



Maluti-a-Phofung Local Municipality
(Municipal demarcation code FS194)
Annual Financial Statements
for the year ended 30 June 2011

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

General Information

Executive mayor	Mofumahadi Mopedi P
Speaker	Nthedi AM
Chief whip	Radebe FS
Mayoral committee	Lefora QW Majake MI Mohlekwa TR Mokoena JM Mokotso GT Mokubung ML Molefe-Zwane RNH Mopeli N Mosia MM Mositi MC
Councillors	Crockett M Dlamini PA Hlatsweayo TF Khambule MA Khoapha NA Kleynhans LM Komako AM Lebesa MB Lebesa MJ Lebesana PJ Letaoane TT Mavuso TM Mahlambi TJ Mazibuko MR Mbongo JM Mdakane HF Mkhwanazi TI Mofana MM Mhoaladi ME Mohlabi ML Mokoena DJ Motlounge MM Motaung PM Mahamuza LP Motaung SJ Mopeli MS Moseme LA

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

General Information

	Mosikili ST
	Mosikidi TJ
	Mphonyo MA
	Mofokeng K
	Motaung ME
	Mojakisane NS
	Mpakathe MP
	Mokoena LE
	Nhlapo MA
	Ntamane VM
	Ramakarane TA
	Ramochela A
	Rantsane J
	Salamu MS
	Seobi MJ
	Sehlako KM
	Sephula PE
	Shabalala M
	Thebe TR
	Tolofi ME
	Thakhuli ND
	Tsotetsi MJ
	Zimu CT
Grading of local authority	Grade 9
Chief finance officer (CFO)	Ramulondi TJ
Accounting Officer	Kau RS
Registered office	Cnr Moremoholo & Motloug Streets Setsing Business Center Phuthaditjhaba 9866
Postal address	Private Bag X805 Witsieshoek 9866
Bankers	First National Bank Ltd
Auditors	Auditor General - Free State

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Index

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

Contents	Page
Accounting Officer's Responsibilities and Approval	5
Audit Committee Report	6
Accounting Officer's Report	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Accounting Policies	12 - 35
Notes to the Annual Financial Statements	36 - 79

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

Appendixes:

Appendix A: Schedule of External Loans	80
Appendix B: Analysis of Property, Plant and Equipment	82
Appendix C: Segmental analysis of Property, Plant and Equipment	84
Appendix D: Segmental Statement of Financial Performance	86
Appendix E: Actual versus Budget (Revenue and Expenditure)	88
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	89
Appendix G: Schedule of other Financial Assets as at 30 June 2011	91

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Index

IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (previously CMIP)
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

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 were 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).

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 places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the 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 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Kau RS
Municipal Manager

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee members and attendance

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

Name of member	Number of meetings attended
Ntsala GA (chairperson)	6
Mohlahlo EM	1
Mothekge MP	2
Tshake MP	5

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

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 MFMA and the King II 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 letter of the Auditor-General Free State, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. 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.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General;
- Reviewed the Auditor-General Free State management letter and management's response thereto;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General Free State's report of the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General Free State.

Chairperson of the Audit Committee

Date: _____

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

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 for the year were satisfactory. The financial position of the municipality is sound.

Net surplus of the municipality was R 130,980,534 (2010: surplus R 227,371,763).

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.

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

3. Subsequent events

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

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

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

6. Accounting officer

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

Kau RS

7. Auditors

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Other financial assets	7	39,102,031	28,075,156
Inventories	10	2,087,457	2,723,488
Other receivables from exchange transactions	11	35,818,697	75,489,706
Other receivables from non-exchange transactions	12	3,142,770	80
VAT receivable	13	3,705,669	(1,406,386)
Trade receivables from exchange transactions	14	153,215,311	216,630,399
Cash and cash equivalents	15	9,088,639	6,677,647
Short term portion of long term consumer receivable	16	11,191,435	3,368,798
		257,352,009	331,558,888
Non-Current Assets			
Property, plant and equipment	4	862,826,195	636,395,082
Intangible assets	5	286,943	-
Investments in controlled entities	6	300	300
Other financial assets	7	3,295,397	19,179,646
Long term receivables	16	11,439,560	22,630,995
		877,848,395	678,206,023
Total Assets		1,135,200,404	1,009,764,911
Liabilities			
Current Liabilities			
Other financial liabilities	17	8,219,606	6,868,012
Finance lease obligation	18	-	561,595
Unspent conditional grants and receipts	19	33,737,953	11,593,876
Trade and other payables from exchange transactions	20	188,743,925	211,489,831
Consumer deposits	21	10,816,242	9,473,950
Trade and other payables from non-exchange transactions	23	3,891,681	3,855,234
		245,409,407	243,842,498
Non-Current Liabilities			
Other financial liabilities	17	12,510,115	19,622,076
Total Liabilities		257,919,522	263,464,574
Net Assets		877,280,882	746,300,337
Net Assets			
Accumulated surplus		877,280,882	746,300,337

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	24	132,112,110	148,349,730
Service charges	25	222,289,096	253,222,640
Rendering of services	26	567,274	580,890
Government grants & subsidies	27	465,563,245	393,450,235
Rental income	28	312,507	226,778
Fines		464,529	282,471
Other income	29	2,733,047	2,228,150
Interest received - investment	35	7,567,995	3,405,899
Reversal of allowance for bad debt	60	-	20,797,249
Interest received - consumers	62	24,361,235	4,739,005
Total Revenue		855,971,038	827,283,047
Expenditure			
General expenses	30	(45,607,445)	(52,390,441)
Personnel cost	32	(155,156,965)	(130,805,616)
Remuneration of councilors	33	(15,168,216)	(16,965,360)
Community project expenditure	34	(33,679,072)	(40,423,875)
Depreciation and amortisation	37	(39,124,904)	(36,340,892)
Impairment loss/ Reversal of impairments	60	(62,104,595)	-
Finance costs	38	(3,115,632)	(3,997,662)
Contracted services	41	(66,960,466)	(70,984,184)
Grants and subsidies paid	42	(68,499,000)	(61,788,998)
Bulk purchases	43	(237,515,076)	(166,547,817)
Repairs and maintenance	61	(7,045,470)	(19,534,815)
Total Expenditure		(733,976,841)	(599,779,660)
Fair value adjustments	36	8,986,337	(131,624)
Surplus for the year		130,980,534	227,371,763

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	527,895,107	527,895,107
Adjustments		
Prior year adjustments - refer to note 47	(8,966,533)	(8,966,533)
Balance at 01 July 2009 as restated	518,928,574	518,928,574
Surplus for the year	227,371,763	227,371,763
Total changes	227,371,763	227,371,763
Balance at 01 July 2010	746,300,348	746,300,348
Changes in net assets		
Surplus for the year	130,980,534	130,980,534
Total changes	130,980,534	130,980,534
Balance at 30 June 2011	877,280,882	877,280,882

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		425,632,281	333,944,318
Grants		487,707,324	372,277,515
Interest income		7,567,995	3,405,899
Other receipts		42,930,072	2,737,799
		<u>963,837,672</u>	<u>712,365,531</u>
Payments			
Employee costs		(169,188,213)	(147,767,630)
Suppliers		(368,799,935)	(216,672,267)
Finance costs		(3,115,632)	(3,997,662)
Other payments		(165,113,811)	(136,124,122)
		<u>(706,217,591)</u>	<u>(504,561,681)</u>
Net cash flows from operating activities	44	<u>257,620,081</u>	<u>207,803,850</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(257,432,515)	(179,015,241)
Purchase of other intangible assets	5	(287,467)	-
Proceeds from sale of financial assets		4,857,229	1,189,224
Purchase of long term receivables		-	(7,255,406)
Proceeds from sale of long term receivables		3,368,798	-
		<u>3,368,798</u>	<u>-</u>
Net cash flows from investing activities		<u>(248,887,128)</u>	<u>(185,081,423)</u>
Cash flows from financing activities			
Proceeds from other financial liabilities		-	18,652,327
Repayment of other financial liabilities		(5,760,367)	(3,770,553)
Finance lease payments		(561,595)	(1,149,987)
		<u>(6,321,962)</u>	<u>13,731,787</u>
Net cash flows from financing activities		<u>(6,321,962)</u>	<u>13,731,787</u>
Net increase/(decrease) in cash and cash equivalents		2,410,991	36,454,214
Cash and cash equivalents at the beginning of the year		6,677,647	(29,776,568)
Cash and cash equivalents at the end of the year	15	<u>9,088,638</u>	<u>6,677,646</u>

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Reporting municipality

Maluti-a-Phofung Local Municipality ("the municipality") is a local government institution in Phuthaditjhaba town in the Thabo Mofutsanyana district, Free State Province. Its principal activities and the address of its principal place of business are disclosed under "General Information" in the annual report.

2. Presentation of annual financial statements

2.1 Statement of compliance

The annual financial statements have been prepared in accordance with the effective 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.

