TOLERANCE, TRUST, TENACITY

Blue Crane Route economic entity
Annual Financial Statements
for the year ended 30 June 2010

General Information

Members of the Council	
Mayor	NM Scott
Councillors	JF Froelich
	KC Brown
	K Olivier
	M Nontyi
	NR Sibaca
	L Simmons
	VS Jonas
	NP Yantolo
	BA Manxoweni
Grading of local authority	Grade 2
Accounting Officer	MA Mene
Chief Finance Officer (CFO)	DR Sauls
Registered office	67 Nojoli Street Somerset East 5850
Postal address	P.O. Box 21 Somerset East 5850
Bankers	ABSA Bank
Auditors	Auditor General

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pagess 4 to 61, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

MA Mene
Accounting Officer

31 August 2010

Statement of Financial Position

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2010	2009	2010	2009
Assets					
Current Assets					
Inventories	12	1,588,006	909,909	1,588,006	909,909
Other financial assets	8	82,099	54,485	82,099	54,485
Trade and other receivables from exchange transactions	13	571,272	8,577	552,024	7,239
Other receivables from non-exchange transactions	14	934,091	648,412	934,091	648,412
VAT receivable	15	1,046,913	1,089,736	1,046,913	1,089,736
Consumer debtors	16	8,337,556	6,656,699	8,337,556	6,656,699
Cash and cash equivalents	17	21,589,687	11,532,192	20,112,087	10,787,541
		34,149,624	**20,900,010**	**32,652,776**	**20,154,021**
Non-Current Assets					
Investment property	4	-	-	-	-
Property, plant and equipment	5	266,130,567	253,781,459	266,064,557	253,697,174
Intangible assets	6	254,104	254,104	254,104	254,104
Other financial assets	8	121,408	243,965	121,408	243,965
		266,506,079	**254,279,528**	**266,440,069**	**254,195,243**
Total Assets		**300,655,703**	**275,179,538**	**299,092,845**	**274,349,264**
Liabilities					
Current Liabilities					
Finance lease obligation	18	880,436	805,053	880,436	805,053
Operating lease liability	10	10,787	2,361	10,787	2,361
Trade and other payables from exchange transactions	21	9,418,390	7,505,552	8,791,085	7,176,206
VAT payable	22	1,687,675	1,299,441	-	-
Consumer deposits	23	1,349,551	1,105,422	1,349,551	1,105,422
Retirement benefit obligation	11	353,503	342,546	353,503	342,546
Unspent conditional grants and receipts	19	7,547,444	7,059,892	7,547,444	7,058,393
Provisions	20	2,659,472	2,659,472	2,659,472	2,659,472
		23,907,258	**20,779,739**	**21,592,278**	**19,149,453**
Non-Current Liabilities					
Finance lease obligation	18	1,241,637	2,131,997	1,241,637	2,131,997
Retirement benefit obligation	11	14,290,519	12,779,301	14,290,519	12,779,301
Provisions	20	5,357,398	5,357,398	5,357,398	5,357,398
		20,889,554	**20,268,696**	**20,889,554**	**20,268,696**
Total Liabilities		**44,796,812**	**41,048,435**	**42,481,832**	**39,418,149**
Net Assets		**255,858,891**	**234,131,103**	**256,611,013**	**234,931,115**
Net Assets					
Accumulated surplus		255,858,893	234,131,107	256,611,013	234,931,115

