increase in the property, plant and equipment and a increase in the fair value adjustment balance. This also resulted in the accumulated depreciation balance to be adjusted for 2011 with R6,408,786 and the accumulated depreciation movement for the year to be adjusted with R3,896,193.

8. Remuneration of Councilors

Amounts disclosed for the Speaker and Councilors were incorrectly disclosed in the prior year financial statements. The amount disclosed for the Speaker was R207,449 overstated in the prior year financial statements and for the Councilors it was R139,844 understated in the prior year financial statements.

9. Receivables

Other receivables from non-exchange transactions were incorrectly disclosed in the prior year and were R3,023,947 understated in the prior year financial statements.

Consumer receivables were incorrectly recognised in the prior year and were R3,385,317 understated in the prior year financial statements.

10. Other income

The assets were restated for the prior year and resulted in a R87,622,276 adjustment. Various other small misstatements, amounting to R3,512,679 were identified which were corrected. The total impact of the corrections is that other income were adjusted with R91,134,955.

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

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

| | | |
|--------------------------|---|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

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municipality does not hold any collateral as security.

6

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Cash and cash equivalents consist of:

- Cash on hand
- Bank balances
- Other cash and cash equivalents
- Bank overdraft

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

49. Prior period errors (continued) Statement of Financial Position as at 30 June 2013 Balance as Prior period Restated previously error balance Assets reported

Current Assets

Inventory 2,342,339 3,266 2,345,605 VAT receivable 6,800,174 (158,490) 6,641,684 Cash and cash equivalents 12,465,150 (235,340) 12,229,810 Other receivables from non-exchange transactions 89,838,825 3,023,947 92,862,772 Consumer receivables 81,821,276 3,385,317 85,206,593

Total current assets 193,267,764 6,018,700 199,286,464

193,267,764 6,018,700 199,286,464

Non-current Assets

Property, plant and equipment 3,901,936,982 473,962,488 4,375,899,470 Total non-current assets 3,901,936,982 473,962,488 4,375,899,470

3,901,936,982 473,962,488 4,375,899,470

Liabilities

Current Liabilities

Payables from exchange transactions 195,021,506 41,197,121 236,218,627 Consumer deposits 11,516,110 13,138,833 24,654,943

Total current liabilities 206,537,616 54,335,954 260,873,570

206,537,616 54,335,954 260,873,570

Non-current Liabilities

Unspent conditional grants and receipts 8,085,543 2,194,879 10,280,422 Total non-current liabilities 8,085,543 2,194,879 10,280,422

8,085,543 2,194,879 10,280,422

Net Assets

Accumulated surplus - Opening balance 4,584,904,037 (269,774,688) 4,315,129,349 Total net assets 4,584,904,037 (269,774,688) 4,315,129,349

4,584,904,037 (269,774,688) 4,315,129,349

50. Risk management

Financial risk management

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

This note presents information about the municipality's exposure to each of the above risks and the municipality's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

50. Risk management (continued)

Liquidity risk

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

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

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing liquidity is to ensure as far possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on external loans, payables and lease commitments payments being either interest or capital and no renegotiation of terms were made on any of these instruments..

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

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

50. Risk management (continued)

Credit risk

Credit risk is managed on a group basis.

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customers, taking into account its financial position, past experiences and other factors. Risk limites are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The municipality's trade exposures to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the municipality such as water, santitations and rates levied. The municipality's exposure and credit ratings of its customers are continuously monitored, The municipality establishes and allowance for bad debts that represents its estimate of incurred losses in respect of trade and other receivables, No trade or other receivables have been pledged as security, Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written off. No conditions or terms of the trade and other receivables have been renegotiated with counterparties.

Payables to the municipality's subsidiary Maluti-a-Phofung Water (Pty) Ltd accounts for 12% of the maximum credit risk exposure for the municipality. The account payable originated in accordance with the sale of business agreement for the purchases of the water serve by Maluti-a-Phofung Water (Pty) Ltd. No trade and other payables have been pledged as security. When loans become irrecoverable they are written off. No conditions or terms of the loans have been renegotiated with counterparties.

The municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 1990 (Act No 94 of 1990) operating in South Africa. No cash and cash equivalents have been pledged as security. No terms or conditions were required to be renegotiated with the bank and no cash were defaulted on by the bank holding the municipality's cash. There were no restrictions with regards to the use of cash, barring the municipality's compliance with the Municipal Finance

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
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| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538 038 423 as of 30 June 2013 (2012: R 490 761 932)
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

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

51. Going concern

We draw attention to the fact that at 30 June 2013, the municipality had accumulated surplus of R 4,073,516,106 and that the municipality's total assets exceed its liabilities by R 4,073,516,106.

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
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Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

51. Going concern (continued)

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.

52. 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, other than indicated below,, which will significantly affect the financial position and results of the municipality's operations.

After year end a litigation was installed by Rural Maintenance against the municipality. This is in term of a contract that was awarded by the municipal manager, however he didn't had the proper authority to award the contract and it was cancelled by the council.

53. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure 13,099,198 3,892,225

Fruitless expenditure relates to interest on Eskom and Telkom overdue accounts and interest on late submission of VAT returns to SARS.

54. Irregular expenditure

Opening balance -4,314,791 Add: Irregular Expenditure - current year 3,310,194 Less: Amounts condoned -(4,314,791)

3,310,194

For details on irregular expenditure, refer to deviations report for the financial year 2012/2013.

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee 1,770,111 375,746 Amount paid - current year (1,770,111) (375,746)

Material losses incurred

Distributions losses on electricity (in units) 170,141,758 76,638,230

Electricity losses were calculated at 34% (2012: 16%).

Audit fees

Current year fee 4,083,977 4,454,069 Amount paid - current year (4,083,977) (4,454,069)

Maluti-a-Phofung Local Municipality

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Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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|---|------------|------------|
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Receivables from exchange transactions impaired

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The ageing of these receivables is as follows:

| | | |
|--------------------------|---|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |
| | Long term receivable (continued) | |

5

.
municipality does not hold any collateral as security.

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Cash and cash equivalents consist of:

- Cash on hand
- Bank balances
- Other cash and cash equivalents
- Bank overdraft

- Current assets
- Current liabilities

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

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

Councillors' arrear consumer accounts

The following councilors had arrear accounts outstanding for more than 90 days at 30 June 2013:

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

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|--------------------------|-------------|------------|
| | | 49,656,625 |
| | 43,863,525 | 441,105,30 |
| 0 - 90 days Over 90 days | 494,175,898 | 7 |

Long term receivable (continued)

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municipality does not hold any collateral as security.

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Cash and cash equivalents consist of:

Cash on hand
Bank balances
Other cash and cash equivalents
Bank overdraft

Current assets
Current liabilities

Credit quality of cash at bank and short term deposits, excluding cash on hand

| | |
|---|----------|
| | 2,295,68 |
| | 53,10 |
| | 2,348,78 |
| 2,675,538 236 2,675,774 (3,184) 2,672,590 | (3,184 |
| | 2,345,60 |

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

56. Utilisation of long-term liabilities reconciliation

Long-term liabilities raised 19,501,874 20,691,116

Maluti-a-Phofung Local Municipality

(Registration number FS194) Annual Financial Statements for
the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012 Restated

56. Utilisation of long-term liabilities reconciliation (continued)

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

57. Deviation from supply chain management regulations

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

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

58. Budget differences

The budget is prepared on an accrual basis. The budget was for the period 1 July 2012 to 30 June 2013.

Material differences between budget and actual amounts

The following material operation differences occurred: **Service charges:** They over budgeted by R85,454,323. They budgeted for income on the sale of streetlights, which didn't occur. And they had an additional R40,000,000 budgeted for the sale of electricity to businesses.

Interest received: They under budgeted by R5,311,128. There were more outstanding consumer receivables accounts during the year, thus the interest charged on these accounts increased. **Revaluation reserve:** They budgeted for a revaluation reserve of R300,000,000 to cover the depreciation on property, plant and equipment.

Other income: They over budgeted by R131,458,561. They budgeted R140,000,000 as income received from old debt.

Direct taxes: They over budgeted by R2,112,746. The income received from traffic fines were considerably less than what budgeted for. **Property rates:** They over budgeted by R57,158,683. Property rates were less than expected due to the valuation roll being

adjusted resulting in property rates being less than the previous year. **Government Grants:** They over budgeted by

R11,602,350. They received less from the DWA Fund than budgeted for. **Remuneration of the councilors:** They over

budgeted by R5,235,755. They budgeted a R5.5million on councilors allowances

which was not utilised. **Administration costs:** They over budgeted by R404,515,412. They over budgeted on the community

capital expenditures. **Depreciation:** They over budgeted by R4,399,938. They based the budget on the prior year depreciation

figure. **Finance costs:** They over budgeted by R7,680,980. Interest on the other financial liabilities and finance leases were

less than
expected,

Repairs and maintenance: They over budgeted by R31,054,751. They budgeted R22 million for repairs to buildings, this was not utilised. **Bulk purchases:** They over budgeted by R37,999,881. The purchase of electricity was less than expected, this correlation with
the decrease in sale of electricity.

Debt impairment: They over budgeted by R10,384,808. More people participated in the debt relief program, thus reducing the balance of debtors outstanding and this has a decrease in the debt impairment. **Contracted services:** They over budgeted by R155,178,000. They budgeted more on commission paid to debt collectors,
contracted services insurance and contracted services to replace streetlights.

Notes to the Annual Financial Statements

2013, R 31,114,976 (2012: R 78,839,995) were past due but not impaired.

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

| | | |
|---|------------|------------|
| | 25,214,959 | 22,328,543 |
| Current (0-30 days) 31 - 60 days >60 days | 4,750,259 | 56,511,452 |
| | 1,149,758 | - |

Receivables from exchange transactions impaired

The amount of the allowance was R 538,039,423 as of 30 June 2013 (2012: R 490,761,932).

The ageing of these receivables is as follows:

49 656 625