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

The following significant accounting policies had been applied consistently during the current and previous reporting period.

2.2 Going concern assumption

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

2.3 Presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.4 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.

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.5 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a 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 cost directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

2.6 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.

Initial recognition and measurement

Items of property, plant and equipment are initially measured at cost on acquisition date.

Cost includes expenditure that is directly attributable to the acquisition of the asset and 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, a monetary asset or a combination of monetary and non-monetary assets, the cost of the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset 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 or to replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.6 Property, plant and equipment (continued)

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 measurement

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

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, depreciated on the straight line basis over their expected useful lives.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 *Non-current assets held for sale and discontinued operations*. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

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

Item	Estimated useful life
Bins and containers	3-5 years
Buildings	25-30 years
Community assets	25-30 years
Heritage assets	5-30 years
Infrastructure assets	
• Electricity	3-30 years
• Housing	10-40 years
• Pedestrian malls	20-30 years
• Roads and paving	10-30 years
• Sewerage	5-20 years
• Water	5-20 years
IT equipment	3-10 years
Land	Indefinite
Landfill sites	30-55 years
Leased assets	
• Office equipment	Lease term
Motor vehicles	
• Fire engines	5-10 years
• Heavy duty vehicles	5-7 years
• Other	4-10 years
Office equipment	
• Airconditioners	3-5 years
• Office machines	5-7 years
Other assets	

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.6 Property, plant and equipment (continued)

• Audio visual equipment	5-10 years
• Furniture and fittings	3-10 years
• Emergency equipment	3-7 years
• Kitchen equipment	5-10 years
Plant and machinery	1-20 years

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

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

Derecognition

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential is expected from its continued use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within in surplus or deficit when the item 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.

2.7 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, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separated from the municipality or from other rights and obligations.

Intangible assets are initially measured at cost.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in surplus or deficit when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. An intangible asset arising from development 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.

Other development expenditure is recognised in surplus or deficit as incurred.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.7 Intangible assets (continued)

Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the municipality and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Where an intangible asset is acquired at no cost, or for a nominal cost, the cost is deemed to be its fair value as at the date of acquisition.

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

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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 this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Item	Useful life
Computer software, other	2 - 5 years

Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the municipality is able to charge the public for the use of the infrastructure to the end of the concession period.

2.8 Financial instruments

Initial recognition

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

Classification

The municipality classifies financial instruments, or their component parts, on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

The municipality classifies financial instruments into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables

Classification depends on the purpose for which the financial instruments was obtained / incurred and takes place at

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.8 Financial instruments (continued)

initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets at fair value through surplus or deficit

Financial assets are designated as at fair value through surplus or deficit. There is no specific intention on the part of the municipality to keep these shares to maturity and the decision to sell may be taken at any time.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment losses.

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the municipality's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value plus direct transaction cost, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the receivables, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade and other receivables are classified as loans and receivables.

Initial recognition and measurement

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.8 Financial instruments (continued)

losses arising from changes in fair value being included in surplus or deficit for the period.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Fair value information for trade and other receivables is determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value and subsequently cash and cash equivalents are classified as loans and receivables, measured at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the substance of the contractual agreement.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.8 Financial instruments (continued)

Trade and other payables

Trade and other payables are initially measured at fair value less direct transaction costs and are subsequently measured at amortised cost, using the effective interest rate method.

Bank overdraft, borrowings and trade and other payables are classified as financial liabilities carried at amortised cost.

Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified at fair value through surplus or deficit is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.8 Financial instruments (continued)

recognised in the statement of financial performance.

2.9 Inventories

Initial recognition

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their cost are their fair value as at the date of acquisition.

Cost

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

Subsequent measurement

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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.

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

Cost is generally determined using the first-in-first-out principle except where stated otherwise (the same formula is used for all inventories having a similar nature and use to the municipality).

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

2.10 Impairment

Financial assets

A financial asset, not carried at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.10 Impairment (continued)

Reversals of impairment losses are 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 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.

If there is objective evidence that an impairment loss on loans and receivables carried 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Non-financial assets

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.

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

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

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in surplus or deficit.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance cost.

Depreciation or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.10 Impairment (continued)

Useful life is either:

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

Non-cash-generating assets

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

Useful life is either:

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

Identification

When the carrying amount of a cash and non-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 and non-cash generating asset or non-cash generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash and non-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.

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.10 Impairment (continued)

- reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

If the recoverable amount of a cash and non-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.

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

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

Cash-generating units

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

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

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

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

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

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.10 Impairment (continued)

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.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash and non-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 and non-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 and 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 cash and 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.

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.

2.11 Revenue

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.11 Revenue (continued)

Revenue from exchange transaction

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.

Revenue from exchange transaction

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

Measurement

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

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 and dividends

Interest earned and dividends received

Revenue arising from the use by others of municipal assets yielding interest and dividends 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.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

(continued)

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

Other

Tariff charges

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

Housing rental and instalments

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

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.

Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange.

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions.

Rates and taxes

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

Revenue from non-exchange transactions (continued)

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

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the conditions embodied in the agreement. To the extent that the conditions 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 the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

2.12 Provisions

A provision is recognised if, as a result of a past event, the municipality has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle 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 expenditure

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.12 Provisions (continued)

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. The unwinding of the discount is recognised as a finance cost.

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 losses.

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:

1) 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

2) 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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

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:

- subject to the second bullet, changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.12 Provisions (continued)

- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

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.

2.13 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. The municipality 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.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the municipality's accounting policies for the individual assets. Subsequently, 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.

2.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.14 Employee benefits (continued)

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other long-term employee benefits

Long-service bonus

In addition to normal vacation leave, an employee shall qualify for the following additional leave together with the following monetary award as recognition for continued service at the completion of the following:

	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 provisions of the Basic Conditions of Employment Act 75 of 1997.

The initial date of appointment of an employee shall be maintained for the purposes of determining the actual service period of the employee and for 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.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.15 Leases

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

Finance leases - municipality as 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 item or, if lower, the present value of the minimum lease payments at the commencement of the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

The 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 payment on the remaining balance of the liability.

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

Operating leases - municipality as lessee

Operating lease payments are recognised in surplus or deficit 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.

Operating leases - municipality as lessor

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

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

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

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

Finance sale and leaseback

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller – lessee. The excess amount is deferred and amortised over the lease term.

Operating sale and leaseback

Where the sale and leaseback results in an operating lease the transaction is accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.
- If the sale price is below fair value, any gain or loss is recognised immediately except that, if the loss is

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.15 Leases (continued)

compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.16 Borrowing costs

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.

2.17 Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

2.18 Unauthorised expenditure

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

2.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the MFMA (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 policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that 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.

2.21 Comparative figures

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.22 Accounting estimates and judgements

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

Trade receivables, loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Provisions

These provisions represent management's best estimate based on the information available. The probability that an outflow of economic resources will be required to settle the obligation must be assessed and a reliable estimate must be made of the amount of the obligation. Actual results may, however, differ from these estimates.

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 cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill, if any, and tangible assets.

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

Allowance for slow moving, damaged and obsolete inventory

Management has made estimates of the selling price and direct cost to sell of certain inventory items to calculate the allowance to write inventories down to the lower of cost or net realisable value. The write down is included in surplus or deficit.

An allowance is made for slow moving, damaged and obsolete damaged inventory, to write inventory down to the lower of cost or net realisable value (or current replacement cost where inventory are held in distribution or for consumption in the production process at no charge or for a nominal charge).

Fair value estimation

The fair value information presented by the municipality in note 8 requires the application of valuation techniques and assumptions based on market conditions existing at the end of the reporting period. The actual fair values may differ

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.22 Accounting estimates and judgements (continued)

from those estimated.

Critical judgements in applying accounting policies

Depreciation and the carrying value of items of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated remaining useful lives of items of property, plant and equipment will have an impact on the carrying value of these items. The estimation is based on the pattern in which an assets future economic benefits as service potential are expected to be consumed by the municipality.

Identification of impairment indicators

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The municipality applies the impairment assessment to its assets or separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Effective interest rate

The municipality uses an interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Allowance for doubtful debts

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

2.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through authorising legislation.

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

The statement of comparison between the budget and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 53.

Comparative information is not required.

2.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned or controlled 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.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality. We regard all individuals from the level of Municipal Manager, executive directors and council members as key management per the definition of the financial reporting standard.

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

Related party disclosures for transactions between the municipality and related parties that took place are disclosed in note 46.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

3. New standards and interpretations

3.1 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:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

The municipality assesses the probability of each transaction on an individual basis when it occurs. The municipality shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The impact of the interpretation is not material.

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 an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

The standard also includes detailed requirements to be applied in the accounting for:

- Post-employment benefits;
- Other long-term employee benefits; and
- Termination benefits

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The impact of the standard is not material.

3.2 Standards issued and not yet effective

The following standards expected to be applicable to the municipality have been issued, but are not yet effective:

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance.

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which the municipality reports information to management.