Statement of Financial Performance

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2010	2009	2010	2009
Revenue					
Rendering of services		112,363	32,732	-	-
Property rates	26	5,531,510	4,803,504	5,531,510	4,803,504
Service charges	27	56,763,416	45,791,917	56,763,416	45,791,917
Rental of facilities and equipment		58,882	82,585	58,882	82,585
Interest received (trading)		1,705,984	2,021,901	1,705,984	2,021,901
Income from agency services		575,285	349,028	575,285	349,028
Fines		59,588	83,533	59,588	83,533
Licences and permits		1,206,432	859,050	1,206,432	859,050
Government grants & subsidies	28	49,930,996	46,482,198	45,106,435	42,125,356
Miscellaneous other revenue		6,301,532	4,008,189	6,301,532	4,008,189
Other income		1,074,060	1,284,121	1,060,212	1,243,850
Interest received - investment	33	1,091,759	1,169,165	1,015,031	1,046,944
Total Revenue		**124,411,807**	**106,967,923**	**119,384,307**	**102,415,857**
Expenditure					
Personnel	30	(39,715,684)	(35,505,742)	(37,483,282)	(32,636,219)
Remuneration of councillors	31	(2,275,099)	(2,024,116)	(2,275,099)	(2,024,116)
Depreciation and amortisation	34	(36,653)	(52,689)	-	-
Finance costs	35	(1,140,720)	(284,341)	(1,140,720)	(283,922)
Debt impairment	32	(6,275,812)	(6,045,384)	(6,275,812)	(6,045,384)
Collection costs		(2,542)	(32,611)	(2,542)	(32,611)
Repairs and maintenance		(4,014,497)	(2,266,187)	(4,012,044)	(2,256,674)
Bulk purchases	37	(27,618,983)	(20,905,120)	(27,618,983)	(20,905,120)
General Expenses	29	(19,421,456)	(22,343,217)	(14,465,746)	(11,186,597)
Conditional grant expenditure		-	-	(2,247,607)	(9,669,168)
Total Expenditure		**(100,501,446)**	**(89,459,407)**	**(95,521,835)**	**(85,039,811)**
Gain or loss on disposal of assets and liabilities		(2,182,575)	-	(2,182,575)	-
Surplus for the year		**21,727,786**	**17,508,516**	**21,679,897**	**17,376,046**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Balance at 01 July 2009	**149,383,527**	**149,383,527**
Changes in net assets		
Surplus for the year	17,508,516	17,508,516
Total changes	17,508,516	17,508,516
Balance at 01 July 2009	**234,131,107**	**234,131,107**
Changes in net assets		
Surplus for the year	21,727,786	21,727,786
Total changes	21,727,786	21,727,786
Balance at 30 June 2010	**255,858,893**	**255,858,893**
Note(s)		
Controlling entity		
Opening balance as previously reported	(4,572,828)	(4,572,828)
Adjustments		
Change in accounting policy	154,888,836	154,888,836
Balance at 01 July 2008 as restated	**150,316,008**	**150,316,008**
Changes in net assets		
Assets take-on	80,360,908	80,360,908
Post-retirement medical aid liability take-on	(13,121,847)	(13,121,847)
Net income (losses) recognised directly in net assets	67,239,061	67,239,061
Surplus for the year	17,376,046	17,376,046
Total recognised income and expenses for the year	84,615,107	84,615,107
Total changes	84,615,107	84,615,107
Balance at 01 July 2009	**234,931,116**	**234,931,116**
Changes in net assets		
Surplus for the year	21,679,897	21,679,897
Total changes	21,679,897	21,679,897
Balance at 30 June 2010	**256,611,013**	**256,611,013**
Note(s)	2, 5, 11	

Cash Flow Statement

		Economic entity		Controlling entity	
Figures in Rand	Note(s)	2010	2009	2010	2009
Cash flows from operating activities					
Receipts					
Sale of goods and services		72,441,202	58,216,911	72,314,991	58,032,440
Grants		56,106,435	50,839,041	49,930,996	46,482,199
Interest income		1,091,759	1,169,165	1,015,031	1,046,944
Other receipts		11,794,577	9,252,114	11,498,117	9,153,565
		141,433,973	119,477,231	134,759,135	114,715,148
Payments					
Employee costs		(44,223,185)	(40,399,383)	(41,990,783)	(37,529,859)
Suppliers		(57,333,293)	(51,592,518)	(57,333,293)	(51,592,518)
Finance costs		(1,140,720)	(284,341)	(1,140,720)	(284,341)
Other payments		(12,814,241)	(14,715,438)	(9,798,570)	(13,609,614)
		(115,511,439)	(106,991,680)	(110,263,366)	(103,016,332)
Undefined difference compared to the cash generated from operations note		**-**	**-**	**675,439**	**-**
Net cash flows from operating activities	38	**25,922,534**	**12,485,551**	**25,171,208**	**11,698,816**
Cash flows from investing activities					
Purchase of property, plant and equipment	5	(15,384,529)	(10,050,199)	(15,366,151)	(9,959,519)
Proceeds from sale of property, plant and equipment	5	509,103	-	509,103	-
Net movement in financial assets		94,943	(20,831)	94,943	(20,831)
Net movement in financial assets		94,943	(20,831)	-	-
Net cash flows from investing activities		**(14,780,483)**	**(10,071,030)**	**(14,762,105)**	**(9,980,350)**
Cash flows from financing activities					
Finance lease payments		(1,084,558)	(1,599,680)	(1,084,558)	(1,599,680)
Other cash item	39	-	1,723,455	-	1,723,455
Net cash flows from financing activities		**(1,084,558)**	**123,775**	**(1,084,558)**	**123,775**
Net increase/(decrease) in cash and cash equivalents		**10,057,493**	**2,538,296**	**9,324,545**	**1,842,241**
Cash and cash equivalents at the beginning of the year		11,532,192	8,993,894	10,787,541	8,945,298
Cash and cash equivalents at the end of the year	17	**21,589,685**	**11,532,190**	**20,112,086**	**10,787,539**

Accounting Policies

1. Presentation of Annual Financial Statements

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).These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Consolidation

Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the economic entity presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in net assets in accordance with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates, is recognised in the consolidated statement of financial performance as the surplus or deficit on the disposal of the controlled entity.

An investment in an entity is accounted for in accordance with the Standard of GRAP on Financial Instruments: Recognition and Measurement from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as cost on initial measurement of a financial asset in accordance with the Standard of GRAP on Financial Instruments: Recognition and Measurement.

The annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

1.2 Investment property

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

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

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

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

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

Accounting Policies

1.2 Investment property (continued)

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

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

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

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

Transitional provision

The economic entity changed its accounting policy for investment property in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when

1.3 Property, plant and equipment (continued)

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

Assets which the economic entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The economic entity changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 5. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the economic entity need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the economic entity or from other rights and obligations.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

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

Computer software, other	2 years

Accounting Policies

1.5 Intangible assets (continued)

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Transitional provision

The economic entity changed its accounting policy for intangible assets in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in note 6. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the economic entity need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.6 Investments in controlled entities

Controlling entity annual financial statements

In the municipality’s separate annual financial statements, investments in investments in controlled entities are carried at cost less any accumulated impairment.

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

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.

1.7 Financial instruments

Classification

The economic entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

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

Initial recognition and measurement

Financial instruments are recognised initially when the economic entity becomes a party to the contractual provisions of the instruments.

1.7 Financial instruments (continued)

The economic entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

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

Subsequent measurement

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

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

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 economic entity 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.

Impairment of financial assets

At each end of the reporting period the economic entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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

Impairment losses are recognised in surplus or deficit.

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.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. 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 debtor, probability that the debtor 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 deficit 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 surplus or deficit.

1.7 Financial instruments (continued)

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Amortised cost is the initial carrying amount, less repayments, plus interest.

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 and subsequently recorded at fair value.

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 economic entity's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

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

- 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 where:

- the rights to receive cash flows from the asset have expired;
- the economic entity 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 economic entity 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 economic entity 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 economic entity'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 economic entity 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 economic entity's continuing involvement is the amount of the transferred asset that the economic entity 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 economic entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

1.7 Financial instruments (continued)

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 recognised in surplus or deficit.

Impairment of financial assets

The economic entity assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

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 shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The economic entity 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.

1.8 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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.

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

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

Operating leases - lessee

1.8 Leases (continued)

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

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

1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

Transitional provision

The economic entity changed its accounting policy for inventories in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the economic entity is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 12. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the economic entity need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.10 Non-current assets held for sale and disposal groups

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

Accounting Policies

1.10 Non-current assets held for sale and disposal groups (continued)

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

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

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

1.11 Impairment of cash-generating assets

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

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

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

A cash-generating unit is the smallest identifiable group of assets 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.

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

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

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

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

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the economic entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the economic entity.

Criteria developed by the economic entity to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.12 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an economic entity after deducting all of its liabilities.

1.13 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.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Other post retirement obligations

Accounting Policies

1.13 Employee benefits (continued)

The economic entity provides post-retirement health care benefits upon retirement to some retirees.

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

1.14 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity

1.14 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the economic entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

Decommissioning, restoration and similar liability

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

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

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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.

Transitional provision

The economic entity changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the economic entity need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),

1.14 Provisions and contingencies (continued)

- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity, and
- The amount of the revenue can be measured reliably.

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

1.15 Revenue from exchange transactions (continued)

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

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

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.

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

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- 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 associated with the transaction will flow to the economic entity; and
- the amount of the revenue can be measured reliably.

The economic entity has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

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 economic entity,
- 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.

The economic entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

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 economic entity;
- 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.

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.

1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.18 Investment income

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

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the economic entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:
- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.11. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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.

When the economic entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

1.20 Comparative figures

Accounting Policies

1.20 Comparative figures (continued)

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

1.21 Unauthorised expenditure

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

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

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Presentation of currency

These annual financial statements are presented in South African Rand.

1.26 Offsetting

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

1.27 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

1.28 Conditional grants and receipts

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

Accounting Policies

1.29 Going Concern

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

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 1 Presentation of Financial Statements
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 4 The Effects of Changes in Foreign Exchange Rates
- GRAP 5 Borrowing Costs
- GRAP 6 Consolidated and Separate Financial Statements
- GRAP 9 Revenue from Exchange Transactions
- GRAP 11 Construction Contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events After the Reporting Date
- GRAP 16 Investment Property
- GRAP 17 Property, Plant and Equipment
- GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
- GRAP 100 Non-current Assets Held for Sale and Discontinued Operations
- GRAP 102 Intangible Assets
- Directive 1 Repeal of Existing Transitional Provisions in, and Consequential Amendments to Standards of GRAP
- Directive 4 Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
- Directive 5 Determining the GRAP Reporting Framework
- Directive 7 The Application of Deemed Cost on the adoption of Standards of GRAP
- IPSAS 20 Related Party Disclosures
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 32 Financial Instruments: Presentation
- IAS 39 Financial Instruments: Recognition and Measurement

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 due to the implementation of GRAP is as follows:

Statement of financial position

Statutory funds - Revolving fund				
Previously stated	-	6,949,646	-	6,949,646
Adjustment - Transferred to Accumulated Suplus / (Deficit) - (see below)	-	(6,949,646)	-	(6,949,646)
	-	-	-	-
Reserves - Game Reserve				
Previously stated	-	12,000	-	12,000
Adjustment - Transferred to Accumulated Surplus / (Deficit) - (see below)	-	(12,000)	-	(12,000)
	-	-	-	-
Loans redeemed and other capital receipts				
Previously stated:-				
Loans redeemed and advances repaid	-	135,027	-	135,027
Contributions from operating income	-	2,965,010	-	2,965,010
Grants and subsidies	-	158,386,046	-	158,386,046
Public contributions	-	115,400	-	115,400
Adjustments:-	-	-		

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009
2. Changes in accounting policy (continued)				
Transferred to Statement of Financial Performance	-	(10,379,667)	-	(10,379,667)
Transferred to Accumulated Surplus / (Deficit) - (see below)	-	(151,221,816)	-	(151,221,816)
	-	**-**	**-**	**-**
Provisions				
Previously stated:-	-	-		
Leave Pay Provision	-	2,575,431	-	2,575,431
Audit fee Provision	-	1,350,000	-	1,350,000
Adjustments:-	-	-		
Transferred to Staff Leave Accrual	-	(2,575,431)	-	(2,575,431)
Transferred to Statement of Financial Performance	-	(1,350,000)	-	(1,350,000)
	-	**-**	**-**	**-**
Trust funds				
Previously stated	-	7,207,924	-	7,207,924
Adjustments:-	-	-		
Transferred to Unspent Conditional Grants / Deferred Income	-	(7,058,393)	-	(7,058,393)
Transferred to Trade and Other Payables	-	(33,444)	-	(33,444)
Adjusted to Statement of Financial Performance (Interest received)	-	(116,087)	-	(116,087)
	-	**-**	**-**	**-**
Insurance claims paid but not yet utilised				
Previously stated	-	511,076	-	511,076
Transferred to Statement of Financial Performance (Insurance claims received)	-	(511,076)	-	(511,076)
	-	**-**	**-**	**-**
Finance lease obligation				
Previously stated	-	-	-	-
Adjustment to Accumulated Surplus / (Deficit)	-	670,226	-	670,226
	-	**670,226**	**-**	**670,226**
Housing Development Fund				
Previously stated	-	(514,054)	-	(514,054)
Adjustment to Accumulated Surplus / (Deficit)	-	514,054	-	514,054
	-	**-**	**-**	**-**
Accumulated Surplus / (Deficit)				
Implementation of GRAP:-	-	-		
Transferred from Game Reserve (Reserves no longer permitted)	-	(12,000)	-	(12,000)
Transferred from statutory funds	-	(6,949,646)	-	(6,949,646)
Transferred from loans redeemed and other capital receipts	-	(151,221,816)	-	(151,221,816)
Finance lease obligation adjustment	-	(670,226)	-	(670,226)

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009
2. Changes in accounting policy (continued)				
Housing Development Fund - (previously treated as an accrual - not cash backed)	-	(514,054)	-	(514,054)
Operating surplus prior year adjustment	-	4,478,906	-	4,478,906
	-	**(154,888,836)**	**-**	**(154,888,836)**

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the economic entity has adopted all new GAAP and GRAP standards and interpretations that are relevant to its operations and that became effective for the current financial year. The adopted standards and interpretations have not resulted in significant changes to the municipality's accounting policies or financial performance.

IFRS 7 (AC 144) Financial Instruments: Disclosures

IFRS 7 introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the economic entity's financial instruments.

The effective date of the standard is for years beginning on or after 01 January 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

May 2008 Annual Improvements to IFRS's: Amendments to IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

IAS 39 (AC 133) prohibits the classification of financial instruments into or out of the fair value through profit or loss category after initial recognition. The amendments set out a number of changes in circumstances that are not considered to be reclassifications for this purpose.

The effective date of the amendment is for years beginning on or after 01 January 2009.

The economic entity has adopted the amendment for the first time in the 2010 annual financial statements.

The impact of the amendment is not material.

Amendment to IAS 39 (AC 133) and IFRS 7 (AC 144): Reclassification of Financial Assets

The amendment permits an entity to reclassify certain financial assets out of the fair value through profit or loss category if certain stringent conditions are met. It also permits an entity to transfer from the available for sale category to loans and receivables under certain circumstances. Additional disclosures are required in the event of any of these reclassifications.

The effective date of the amendment is for years beginning on or after 01 July 2009.

The economic entity has adopted the amendment for the first time in the 2010 annual financial statements.

The impact of the amendment is not material.

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such

3. New standards and interpretations (continued)

cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires only prospective application of the Standard and only will apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no affect on initial adoption of Standard on GRAP 9.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the entity would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the entity as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories 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.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

3. New standards and interpretations (continued)

The retail method of measurement of cost is excluded from GRAP 12.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure inventories in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

The impact of the standard is not material.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directives also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment or the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received approval from management to be issued to the executive authority or municipal council.

Two types of events can be identified:

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

An entity shall adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

3. New standards and interpretations (continued)

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

GRAP 16: Investment Property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure investment properties in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

GRAP 17: Property, Plant and Equipment

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the entity needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP17.

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directive also need to be considered:

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire. Entities are also not required to measure classes of Property, Plant and Equipment in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

The Standard includes accounting for obligations to make additional contributions to a fund. This is similar to the requirements of IFRIC5 (AC438).

It further includes the accounting for the changes in existing decommissioning, restoration and similar liabilities. This is similar to the requirements of IFRIC1 (AC434).

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity.

If an external valuation is use to measure a provision the information relating to the valuation can usefully be disclosed.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

GRAP 100: Non-current Assets Held for Sale and Discontinued Operations

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. “Non-cash-generating assets” are assets other than cash-generating assets and “value in use of a non-cash-generating asset” is the present value of the asset’s remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a subsidiary acquired exclusively with a view to resale.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standards of GRAP on Inventories, Investment Property, Property, Plant and Equipment, Agriculture and Intangible Assets until the transitional provision in that Standard expires.

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

GRAP 102: Intangible Assets

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination.

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non-cash-generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state “gains shall not be classified as revenue” as GRAP term “income” has a broader meaning than the term “revenue”.

Directive 4 - Transitional provisions for medium and low capacity requires retrospective application of the Standard. Where entities have, on initial adoption of the Standard, accumulated and retained sufficient information about costs and the future economic benefits or service potential related to intangible assets that may have been expensed previously, those intangible assets should be recognised in accordance with the Standard. Entities are not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible Assets.

The effective date of the standard is for years beginning on or after 01 April 2009.

The economic entity has adopted the standard for the first time in the 2010 annual financial statements.

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

3.2 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity’s accounting periods beginning on or after 01 July 2010 or later periods:

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the economic entity’s accounting periods beginning on or after 01 July 2010 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

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

3. New standards and interpretations (continued)
entity reports information to management.

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

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

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

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this standard is currently being assessed.

GRAP 23: Revenue from Non-exchange Transactions

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 entity.

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

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this standard is currently being assessed.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:
- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not

3. New standards and interpretations (continued)
prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:
- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this standard is currently being assessed.

GRAP 103: Heritage Assets

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

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

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the economic entity; and
- the cost of fair value of the asset can be measured reliably.

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

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

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

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

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

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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

3. New standards and interpretations (continued)

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

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

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

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

The effective date of the standard is for years beginning on or after 30 June 2011.

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this standard is currently being assessed.

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.

An economic entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, 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

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.

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

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

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this standard is currently being assessed.

GRAP 26: Impairment of cash-generating assets

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

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an economic entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an economic entity applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

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

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

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

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

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

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

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

3. New standards and interpretations (continued)

The impact of this standard is currently being assessed.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an economic entity 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 economic entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an economic entity in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an economic entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the economic entity that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an economic entity provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

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

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;

3. New standards and interpretations (continued)

- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

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 economic entity and a financial liability or residual interest in another economic 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 economic entity to a portion of another economic entity’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

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

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

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

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where

3. New standards and interpretations (continued)
interest free credit is granted or where credit is granted at a below market rate of interest.

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

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

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

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

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

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

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

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

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

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

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

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

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

GRAP 104 does not prescribe principles for hedge accounting. An economic entity is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

The economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

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

4. Investment property

Transitional provisions

The municipality elected to adopt the transitional provisions for GRAP 16, Investment property, as per paragraph 67 of Directive 4. According to the transitional provisions, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts. The transitional provision expires on 30 June 2012

5. Property, plant and equipment

Economic entity	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	18,428,284	-	18,428,284	18,428,284	-	18,428,284
Buildings	34,381,080	-	34,381,080	34,117,633	-	34,117,633
Furniture and fixtures	84,323	(62,919)	21,404	84,323	(56,107)	28,216
Office equipment	20,896	(21,053)	(157)	18,496	(18,495)	1
IT equipment	170,560	(125,959)	44,601	154,742	(98,676)	56,066
Infrastructure	195,733,792	-	195,733,792	186,905,626	-	186,905,626
Other equipment	2,492	(2,330)	162	360	(358)	2
Capital work in progress	1,627,117	-	1,627,117	-	-	-
Other property, plant and equipment # 4	15,894,284	-	15,894,284	14,245,631	-	14,245,631
Total	**266,342,828**	**(212,261)**	**266,130,567**	**253,955,095**	**(173,636)**	**253,781,459**