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

The effective date of the standard is for years beginning on or after 01 July 2011.

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

GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

Revenue from non-exchange transactions arises when an entity receives value from another entity 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 an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability and recognise an amount equal to that reduction as revenue.

The effective date of the standard is for years beginning on or after 01 July 2011.

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

GRAP 24: Presentation of Budget Information

The municipality is required to 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 is required to include 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.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 July 2011.

Although the municipality currently presents budget information in terms of legislation, additional disclosure is required in terms of GRAP 24.

The standard will however not impact the measurement of figures presented in the annual financial statements and will only result in additional detail being disclosed in relation to the budget.

The effective date of the standard is for years beginning on or after 01 April 2011.

GRAP 103: Heritage Assets

Heritage assets are 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.

Certain heritage assets are described as inalienable items which means that they are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset is recognised as an asset only if:

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

Heritage assets are recognised at cost unless they are acquired through a non-exchange transaction, in which case they are recognised at their fair value as at the date of acquisition.

The municipality has a choice between the cost and revaluation model as an accounting policy for subsequent measurement and is required to apply the chosen policy to an entire class of heritage assets.

Heritage assets are subsequently carried at their cost or revalued amount less accumulated impairment. These assets are not depreciated.

The effective date of the standard is for years beginning on or after 01 April 2011.

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

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, an entity 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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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 effective date of the standard is for years beginning on or after 01 April 2011.

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

GRAP 26: Impairment of Cash-generating Assets

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

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

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, the municipality should estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality should apply 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.

The effective date of the standard is for years beginning on or after 01 April 2011.

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

GRAP 104: Financial Instruments

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

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests.

Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument.

Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.

The effective date of the standard is for years beginning on or after 01 April 2011.

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

GRAP 105: Transfer of functions between entities under common control

GRAP 105 establishes accounting policies for the acquirer and transferor in a transfer of functions between entities under common control.

The effective date of the standard is for years beginning on or after 01 April 2011.

The impact of this standard is currently being assessed.

GRAP 106: Transfer of functions between entities not under common control

GRAP 106 establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

The effective date of the standard is for years beginning on or after 01 April 2011.

The impact of this standard is currently being assessed.

GRAP 107: Mergers

Establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

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

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

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

Improvements

Improvements are proposed to the following standards of GRAP as part of the Accounting Standards Board's improvement project:

- GRAP 1 - 4
- GRAP 9 - 14
- GRAP 16, 17, 19 and 100
- IAS 39

The effective date of these standards is for years beginning on or after 1 April 2011.

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Interpretations to the Standards of GRAP

The following standards of GRAP are affected by the Interpretations issued:

- GRAP 9 and 10
- GRAP 13
- GRAP 19

The effective date of these standards is for years beginning on or after 1 April 2011.

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

Interpretations

The list of interpretations are as follows:

- IGRAP 2 – Changes in Existing Decommissioning, Restoration and similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 – Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 – Loyalty Programmes
- IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- IGRAP 8 – Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non cash Assets to Owners
- IGRAP 10 – Assets Received from Customers
- IGRAP 13 – Operating Leases – Incentives
- IGRAP 14 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 – Revenue – Barter Transactions Involving Advertising Services

The effective date of the standard is for years beginning on or after 1 April 2011.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011			2010		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Buildings and land	99,708,367	(3,252,894)	96,455,473	49,514,405	(2,580,565)	46,933,840
Community assets	12,868,461	(2,021,708)	10,846,753	12,868,460	(1,589,989)	11,278,471
Heritage assets	92,376	(10,292)	82,084	92,376	(7,216)	85,160
Infrastructure assets	1,111,671,134	(484,601,301)	627,069,833	868,250,840	(454,071,220)	414,179,620
Landfill sites	1,610,480	(681,865)	928,615	1,610,480	(571,609)	1,038,871
Other assets	76,497,972	(27,725,301)	48,772,671	34,376,949	(20,970,580)	13,406,369
Work in progress	78,670,766	-	78,670,766	149,472,751	-	149,472,751
Total	1,381,119,556	(518,293,361)	862,826,195	1,116,186,261	(479,791,179)	636,395,082

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Revaluations	Depreciation	Total
Buildings and land	46,933,840	50,197,410	-	(675,777)	96,455,473
Community assets	11,278,471	-	-	(431,718)	10,846,753
Heritage assets	85,160	-	-	(3,076)	82,084
Infrastructure assets	414,179,620	242,735,083	-	(29,844,870)	627,069,833
Landfill sites	1,038,871	-	-	(110,256)	928,615
Other assets	13,406,369	35,302,007	8,122,977	(8,058,682)	48,772,671
Work in progress	149,472,751	(70,801,985)	-	-	78,670,766
	636,395,082	257,432,515	8,122,977	(39,124,379)	862,826,195

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Buildings and land	47,625,915	-	(692,075)	46,933,840
Community assets	9,096,021	2,549,246	(366,796)	11,278,471
Heritage assets	88,233	-	(3,073)	85,160
Infrastructure assets	383,772,418	59,106,206	(28,699,004)	414,179,620
Landfill sites	1,149,268	-	(110,397)	1,038,871
Other assets	19,678,733	197,183	(6,469,547)	13,406,369
Work in progress	32,310,145	117,162,606	-	149,472,751
	493,720,733	179,015,241	(36,340,892)	636,395,082

Pledged as security

None of the assets have been pledged as security.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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4. Property, plant and equipment (continued)

Assets subject to finance lease

Office equipment (carrying value)	-	332,818
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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.

5. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	916,948	(630,005)	286,943	629,481	(629,481)	-

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	287,467	(524)	286,943

Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software, other	162,101	(162,101)	-

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.

6. Investments in controlled entities

Name of company	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Maluti-a-Phofung Water (Pty) Ltd	Maluti-a-Phofung Municipality	100 %	100 %	300	300

The carrying amounts of controlled entities are shown net of impairment losses.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
7. Other financial assets		
At fair value through profit or loss - designated		
Listed shares	163,320	135,468
Sanlam	315,027	836,413
Momentum	15,099,318	17,816,064
Old Mutual	23,925,909	19,551,498
	39,503,574	38,339,443
Loans and receivables		
Sanlam	1,282,562	1,210,749
First National Bank	85,646	7,120,813
ABSA	219,907	213,275
Standard bank	63,051	362,762
First National Bank	-	7,760
Old Mutual	1,242,688	-
	2,893,854	8,915,359
Total other financial assets	42,397,428	47,254,802
Non-current assets		
At fair value through profit or loss - designated	770,147	17,968,897
Loans and receivables	2,525,250	1,210,749
	3,295,397	19,179,646
Current assets		
At fair value through profit or loss	38,733,427	20,370,546
Loans and receivables	368,604	7,704,610
	39,102,031	28,075,156
	42,397,428	47,254,802

Fair value information

Financial assets at fair value through profit or loss are recognised at fair value, which is therefore equal to their carrying amounts.

The following classes of financial assets at fair value through surplus or deficit are measured at fair value using quoted market prices:

- Listed shares

Where quoted market prices are not available, valuation techniques are used to determine fair value, as explained below:

The fair value of unlisted investments were estimated using the fund value as determined by the institution. The fair value is determined annually at the reporting date.

Fair value hierarchy of financial assets at fair value through surplus or deficit

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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7. Other financial assets (continued)

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.

Level 1 - quoted prices (unadjusted) in active markets for identical assets.

Level 2 - inputs other than quoted prices included in level 1 that are observable for the assets either directly (as prices) or indirectly (derived from prices).

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

Level 1

Listed shares	163,320	135,468
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Level 2

Unlisted investments	34,359,015	38,203,975
	34,522,335	38,339,443

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.

Fair values of loans and receivables

Loans and receivables	2,893,854	8,915,359
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The fair value of loans and receivables were estimated using the fund value as determined by the institution. The fair value is determined annually at the reporting date.

Loans and receivables past due but not impaired

Loans and receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2011, no accounts were past due.

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

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

8. Financial assets by category

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

2011

	Loans and receivables	Fair value through surplus or deficit - designated	Total
Cash and cash equivalents	9,088,639	-	9,088,639
Consumer receivables	153,215,311	-	153,215,311
Consumer receivables - long term	22,630,995	-	22,630,995
Other financial assets (non-current)	2,525,250	770,147	3,295,397
Other financial assets (current)	368,606	38,733,427	39,102,033
Other receivables from exchange transactions	35,818,697	-	35,818,697
Other receivables from non-exchange transactions	3,142,770	-	3,142,770
	226,790,268	39,503,574	266,293,842

2010

	Loans and receivables	Fair value through surplus or deficit - designated	Total
Cash and cash equivalents	6,677,647	-	6,677,647
Consumer receivables	216,630,399	-	216,630,399
Consumer receivables - long term	25,999,793	-	25,999,793
Other financial assets (non-current)	1,210,749	17,968,897	19,179,646
Other financial assets (current)	7,704,610	20,370,546	28,075,156
Other receivables from exchange transactions	75,489,706	-	75,489,706
Other receivables from non-exchange transactions	80	-	80
	333,712,984	38,339,443	372,052,427

9. Retirement benefits

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act, exist for this purpose. All councillors and employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 is being finalised and will be submitted to the municipality once approved by the executive committee of the fund. No information could be obtained for the other two funds regarding the administrators nor the actuarial valuations.