Controlling entity	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	18,428,284	-	18,428,284	18,428,284	-	18,428,284
Buildings	34,381,080	-	34,381,080	34,117,633	-	34,117,633
Infrastructure	195,733,792	-	195,733,792	186,905,626	-	186,905,626
Capital work in progress	1,627,117	-	1,627,117	-	-	-
Other property, plant and equipment	15,894,284	-	15,894,284	14,245,631	-	14,245,631
Total	**266,064,557**	**-**	**266,064,557**	**253,697,174**	**-**	**253,697,174**

Reconciliation of property, plant and equipment - Controlling entity - 2010

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Total**
Land	18,428,284	-	-	-	18,428,284
Buildings	34,117,633	1,852,897	(1,589,450)	-	34,381,080
Infrastructure	186,905,626	9,135,256	-	(307,090)	195,733,792
Capital work in progress	-	1,627,117	-	-	1,627,117
Other property, plant and equipment	14,245,631	2,750,881	(1,102,228)	-	15,894,284
	253,697,174	**15,366,151**	**(2,691,678)**	**(307,090)**	**266,064,557**

Reconciliation of property, plant and equipment - Controlling entity - 2009

	Opening balance	**Other changes, movements**	**Total**

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

5. Property, plant and equipment (continued)

Land	10,411,414	8,016,870	18,428,284
Buildings	34,117,633	-	34,117,633
Infrastructure	106,544,866	80,360,760	186,905,626
Other property, plant and equipment	10,286,607	3,959,024	14,245,631
	161,360,520	**92,336,654**	**253,697,174**

Capitalised expenditure(excluding borrowing costs)

Capital work in progress	-	-	1,627,117	-

Assets subject to finance lease (Net carrying amount)

Motor vehicles	-	-	3,958,879	3,958,879
Other equipment	162	2	-	-
	162	**2**	**3,958,879**	**3,958,879**

Other information

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.

Other movements consist of identified assets that were taken on in the fixed asset register at prior year cost, recently valued or nominal value of R0 and R1, depending on the type of assets. The values as at 2009 on the register were written out at carrying value and the identified assets taken on to the register at 30 June 2009.

Refer to Appendix B for more detail on property, plant and equipment.

Transitional provisions

Property, plant and equipment recognised at provisional amounts

The municipality elected to adopt the transitional provisions for the implementation of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment have been recognised at provisional amounts.

Due to the adoption of the transitional provisions no depreciation was calculated.

6. Intangible assets

Economic entity	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Intangible assets 1	254,104	-	254,104	254,104	-	254,104

Controlling entity	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Intangible assets	254,104	-	254,104	254,104	-	254,104

Reconciliation of intangible assets - Controlling entity - 2010

	Opening balance	**Total**

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

6. Intangible assets (continued)

Intangible assets	254,104	254,104

Reconciliation of intangible assets - Controlling entity - 2009

	Opening balance	Total
Intangible assets	254,104	254,104

Transitional provisions

Intangible assets recognised at provisional amounts

The municipality elected to adopt the transitional provisions for the implementation of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain intangible assets with a carrying value of R 254,104 (2009: R 254,104) was recognised at provisional amounts.

Due to the abovementioned transitional provisions, no amortisation has been calculated.

7. Investments in controlled entities

Name of company	Held by	% holding 2010	% holding 2009	Carrying amount 2010	Carrying amount 2009
Blue Crane Route Development Agency	Blue Crane Route Municipality	100.00 %	100.00 %	-	-

At the time of finalisation of the financial statements, the value of the municipality's investment in the Blue Crane Development Agency could not be determined due to the unavailability of financial statement information of the agency.

8. Other financial assets

Loans and receivables				
Long term loans Loans are repayable in monthly instalments over periods of three to twenty years. Certain loans have a fixed interest rate of 5% and others are linked to prime interest rate.	203,507	298,450	203,507	298,450
Non-current assets				
Loans and receivables	121,408	243,965	121,408	243,965
Current assets				
Loans and receivables	82,099	54,485	82,099	54,485
	203,507	**298,450**	**203,507**	**298,450**

Included in the above amount for loans and receivables is an amount of R95 209, which relates to a vehicle which was purchased on behalf of the mayor via a finance lease agreement with ABSA. The mayor pays the monthly instalments of the finance lease agreement upfront every month. The amount is repayable over three and a half years and interest is levied at prime less 1%. The mayor will be the owner of the vehicle at the end of the lease in 2011.

Fair value of loans and receivables approximates the carrying amounts.