The municipality is under no obligation to cover any unfunded benefits.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
10. Inventories		
Consumable stores	2,066,260	2,670,793
Water materials at cost	37,532	37,532
Fuel	8,077	15,163
	<u>2,111,869</u>	<u>2,723,488</u>
Inventories (write-downs)	(24,412)	-
	<u>2,087,457</u>	<u>2,723,488</u>

The cost of inventories recognised as an expense during the period is R10,630 (2010 - R344,648).

11. Other receivables from exchange transactions

Deposits	1,601,827	1,495,636
Other receivables	7,476,357	12,826,111
Unallocated deposits	17,878,322	54,372,252
Insurance paid on behalf of Maluti Water (Pty) Ltd	8,039,554	6,795,707
Money stolen	822,637	-
	<u>35,818,697</u>	<u>75,489,706</u>

Money stolen: During August 2010 fraud was detected to the amount of R5,539,228. The Free State High Court in Bloemfontein ordered the amount of R4,728,903 to be paid back to Maluti-A-Phofung Local Municipality.

Credit quality of other receivables

The credit quality of 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 financial assets that are fully performing have been renegotiated in the last year.

Other receivables past due but not impaired

Other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 35,768,473 (2010: R 75,489,706) were past due but not impaired.

12. Other receivables from non-exchange transactions

Sundry receivables	<u>3,142,770</u>	<u>80</u>
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Other receivables from non-exchange transactions pledged as security

None of the other receivables from non-exchange transactions were pledged as security.

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions are neither past due nor impaired.

Fair value of other receivables from non-exchange transactions

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Other receivables from non-exchange transactions (continued)		
The municipality does not hold any collateral as security.		
13. VAT receivable		
VAT receivable	14,554,970	6,974,750
VAT payable	(10,849,301)	(8,381,136)
	3,705,669	(1,406,386)
VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from receivables.		
14. Trade receivables from exchange transactions		
Gross balances		
Rates	246,477,697	291,753,927
Electricity	58,076,731	69,417,217
Water	100,218,878	106,536,238
Sewerage	46,558,409	39,535,282
Refuse	56,768,236	55,348,322
Sundry receivables	66,727,437	32,150,340
	574,827,388	594,741,326
Less: Allowances for bad debt		
Rates	(138,976,329)	(162,681,122)
Electricity	(39,177,031)	(38,848,887)
Water	(92,580,551)	(78,767,006)
Sewerage	(43,364,530)	(28,865,700)
Refuse	(54,739,879)	(43,586,755)
Sundry receivables	(52,773,757)	(25,361,457)
	(421,612,077)	(378,110,927)
Net balance		
Rates	107,501,368	129,072,805
Electricity	18,899,700	30,568,330
Water	7,638,327	27,769,232
Sewerage	3,193,879	10,669,582
Refuse	2,028,357	11,761,567
Sundry receivables	13,953,680	6,788,883
	153,215,311	216,630,399
Rates		
Current (0 -30 days)	14,740,585	24,808,625
31 - 60 days	10,385,719	10,047,839
61 - 90 days	7,939,954	10,420,986

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
14. Trade receivables from exchange transactions (continued)		
> 91 days	74,435,110	83,795,355
	107,501,368	129,072,805
Electricity		
Current (0 -30 days)	8,148,495	18,803,183
31 - 60 days	4,587,691	3,708,762
61 - 90 days	2,077,859	3,015,006
> 91 days	4,085,655	5,041,379
	18,899,700	30,568,330
Water		
Current (0 -30 days)	4,776,153	5,475,541
31 - 60 days	3,789,425	4,305,469
61 - 90 days	4,886,526	6,756,201
> 91 days	(5,813,777)	11,232,021
	7,638,327	27,769,232
Sewerage		
Current (0 -30 days)	2,324,359	3,720,715
31 - 60 days	1,745,765	1,696,058
61 - 90 days	1,656,628	1,736,519
> 91 days	(2,532,873)	3,516,290
	3,193,879	10,669,582
Refuse		
Current (0 -30 days)	1,756,761	1,868,237
31 - 60 days	1,575,629	1,503,786
61 - 90 days	1,469,604	1,630,950
> 91 days	(2,773,637)	6,758,594
	2,028,357	11,761,567
Other		
Current (0 -30 days)	3,577,762	198,072
31 - 60 days	1,650,860	40,027
61 - 90 days	3,204,296	164,602
> 91 days	5,520,762	6,386,182
	13,953,680	6,788,883
Reconciliation of allowance for bad debt		
Balance at beginning of the year	(378,110,927)	(398,908,177)
Allowance for bad debt	(33,255,159)	-
Consumer receivables written off / allowance utilised	(10,245,991)	-

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
14. Trade receivables from exchange transactions (continued)		
Reversal of allowance for bad debt	-	20,797,250
	<u>(421,612,077)</u>	<u>(378,110,927)</u>

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

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

Consumer receivables past due but not impaired

VAT on consumer receivables and consumer receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2011, R 33,913,516 (2010: R 48,508,085) were past due but not impaired.

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

Current (0-30 days)	3,702,034	19,471,570
31 - 60 days	2,190,025	3,727,686
>60 days	28,021,457	25,308,829
	<u>33,913,516</u>	<u>48,508,085</u>

Consumer receivables impaired

As of 30 June 2011, on consumer receivables of R 581,236,173 (2010: R 601,150,112) an amount of R28,849,436 was impaired.

The amount of the allowance for bad debt R 421,612,077 as of 30 June 2011 (2010: R 378,110,927).

The ageing of these receivables is as follows:

0 - 90 days	83,308,507	75,408,985
Over 90 days	338,303,570	302,701,942
	<u>421,612,077</u>	<u>378,110,927</u>

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

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,816	69
Bank balances	8,847,864	6,105,331
Other cash and cash equivalents	237,959	572,247
	<u>9,088,639</u>	<u>6,677,647</u>

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

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			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
First National Bank - Current	8,410,317	11,193,927	17,133,457	(68,794,248)	12,783,432	(27,303,812)
First National Bank - Savings	237,959	572,247	967,606	237,959	572,247	967,606
Total	<u>8,648,276</u>	<u>11,766,174</u>	<u>18,101,063</u>	<u>(68,556,289)</u>	<u>13,355,679</u>	<u>(26,336,206)</u>

16. Long term receivables

Consumer receivables (non-current portion)	11,439,560	22,630,995
Consumer receivables (current portion)	11,191,435	3,368,798
	<u>22,630,995</u>	<u>25,999,793</u>

The long term receivables consist 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 long term receivables are neither past due nor impaired.

None of the long term receivables were pledged 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 fair value of long term receivable mentioned above. The municipality does not hold any collateral as security.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
17. Other financial liabilities		
Measured at amortised cost		
Annuity loans	10,824,998	10,613,727
All annuity loans are from the Development Bank of South Africa and repayments are made on a six monthly basis. The last loan will be redeemed at 31 December 2015. The loans carry interest between 11% and 14% per annum. This loan is secured by a Momentum investment.		
First National Bank Intabazwe Corridor	9,904,723	15,876,361
The loan is unsecured, bears interest at 11.45% per annum and repayable in bi-annual installments of R3,538,176.		
	<u>20,729,721</u>	<u>26,490,088</u>

Refer to Appendix A for more detail on other financial liabilities.

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.

Maluti-a-Phofung Local Municipality intends to procure a R114,000,000 long term loan with Development Bank of South Africa.

Non-current liabilities

At amortised cost	<u>12,510,115</u>	<u>19,622,076</u>
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Current liabilities

At amortised cost	<u>8,219,606</u>	<u>6,868,012</u>
	<u>20,729,721</u>	<u>26,490,088</u>

The fair values of the financial liabilities approximates their carrying amounts.

18. Finance lease obligation

Minimum lease payments due

- within one year	-	581,600
	-	581,600
less: future finance charges	-	(20,005)
Present value of minimum lease payments	<u>-</u>	<u>561,595</u>

Present value of minimum lease payments due

- within one year	-	561,595
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Carrying amount of assets under finance lease	-	332,818
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All finance leases have been paid off in the 2011 financial year. In terms of finance leases on printers, copiers and fax machines, the lease term has expired and are currently leased on a month to month basis.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
18. Finance lease obligation (continued)		
The average lease term was 5 years and the average effective borrowing rate was 10% (2010: 10%).		
Interest rates were linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.		
The municipality's obligations under finance leases were secured by the lessor's charge over the leased assets. Refer to Appendix A for more detail on borrowings.		
The municipality did not default on any of the principal or interest repayments during the period of the lease agreements. No terms were renegotiated before the financial statements were authorised.		
19. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
EPWPI Grant	6,553,850	-
Finance Management Grant	170	-
RDP House	3,886,416	3,976,632
Sterkfontein (Regional Bulk Infrastructure)	11,656,685	-
Municipal Infrastructure Grant	29,831	-
Municipal Systems Improvement Grant	623	-
Operation Hlasela Projects	1,450,000	1,450,000
Installation and Maintenance of Security Equipment	10,160,378	6,167,244
	33,737,953	11,593,876
Movement during the year		
Balance at the beginning of the year	11,593,876	36,621,829
Received during the year	218,858,956	165,231,938
Income recognition during the year	(196,714,879)	(186,404,658)
Transfer back to donor		(3,855,23)
	33,737,953	11,593,876
See note 27 for the reconciliation of grants from National/Provincial Government.		
20. Trade and other payables from exchange transactions		
Accrued leave pay	12,499,083	10,832,887
Accrued bonus	4,701,124	3,558,107
Deposits received	112,191	91,818
Payments received in advance	9,148,480	70,423,060
Sundry payables	97,280,451	42,582,673
Stale cheques	893,969	-
Long service bonus	4,548,266	-
Trade payables	38,565,395	26,002,597
Unidentified deposits	20,994,966	57,998,689

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
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20. Trade and other payables from exchange transactions (continued)

	<u>188,743,925</u>	<u>211,489,831</u>
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Fair value of trade and other payables

The municipality did default on the payment of suppliers within the average of 30 days.

The terms were not renegotiated before the financial statements were authorised for issue.

21. Consumer deposits

Rates and electricity	<u>10,816,242</u>	<u>9,473,950</u>
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Guarantees held in lieu of electricity and water deposits	<u>74,600</u>	<u>74,600</u>
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No interest accrues on the balance of the consumer deposits held by the municipality.

22. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	20,729,718	20,729,718
Trade and other payables from exchange transactions	188,743,925	188,743,925
Trade and other payables from non-exchange transactions	3,891,681	3,891,681
Consumer deposits	<u>10,816,242</u>	<u>10,816,242</u>
	<u>224,181,566</u>	<u>224,181,566</u>

2010

	Financial liabilities at amortised cost	Total
Other financial liabilities	26,490,088	26,490,088
Finance lease obligation	561,595	561,595
Trade and other payables from exchange transactions	211,489,831	211,489,831
Trade and other payables from non-exchange transactions	3,855,234	3,855,234
Consumer deposits	<u>9,473,950</u>	<u>9,473,950</u>
	<u>251,870,698</u>	<u>251,870,698</u>

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
23. Trade and other payables from non-exchange transactions		
National Revenue Fund	3,855,234	3,855,234
SARS (employee tax)	36,447	-
	3,891,681	3,855,234
24. Property rates		
Rates received		
Industrial / commercial / residential	27,126,491	34,288,461
National and Provincial Government	104,985,619	114,061,269
	132,112,110	148,349,730
Valuations		
Valuations on which property rates are based 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 subdivisions.		
A general rate of R0.3802 (2010: R 0.03802) is applied to the value of residential properties. R0.3802 (2010: R0.7604) is applied to the value of business, industrial and mining properties and R0.0951 (2010: R0.0951) is applied to the value of state owned, agricultural land and public benefit organisation to determine assessment rates. Rebates of 90% (2010: 90%) are granted on agricultural land and undeveloped properties, excluding rural state owned properties. Rebates of 98% (2010: 98%) are granted on residential develop properties and 95% on other developed properties. No rebates are granted for state owned properties. Pensioners, indigents and public benefit organisations receive a 100% rebate.		
25. Service charges		
Sale of electricity	152,260,240	149,227,397
Sale of water	26,388,935	62,088,793
Sewerage and sanitation charges	24,759,134	23,752,590
Refuse removal	18,880,787	18,153,860
	222,289,096	253,222,640
26. Rendering of services		
Entrance fees	123,259	151,417
Admission fees	157,284	124,025
Cemetary fees	285,737	303,626
Callout fees	994	1,822
	567,274	580,890

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Government grants and subsidies		
Equitable Share	267,074,545	208,608,527
Municipal Infrastructure Grant	119,636,169	111,849,125
Municipal Systems Improvement Grant (MSIG)	11,693,377	395,000
Integrated National Electrification (DME) Grant	9,370,000	15,515,000
Intabazwe Corridor Grant	-	15,039,257
RDP Houses Grant	90,216	506,260
Water Services Operating Subsidy (DWAF) Grant	44,088,421	14,748,998
Regional Bulk Infrastructure Grant	-	21,289,888
Financial Management Grant	1,199,830	732,619
Installation and Maintenance of Security Equipment	11,839,737	3,832,756
E.P.W.P.I Projects	570,950	-
DBSA ICT Strategy Grant	-	932,805
	465,563,245	393,450,235

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 which is credited to their accounts (6kl of free water and 50kW electricity)

Expanded Public Works Programme Incentive Grant for Municipalities

Current-year receipts	6,553,850	-
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The grant is utilised to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure providing basic services for the benefit of poor households. The grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

Included in the unspent MIG Grant there is retention monies and surety withheld from various projects financed by MIG.

Conditions still to be met - remain liabilities (see note 19)

Financial Management Grant (FMG)

Current-year receipts	1,200,000	750,000
Conditions met - transferred to revenue	(1,199,830)	(732,619)
Unspent grant to be paid back to the National Revenue Grant	-	(17,381)
	170	-

The purpose of the grant is to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act (MFMA).

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Government grants and subsidies (continued)		
DBSA ICT Strategy Grant		
Balance unspent at beginning of year	-	305
Current-year receipts	-	932,500
Conditions met - transferred to revenue	-	(932,805)
	<u>-</u>	<u>-</u>

The purpose of the grant is to implement the Enterprise Resource Plan in line with the ICT strategy.

RDP Houses Grant

Balance unspent at beginning of year	3,976,632	4,482,892
Current-year receipts	-	(506,260)
Conditions met - transferred to revenue	(90,216)	-
	<u>3,886,416</u>	<u>3,976,632</u>

Conditions still to be met - remain liabilities (see note 19)

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

Sterkfontein (Regional Bulk Infrastructure)

Current-year receipts	<u>11,656,685</u>	<u>-</u>
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Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is for the social component of regional bulk water and sanitation services.

A contractor has been appointed by Bid 03/2010/2011 for installation of the water pipeline.

Water Services Operating Subsidy Grant (DWAF)

Balance unspent at beginning of year	-	4,970,250
Current-year receipts	42,958,131	11,061,750
Conditions met - transferred to revenue	(42,958,131)	(14,748,998)
Unspent grant to be paid back to the National Revenue Fund	-	(1,283,002)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19)

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to Maluti-a-Phofung Water (Pty) Ltd.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Government grants and subsidies (continued)		
Regional Bulk Infrastructure Grant		
Current-year receipts	-	22,684,688
Conditions met - transferred to revenue	-	(21,289,888)
Unspent grant to be paid back to the National Revenue Fund	-	(1,394,800)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19)		
The purpose of the grant is to develop regional bulk infrastructure for water supply to supplement water treatment works at resource development and link such water resource development with the local bulk and local distribution networks on a regional basis cutting across several local municipal boundaries. In the case of sanitation regional bulk collection as well as regional waste water treatment works.		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	-	6,729,125
Current-year receipts	119,666,000	105,120,000
Conditions met - transferred to revenue	(119,636,169)	(111,849,125)
	<u>29,831</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19)		
The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to Maluti-a-Phofung Water (Pty) Ltd.		
Municipal Systems Improvement Grant (MSIG)		
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(749,377)	(395,000)
Unspent grant to be paid back to the National Revenue Fund	-	(340,000)
	<u>623</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19)		
The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government: Municipal Systems Act 32 of 2000.		
Integrated National Electrification Programme (Municipal) Grant		
Balance unspent at beginning of year	-	5,400,000
Current-year receipts	10,000,000	10,115,000
Conditions met - transferred to revenue	(10,000,000)	(15,515,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19)		

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Government grants and subsidies (continued)		
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 in order to improve quality of supply.		
Operation Hlasela Projects		
Balance unspent at beginning of year	1,450,000	-
Current-year receipts	-	1,450,000
	1,450,000	1,450,000
Conditions still to be met - remain liabilities (see note 19)		
The purpose of the grant is for the cleaning of the municipal area.		
Installation and Maintenance of Security Equipment		
Balance unspent at beginning of year	6,167,244	-
Current-year receipts	14,000,000	10,000,000
Conditions met - transferred to revenue	(10,006,866)	(3,832,756)
	10,160,378	6,167,244
Conditions still to be met - remain liabilities (see note 19)		
The purpose of the grant is for the installation and maintenance of security around the Lesotho and Phuthaditjhaba border.		
28. Rental income		
Rental of:		
Halls	69,104	60,452
Premises	87,905	19,265
Facilities and equipment	155,498	147,061
	312,507	226,778
29. Other income		
Advertising income	55,508	76,157
Blockages	26,794	14,883
Commissions salary deductions	156,330	131,617
Conservancy services	232,233	165,135
Escorting - vehicles	13,384	8,731
Income from valuations	39,345	36,669
New connections	192,411	284,697
Private work	1,549	1,040
Reconnections - non payment	180,313	201,536
Sale of erven	516,300	574
Sale of tender documents	214,753	143,870