9. Financial assets by category

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

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

9. Financial assets by category (continued)

Controlling entity - 2010

	Loans and receivables	Non-financial assets	Total
Inventories	-	1,588,006	1,588,006
Other financial assets	203,507	-	203,507
Trade and other receivables from exchange transactions	552,024	-	552,024
Other receivables from non-exchange transactions	934,091	-	934,091
VAT receivable	1,046,913	-	1,046,913
Consumer debtors	8,337,556	-	8,337,556
Cash and cash equivalents	20,112,087	-	20,112,087
Property, plant and equipment	-	266,064,557	266,064,557
Intangible assets	-	254,104	254,104
	31,186,178	**267,906,667**	**299,092,845**

Controlling entity - 2009

	Loans and receivables	Non-financial assets	Total
Inventories	-	909,909	909,909
Other financial assets	298,450	-	298,450
Trade and other receivables from exchange transactions	7,239	-	7,239
Other receivables from non-exchange transactions	648,412	-	648,412
VAT receivable	1,089,736	-	1,089,736
Consumer debtors	6,656,699	-	6,656,699
Cash and cash equivalents	10,787,541	-	10,787,541
Property, plant and equipment	-	253,697,174	253,697,174
Intangible assets	-	254,104	254,104
	19,488,077	**254,861,187**	**274,349,264**

10. Operating lease asset (accrual)

11. Retirement benefits

Defined benefit plan

The plan is a post employment medical benefit plan.

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(14,644,022)	(13,121,847)	(14,644,022)	(13,121,847)
Non-current liabilities	(14,290,519)	(12,779,301)	(14,290,519)	(12,779,301)
Current liabilities	(353,503)	(342,546)	(353,503)	(342,546)
	(14,644,022)	**(13,121,847)**	**(14,644,022)**	**(13,121,847)**

The amount of the liability is the present value of the obligation less the fair value of any plan assets held in respect of the post-retirement medical scheme. There are no plan assets in this valuation.

Movements for the year

Opening balance	-	-	(13,121,847)	-
Service and interest cost	(1,864,721)	-	(1,864,721)	-

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

11. Retirement benefits (continued)

Benefits paid	342,546	-	342,546	-
Transfer from Accumulated surplus	-	-	-	(13,121,847)
Net expense recognised in the statement of financial performance	1,522,175	-	1,522,175	-
	-	**-**	**(13,121,847)**	**(13,121,847)**

Net expense recognised in the statement of financial performance

Current service cost	993,896	-	993,896	-
Interest cost	870,825	-	870,825	-
Benefits paid	(342,546)	-	(342,546)	-
	1,522,175	**-**	**1,522,175**	**-**

There is no actuarial gain / loss since this is the first post-employment medical liability valuation performed.

Key assumptions used

The following assumptions were used on the valuation on 30 June 2010.

Pre-retirement mortality:	Males: SA (85/90) Light and Females: SA (85/90) light with 3 year adjustment.
Post retirement mortality:	PA (90) M, PA (90) F.
HIV/AIDS:	Not allowed for.
Normal retirement age:	65 for males and 60 for females.
Age difference:	3 year age difference between males and females with females being 3 years younger.
Take up rate:	100% of active employees at retirement.
Discount rate:	Bond Exchange of South Africa ("BESA") yield curve.
Medical inflation:	1% p.a. lower than the discount rate.
Real discount rate:	1% p.a.

Sensitivity Analysis - changes in medical inflation (+1% and -1%)			**+1%**	**-1%**
Accrued post retirement medical aid liability	12,395,704	17,554,705	12,395,704	17,554,705

12. Inventories

Work in progress	955,551	-	955,551	-
Consumable stores	632,455	909,909	632,455	909,909
	1,588,006	**909,909**	**1,588,006**	**909,909**

13. Trade and other receivables from exchange transactions

Trade debtors	15,132	-	-	-
Employee costs in advance	17,332	8,577	13,216	7,239
Deposits	979	-	979	-
Other receivables	537,829	-	537,829	-
	571,272	**8,577**	**552,024**	**7,239**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

13. Trade and other receivables from exchange transactions (continued)

Other receivables is a financial asset which is classified as loans and receivables. No amortisation was applied.

Fair value is estimated at cost.

14. Other receivables from non-exchange transactions

Government grants and subsidies	137,211	-	137,211	-
Other	796,880	648,412	796,880	648,412
	934,091	**648,412**	**934,091**	**648,412**

Other receivables consist of a debtor raised for salaries to be recovered from striking employees and prepaid expenses for the annual Biltong festival.

Other receivables from non-exchange transactions are financial assets classified as loans and receivables. No amortisation was applied. Fair value was estimated at cost.

15. VAT receivable

VAT	1,046,913	1,089,736	1,046,913	1,089,736

Amounts payable and receivalble for VAT have been set-off since the amounts are payable / receivable to / from the same entity (SARS).

VAT is payable on the receipts basis. VAT is claimed from and paid over to SARS only once payment is made on a tax invoice or payment is received from debtors.