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
29. Other income (continued)		
Searching fees	19,055	21,871
Sundry income	609,777	333,026
Training income	475,295	808,344
	2,733,047	2,228,150
For related party transactions - refer to note 46.		
30. General expenses		
Advertising	270,053	371,756
Auditors remuneration	3,781,784	2,994,745
Bank charges	1,256,488	1,011,360
Capacity building	92,986	211,860
Chemicals	11,191	7,149
Cleaning	313,270	269,767
Consulting and professional fees	9,384,426	14,375,588
Consumables	191,132	1,438,533
Electricity	1,465,159	1,519,229
Entertainment	408,612	567,871
FMG expenditure	25,384	732,619
Fuel and oil	4,937,285	3,846,767
IDP expenses	1,862	158,220
IT expenses	595,235	2,056,002
Lease rentals on operating lease	40	276,987
Local economic development projects	-	85,117
MSIG expenditure	749,377	395,000
Magazines, books and periodicals	18,475	18,899
Mayoral fund	541,443	940,830
Motor vehicle expenses	215,414	73,490
Other expenses	3,639,109	2,638,720
Postage and courier	1,932,838	2,078,218
Promotions	731,498	790,436
Protective clothing	31,665	878,584
Security (guarding of municipal property)	2,229,534	3,108,693
Subscriptions and membership fees	2,077,144	1,447,730
Telephone and fax	2,820,724	3,126,860
Training	1,139,306	492,031
Valuation costs	3,464,563	5,146,920
Venue expenses	3,079,254	1,330,460
	45,607,445	52,390,441

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
31. Operating surplus		
Operating surplus for the year is stated after accounting inter alia for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	180,238	(8,891)
Equipment		
• Contractual amounts	21,996	285,878
	202,234	276,987
Depreciation and amortisation on property, plant and equipment	39,124,904	36,340,892
Employee costs	170,325,181	147,770,976
32. Personnel costs		
Acting allowances	31,486	63,245
Bargaining council contribution	47,531	41,432
Basic	98,243,875	83,003,461
Bonus	7,763,792	7,227,389
Car allowance	2,897,784	2,759,923
Group insurance	95,851	58,474
Housing benefits and allowances	459,918	569,361
Leave pay	2,510,537	684,846
Long service bonus	4,548,268	-
Medical aid - company contributions	5,500,611	4,873,487
Overtime payments	5,929,115	6,783,585
Post-employment benefits - (pension - defined contribution plan)	15,727,684	13,612,624
Skills development levies	1,162,734	965,580
Standby allowance	579,269	611,414
Telephone / cellphone allowance	198,700	208,100
Tool allowance	720	720
Travel, motor car, accommodation, subsistence and other allowances	2,018,464	2,683,918
UIF	906,162	831,245
	148,622,501	124,978,804
Remuneration of Municipal Manager		
Annual remuneration	479,174	183,639
Allowances	295,367	90,031
Contributions to UIF, medical and pension Funds	115,430	45,044
	889,971	318,714

Remuneration as reflected in 2010 is for a period of 5 months due to a new appointment in February 2010.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
32. Personnel costs (continued)		
Remuneration of Chief Finance Officer		
Annual remuneration	464,818	438,843
Allowances	231,951	250,811
Contributions to UIF, medical and pension funds	125,091	117,265
	821,860	806,919
Remuneration of Director: Municipal Infrastructure		
Annual remuneration	451,818	411,105
Allowances	196,300	205,667
Contributions to UIF, medical and pension funds	44,712	39,633
	692,830	656,405
Remuneration of Chief Operating officer		
Annual remuneration	680,703	655,538
Allowances	138,000	149,784
Contributions to UIF, medical and pension funds	9,494	9,078
	828,197	814,400
Remuneration of Director: Public Safety		
Annual remuneration	424,665	395,338
Allowances	145,124	172,323
Contributions to UIF, medical and pension funds	108,338	99,192
	678,127	666,853
Remuneration of Director: Corporate Services		
Annual remuneration	462,252	434,868
Allowances	139,856	155,181
Contributions to UIF, medical and pension funds	7,249	6,811
	609,357	596,860
Remuneration of Director: Parks, Sports, Recreation, Arts and Culture		
Annual remuneration	481,965	472,335
Allowances	146,431	171,541
Contributions to UIF, medical and pension funds	38,885	12,102
	667,281	655,978

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
32. Personnel costs (continued)		
Remuneration of Director: Community		
Annual remuneration	439,963	410,960
Allowances	161,454	177,338
Contributions to UIF, medical and pension funds	79,910	74,105
	681,327	662,403
Remuneration of Director: Spatial Development		
Annual remuneration	405,841	378,300
Allowances	171,412	186,435
Contributions to UIF, medical and pension funds	88,265	83,545
	665,518	648,280
33. Remuneration of councillors		
Councillors	8,638,228	10,242,262
Executive Mayor	724,675	790,136
Mayoral Committee Members	5,319,915	5,414,476
Speaker	485,398	518,486
	15,168,216	16,965,360
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 has use of a council owned vehicle for official duties.		
34. Community project expenditure		
Capital expenditure acquired during the year	275,983,427	218,199,341
Less: Assets capitalised	(242,304,355)	(177,775,466)
	33,679,072	40,423,875
35. Investment revenue		
Interest revenue		
Interest on investment	7,567,995	3,405,899

The amount included in investment revenue arising from exchange transactions amounted to R 2,207,574 (2010: R3,405,899).

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
36. Fair value adjustments		
Property, plant and equipment (Fair value model)	8,379,655	-
Other financial assets		
• Designated as at fair value through surplus or deficit	606,682	(131,624)
	<u>8,986,337</u>	<u>(131,624)</u>
37. Depreciation		
Property, plant and equipment	<u>39,124,904</u>	<u>36,340,892</u>
38. Finance costs		
Financial institutions	<u>3,115,632</u>	<u>3,997,662</u>
39. Auditors' remuneration		
Fees	<u>3,781,784</u>	<u>2,994,745</u>
40. Operating lease		
<i>Lessor</i>		
The council leases various fixed properties under non-cancellable operating leases to various parties. The lease agreements have escalations of 10% or 12% per year with the agreements varying from 5years to 9years and 11months. Rental income, for these agreements, to the value of R140,403 (2010:R126,288) has been recognised in the income statement during the year.		
<i>Lessee</i>		
The municipality has various operating leases for printers, copiers and fax machines, which are on a month to month basis.		
Future minimum lease payments received (Lessor)		
Receivable within 1 year	<u>155,498</u>	<u>147,061</u>
Operating lease payments (lessee)		
Operating lease payments made	<u>202,234</u>	<u>276,988</u>
41. Contracted services		
Information technology services	3,677,475	8,879,307
Insurance	20,988,593	15,567,311
Operating leases	1,412,756	1,104,000
Other contractors	3,830,793	2,238,492
Specialist services	37,050,849	43,195,074
	<u>66,960,466</u>	<u>70,984,184</u>

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
42. Grants and subsidies paid		
Other subsidies		
DWAf subsidy to Maluti-a-Phofung Water (Pty) Ltd	10,944,000	14,748,998
Equitable share to Maluti-a-Phofung Water (Pty) Ltd	57,555,000	47,040,000
	68,499,000	61,788,998
43. Bulk purchases		
Electricity	205,332,047	146,947,709
Water	32,183,029	19,600,108
	237,515,076	166,547,817
44. Cash generated from operations		
Surplus	130,980,534	227,371,763
Adjustments for:		
Depreciation and amortisation	39,124,904	36,340,892
Fair value adjustments	(8,986,337)	131,624
Allowance for debt impairment	62,104,595	(20,797,249)
Other non-cash items	256,673	13
Changes in working capital:		
Inventories	636,031	(350,900)
Other receivables from exchange transactions	39,671,009	(17,308,155)
Other receivables from non-exchange transactions	(3,142,690)	(80)
Consumer receivables	1,310,493	(95,340,786)
Trade and other payables from exchange transactions	(22,745,905)	88,337,223
VAT	(5,112,042)	9,079,242
Taxes and transfers payable (non exchange)	36,447	3,855,234
Unspent conditional grants and receipts	22,144,077	(25,027,953)
Consumer deposits	1,342,292	1,512,982
	257,620,081	207,803,850

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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45. 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 amounts disclosed, where applicable, reflects the claim against the council.

There is no reimbursement from any third parties for potential obligations of the municipality.

All the claims are being contested based on legal advice.

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

1. Claim by council for overpayment to supplier and contra claim by supplier for alleged breach of contract:		
1.1 Claims for alleged breach of contract	13,000,000	15,000,000
1.2 Claim by council for overpayment to supplier	(304,106)	(304,106)
1.3 Claim by supplier for expropriation of land to council	4,415,495	-
2. Claims for services rendered	9,494,329	198,667
3. Claim by individuals for damages	1,208,529	13,000
4. Claims on arrear payments	4,196,443	170,000
	<u>32,010,690</u>	<u>15,077,561</u>

46. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel (note 32 and 33);
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence.
- entities that control or exert significant influence over the municipality

The economic entity's key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Details of loans, together with the conditions thereof, granted prior to this date are disclosed below.

Relationships

Controlled entity

Refer to note 6

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
46. Related parties (continued)		
Entity controlled by council member's spouse	Mayihlome Tyres	
Close family member of key management	Tshedza Guest Lodge	
Related party balances		
Amounts included in trade receivable/(trade payable) regarding related parties		
Maluti-a-Phofung Water (Pty) Ltd	(33,592,405)	(20,839,687)
Maluti-a-Phofung Water (Pty) Ltd (Insurance)	8,039,590	6,795,707
Amounts included in consumer receivables		
Maluti-a-Phofung Water (Pty) Ltd	7,414,949	5,754,816
Amounts included in grants and subsidies paid		
Maluti-a-Phofung Water (Pty) Ltd	68,499,000	61,788,998
Related party transactions		
Amounts included in bulk purchases		
Maluti-a-Phofung Water (Pty) Ltd	32,183,029	19,600,108
Amounts included in general expenses		
Maluti-a-Phofung Water (Pty) Ltd	(1,091,126)	(1,729,157)
Amounts included in repairs and maintenance		
Mayihlome Tyres	2,719,860	953,996
Amounts included in capital expenditure		
Mayihlome Tyres	4,144	1,823
Amounts included in accommodation and lodging paid		
Tshedza Guest Lodge	44,550	4,990

47. Prior period errors

Investment made was not recorded in the financial system. The impact is that accumulated surplus's opening balance is understated by R7,759 and investment understated by the same amount.

Receipts were incorrectly recorded during the 2009 financial year. The impact is that accumulated surplus's opening balance is overstated by R5,822,763 and suspense accounts overstated by the same amount.

Expenses were indicated on the bank reconciliation as paid but not yet captured - the accumulated surplus is thus overstated by R217,739, the cash book balance overstated by R224,469 and VAT input understated by R6,729.

Items were appearing in the July bank statement and relating to the 2009-10 financial year were not included in the general ledger - community project expenditure, repairs and maintenance, contracted services, general expenditure, accounts payable and VAT was thus understated. The impact was that accounts payable was understated by R3,101,623, expenditure was understated by R2,547,257 and VAT understated by R554,365.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

47. Prior period errors (continued)

Direct deposits were banked into the municipality's bank account before 1 November 2008 received after 1 November 2008 in Sebata (prior financial system) were overstated as well as the accumulated surplus have been overstated. The impact is that Trade creditors were understated by R2,938,221.

Money for rental was collected by the attorneys, but was incorrectly allocated to the suspense account. Accumulated surplus understated and suspense account overstated. The impact was that the suspense accounts was overstated by R781,173 and rental income understated by the same amount.

Inward unpaid charges were incorrectly allocated to receipt receivable vote. Accumulated surplus was thus overstated and general expenditure and accounts receivable understated. The impact was that the RD/Receipt vote was overstated by R1,155 and general expenditure understated by the same amount.

Direct deposits captured against ledger votes which were duplicated or over receipted. Income was thus overstated and accounts receivable understated by the amount of R7,687.

VAT should have been included in the invoice for grants issued to the municipality, the effect is that grants paid and accounts payable are understated. The impact was that trade creditors were overstated by R246,363 and input VAT understated by the same amount.

Transactions captured in general ledger, but never paid and were part of the salary interface. The impact is that accumulated surplus is understated and sundry payables overstated by the amount of R583,143.

Operating leases were not straightlined during the previous periods and the impact is that deferred operating lease was understated by R9,208 and lease expenditure overstated by the same amount.

Assets purchased during the previous financial year was expenses and not capitalised. The impact is that Property, plant and equipment was understated by R6,407,208 and accumulated surplus's opening balance understated by the same amount.

VAT not claimed on Property, plant and equipment purchases that were expensed during the previous financial years. The impact is that general expenditure was overstated by R1,448,396 and Property, plant and equipment was understated by R1,239,774 and VAT input understated by R208,622.

Expenses were paid during the 2010 financial year but never recorded on the financial system. The impact is that general expenditure was understated by R3,237,738 and the main bank account overstated by the same amount.

Input VAT on expenditure was not claimed during the previous financial year. The impact is that input VAT was understated by R74,900 and expenditure over stated by the same amount.

Input VAT was not claimed on contract fees amounting to R127,003. The impact is that contract fees is overstated by this amount and VAT input understated by the same amount.

The refunds for subsistence and travel was incorrectly allocated to the wrong account. The impact is that trade and other payables is overstated by R29,955 and subsistence and travel is overstated by the same amount.

Refund of rates and taxes were incorrectly allocated to the wrong account. The impact is accumulated surplus's opening balance is overstated by R2,969,317 and sundry deposits is overstated by the same amount.

Rates income was overstated due to an incorrect valuation of property. The impact is that rates income and accounts

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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47. Prior period errors (continued)

receivable were overstated by the amount of R3,075,301.

Insurance paid on behalf of Maluti Water (Pty) LTD was not recognised during the previous years. Trade creditors was understated by R1,674,410 and insurance paid overstated by the same amount.

Money was short banked by the company - TATS and the municipality did not make a provision in 2009/2010 financial year. The impact is that the electricity sales income is understated by R2,107,469, VAT payable understated by R295,045 and account receivable were understated by R2,402,515.

A grant receivable was incorrectly recognised during the 2010 financial year for grants already received. The impact is the grants received was understated by R1,130,289 and receivables overstated R1,130,289.

Petty cash was not recognised during the 2010 financial year and the impact is that Petty Cash was understated by R68.

Invoices received before year end during the 2010 financial year were only captured after year end. Sundry creditors were understated by R87,859 and general expenditure understated by the same amount.

VAT refunds were incorrectly classified as sundry deposits during the 2010 financial year. The impact is that Sundry deposits were overstated by R16,878,488 and VAT payable to SARS overstated by the same amount.

Service charges for indigent subsidies were incorrectly recognised during the 2010 financial year amounting to R8,283,369. Electricity services were overstated by R8,283,369 and Indigent subsidy overstated by the same amount.

The fair value calculation of trade receivables was incorrectly calculated during the 2010 financial year. The impact is that trade receivables were overstated by R6,408,785 and fair value adjustment understated by the same amount.

The correction of the errors resulted in adjustments as follows:

Statement of financial position

Increase in inventory	320,508
Decrease in trade and other receivables (exchange transactions)	(19,800,077)
Decrease in VAT receivable	(9,791,441)
Decrease in consumer receivables	(2,655,435)
Decrease in cash and cash equivalents	(6,678,031)
Increase in property, plant and equipment	833,752
Decrease in trade and other payables from exchange transactions	4,640,416
Decrease in accumulated surplus	22,545,201
Other financial assets	7,760
Decrease in other receivables from non-exchange transactions	(1,130,210)
	(11,707,557)

Statement of financial performance

Decrease in property rates	3,075,301
Decrease in service charges	6,175,900
Increase in rental of facilities and equipment	(2,709)
Decrease in interest received - consumers	35,126
Increase in other income	(29,556)
Increase in community project expenditure	323,894
Increase in repairs and maintenance	443,989

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
47. Prior period errors (continued)		
Increase in contracted services	1,872,841	
Decrease in general expenditure	(7,005,386)	
Increase in personnel	3,350	
Increase in depreciation	406,022	
Increase in fair value adjustments	6,408,785	-
	11,707,557	

48. Comparative figures

Certain comparative figures have been reclassified.

Investments were incorrectly classified as non-current investments and should have been classified as current investments. This was corrected based on maturity date.

The short term portion of long term receivables was incorrectly included in the non current balance of long term receivables.

The effects of the reclassification are as follows:

Statement of financial position

Non-current investments	(20,387,911)	(20,370,546)
Current investments	20,387,911	20,370,546
Non-current portion of long term receivables	-	(3,368,798)
Current portion of long term receivables	-	3,368,798

49. Risk management

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Market risk
- Credit 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.

Credit risk

Credit risk is managed on a group basis.

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customer type on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Risk limits 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.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

49. Risk management (continued)

Trade and other receivables (current and non-current portion)

The municipality's trade receivables exposure 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, sanitation and rates levied. Consumer receivables constitute approximately 47% of the municipality's total exposure to maximum credit risk. The municipality's exposure and credit ratings of its customers are continuously monitored. The municipality establishes an allowance for bad debt 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 re-negotiated with counterparties.

Trade and other payables

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 purchase of the water service by Maluti-a-Phofung Water. 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 re-negotiated with counterparties.

Cash and cash equivalents

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 re-negotiated with the bank and no cash was defaulted on by the bank holding the municipality's cash. There were no restriction with regards to the use of cash, barring the municipality's compliance with the Municipal Finance Management Act requirement regarding cash management.

Maximum exposure to credit risk at reporting date was:

Available for sale investments	300	300
Cash and cash equivalents	9,088,639	6,677,647
	9,088,939	6,677,947

Maximum exposure to credit risk at reporting date for loans and receivables as per counter parties was:

Consumer receivables (current)	574,827,388	594,741,326
Consumer receivables (non-current)	22,630,995	25,999,793
Other receivables from exchange transactions	35,818,697	75,489,706
Other receivables from non-exchange transactions	3,142,770	80
Other financial assets (current)	39,102,031	28,075,156
Other financial assets (non-current)	2,052,710	19,179,646
	677,574,591	743,485,707

Impairment losses

The municipality's consumer receivables (current) have been reviewed for indicators of impairment. Certain receivables were found to be impaired and an allowance has been recorded accordingly. The impaired trade receivables are due from consumers defaulting on service costs levied by the Municipality.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
49. Risk management (continued)		
Unimpaired consumer receivables		
Current (0 - 30 days)	9,415,340	19,987,609
31 - 60 days	6,326,384	7,759,084
61 - 90 days	5,659,972	8,641,398
90 days +	19,436,531	42,518,027
	40,838,227	78,906,118
Impaired consumer receivables		
Current (0 - 30 days)	25,908,775	34,886,764
31 - 60 days	17,408,705	13,542,857
61 - 90 days	15,574,895	15,082,866
90 days +	53,484,709	74,211,794
	112,377,084	137,724,281

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 as 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 commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	9,148,480	-	-	-
Trade and other payables	174,466,269	-	-	-
At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	70,423,060	-	-	-
Trade and other payables	197,098,837	-	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's 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.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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49. Risk management (continued)

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk

The municipality limits its interest rate risk on financial liabilities by ensuring that reasonable fixed interest rates are negotiated on long term loans.

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

Fixed rate instruments

Financial liabilities	9,148,480	70,423,060
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Variable rate instruments

Financial assets	225,547,579	333,712,984
Financial liabilities	19,148,039	16,995,375
	244,695,618	350,708,359

Fair value sensitivity analysis on fixed rate instruments

The municipality does not account for any fixed rate financial assets and liabilities at fair value through surplus and deficit, therefore a change in interest rates at reporting date would not affect surplus and deficit.

Cash flow sensitivity analysis for variable rate instruments

The analysis below assumes that all other variables except interest rates will remain constant. A 100 basis points (2010: 300 basis points) increase or decrease was used to report possible changes in surplus for the year due to interest rate risk. The sensitivity rates are based on management's assessments of reasonable possible changes in interest rates.

30 June 2011

	100 bp increase	100 bp decrease
	Surplus or deficit	
Variable rate instruments	(2,977,020)	2,977,020

30 June 2010

	300 bp decrease	300 bp increase
	Surplus or deficit	
Variable rate instruments	(5,260,625)	5,260,625

50. 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.

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
51. Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure		
Fruitless and wasteful expenditure - current year	326,948	-
The fruitless expenditure relates to interest on Eskom overdue accounts.		
52. Irregular expenditure		
Opening balance	4,314,791	-
Irregular Expenditure - current year	-	4,314,791
	4,314,791	4,314,791
Details of irregular expenditure – current year		
	Disciplinary steps taken/criminal proceedings	
Over-payment of councillors as a result of overpayments of upper limits to councillors as determined by Remuneration of Public Office Bearers Act no 20 of 1998	To be recovered from the individual councillors	4,314,791
		<u>4,314,791</u>
53. Presentation of budget information		
53.1 Reconciliation between budget and statement of financial performance		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus per the statement of financial performance	130,980,534	227,371,763
Adjusted for:		
Fair value adjustments	(8,122,832)	131,624
Impairments recognised / reversed	(56,137,236)	(20,797,249)
(Over) or underspending - operating expenses	26,267,668	-
(Over) or under spending - capital expenditure	(142,082,277)	(172,450,824)
Net (deficit) surplus per approved budget	(49,094,143)	34,255,314
54. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	1,267,826	958,345
Amount paid - current year	(1,267,826)	(958,345)
	<u>-</u>	<u>-</u>

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
54. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Current year subscription / fee	4,312,617	3,449,021
Amount paid - current year	(4,312,617)	(3,449,021)
	<u>-</u>	<u>-</u>
PAYE and UIF		
Opening balance	1,157,254	1,002,996
Current year subscription / fee	20,317,720	18,739,290
Amount paid - current year	(18,709,009)	(17,582,036)
Amount paid - previous years	(1,157,254)	(1,002,996)
	<u>1,608,711</u>	<u>1,157,254</u>
Pension and medical aid deductions		
Opening balance	2,624,063	2,317,768
Current year subscription / fee	33,798,569	31,091,838
Amount paid - current year	(30,820,297)	(28,467,775)
Amount paid - previous years	(2,624,063)	(2,317,768)
	<u>2,978,272</u>	<u>2,624,063</u>
VAT		
VAT receivable	14,554,970	6,974,763
VAT payable	(10,849,301)	(8,381,136)
	<u>3,705,669</u>	<u>(1,406,373)</u>

VAT payables and VAT receivables are shown in note 13.

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

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

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

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
A Komako	1,946	28,447	30,393
MC Mositi	1,497	1,104	2,601
MT Mavuso (730870)	326	175	501
MT Mavuso (749817)	-	1,277	1,277
N Mopeli	456	10,249	10,705
SN Mojakisane	2	141	143
TJ Mosikidi	638	2,829	3,467
TR Mohlekwa	1,025	-	1,025
TS Mpakathe (734655)	966	18,102	19,068
TS Mpakathe (749243)	-	255	255
VM Ntamane (735464)	775	8,468	9,243
VM Ntamane (749096)	-	10,675	10,675
QW Lefora	321	-	321
	7,952	81,722	89,674
30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Gamede EN	271	90	361
Lefora QW	459	84	543
Mahlaba MA	361	22,142	22,503
Mohlekwa TR	1,184	652	1,836
Mositi MC	666	69	735
Norman MV	1,214	9,749	10,963
	4,155	32,786	36,941

55. Utilisation of long-term liabilities reconciliation

Long-term liabilities raised	20,729,721	26,490,088
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Long-term liabilities have been utilised 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.

56. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E for the comparison of actual operating expenditure versus budgeted expenditure.

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

57. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

58. Deviation from supply chain management regulations

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

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

The reasons for the following deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Summary of deviations

Emergency

Sole supplier

Quantity

33

14

47

Amount

10,395,518

843,061

11,238,579

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
59. Revenue		
Rendering of services	567,274	580,890
Property rates	132,112,110	148,349,730
Service charges	222,289,096	253,222,640
Rental of facilities & equipment	312,507	226,778
Fines	464,529	282,471
Government grants & subsidies	465,563,245	393,450,235
	821,308,761	796,112,744
The amount included in revenue arising from rendering of services are as follows:		
Rendering of services	567,274	580,890
Service charges	222,289,096	253,222,640
Rental of facilities & equipment	312,507	226,778
	223,168,877	254,030,308
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	132,112,110	148,349,730
Fines	464,529	282,471
Government grants & subsidies	465,563,245	393,450,235
	598,139,884	542,082,436
Rendering of services		
Admission fees	157,284	124,025
Callout fees	994	1,822
Cemetery fees	285,737	303,626
Entrance fees	123,259	151,417
	567,274	580,890
60. Reversal of allowance for bad debt		
(Reversal) / allowance bad-debts	33,255,159	(20,797,249)
Debts impaired	28,849,436	-
	62,104,595	(20,797,249)
61. Repairs and maintenance		
Land and buildings	552,197	554,579
Vehicles	2,075,809	3,489,605
General	1,926,232	1,791,753
Street lights, names, signs and stormwaters	6,500,152	3,287,520
Motors and pumps	115,992	53,411
Office equipment, machinery and computers	148,906	1,817,442
Roads	(6,746,216)	6,119,601

Maluti-a-Phofung Local Municipality

(Municipal demarcation code: FS194)

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
61. Repairs and maintenance (continued)		
Network reticulation	2,370,580	2,268,339
Substations	101,818	65,421
Traffic lights	-	87,144
	<u>7,045,470</u>	<u>19,534,815</u>
62. Interest received - consumers		
Consumer receivables	18,444,498	11,147,791
Fair value adjustment on consumer receivables	5,916,737	(6,408,786)
	<u>24,361,235</u>	<u>4,739,005</u>

Interest received from consumer receivables are interest charged on overdue accounts.