16. Consumer debtors

Gross balances				
Rates	2,921,202	2,483,513	2,921,202	2,483,513
Electricity	4,731,201	3,576,332	4,731,201	3,576,332
Water	6,498,057	5,511,286	6,498,057	5,511,286
Sewerage	4,566,486	4,232,828	4,566,486	4,232,828
Refuse	5,206,930	4,244,520	5,206,930	4,244,520
Other (specify)	1,166,101	1,101,224	1,166,101	1,101,224
	25,089,977	**21,149,703**	**25,089,977**	**21,149,703**
Less: Provision for debt impairment				
Rates	(1,889,977)	(1,635,074)	(1,889,977)	(1,635,074)
Electricity	(1,287,512)	(1,113,864)	(1,287,512)	(1,113,864)
Water	(5,007,944)	(4,332,517)	(5,007,944)	(4,332,517)
Sewerage	(3,651,135)	(3,158,702)	(3,651,135)	(3,158,702)
Refuse	(4,169,450)	(3,607,113)	(4,169,450)	(3,607,113)
Other (specify)	(746,403)	(645,734)	(746,403)	(645,734)
	(16,752,421)	**(14,493,004)**	**(16,752,421)**	**(14,493,004)**
Net balance				
Rates	1,031,225	848,439	1,031,225	848,439
Electricity	3,443,689	2,462,468	3,443,689	2,462,468
Water	1,490,113	1,178,769	1,490,113	1,178,769
Sewerage	915,351	1,074,126	915,351	1,074,126
Refuse	1,037,480	637,407	1,037,480	637,407
Other	419,698	455,490	419,698	455,490
	8,337,556	**6,656,699**	**8,337,556**	**6,656,699**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

16. Consumer debtors (continued)

Rates				
Current (0 -30 days)	331,445	326,573	331,445	326,573
60 days	56,178	57,244	56,178	57,244
90 days	34,667	77,326	34,667	77,326
120 days	31,886	39,105	31,886	39,105
Older than 120 days	2,467,026	1,983,263	2,467,026	1,983,263
	2,921,202	**2,483,511**	**2,921,202**	**2,483,511**
Electricity				
Current (0 -30 days)	2,683,288	2,095,528	2,683,288	2,095,528
60 days	426,623	400,629	426,623	400,629
90 days	295,219	216,439	295,219	216,439
120 days	172,475	104,566	172,475	104,566
Older than 120 days	1,153,596	759,170	1,153,596	759,170
	4,731,201	**3,576,332**	**4,731,201**	**3,576,332**
Water				
Current (0 -30 days)	702,574	794,798	702,574	794,798
60 days	297,552	249,559	297,552	249,559
90 days	256,248	238,449	256,248	238,449
120 days	235,318	187,831	235,318	187,831
Older than 120 days	5,006,365	4,040,649	5,006,365	4,040,649
	6,498,057	**5,511,286**	**6,498,057**	**5,511,286**
Sewerage				
Current (0 -30 days)	404,892	467,207	404,892	467,207
60 days	139,746	148,460	139,746	148,460
90 days	125,864	139,481	125,864	139,481
120 days	117,875	117,203	117,875	117,203
Older than 120 days	3,778,109	3,360,477	3,778,109	3,360,477
	4,566,486	**4,232,828**	**4,566,486**	**4,232,828**
Refuse				
Current (0 -30 days)	491,778	476,525	491,778	476,525
60 days	193,501	170,878	193,501	170,878
90 days	179,349	155,325	179,349	155,325
120 days	172,899	144,606	172,899	144,606
Older than 120 days	4,169,403	3,297,186	4,169,403	3,297,186
	5,206,930	**4,244,520**	**5,206,930**	**4,244,520**
Other				
120 days	-	5,198	-	5,198
Older than 120 days	1,166,101	1,096,026	1,166,101	1,096,026
	1,166,101	**1,101,224**	**1,166,101**	**1,101,224**

Summary of debtors by customer classification

Consumers				
Current (0 -30 days)	4,440,576	4,072,915	4,440,576	4,072,915
60 days	1,144,951	1,061,976	1,144,951	1,061,976
90 days	941,788	855,740	941,788	855,740
120 days	753,933	622,300	753,933	622,300

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009
16. Consumer debtors (continued)				
Older than 120 days	17,808,729	14,536,772	17,808,729	14,536,772
	25,089,977	21,149,703	25,089,977	21,149,703
Less: Provision for debt impairment	(16,752,421)	(14,493,004)	(16,752,421)	(14,493,004)
	8,337,556	**6,656,699**	**8,337,556**	**6,656,699**

Reconciliation of debt impairment provision				
Balance at beginning of the year	(14,493,004)	(13,197,397)	(14,493,004)	(13,197,397)
Contributions to provision	(3,886,367)	(1,295,607)	(3,886,367)	(1,295,607)
Debt impairment written off against provision	1,626,950	-	1,626,950	-
	(16,752,421)	**(14,493,004)**	**(16,752,421)**	**(14,493,004)**

Currently the financial system does not allow for seperation of debtors by category.

17. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,863	1,812	705	780
Bank balances	3,912,985	1,039,524	3,773,856	752,720
Short-term deposits	17,674,839	10,490,856	16,337,526	10,034,041
	21,589,687	**11,532,192**	**20,112,087**	**10,787,541**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2010	**30 June 2009**	**30 June 2008**	**30 June 2010**	**30 June 2009**	**30 June 2008**
ABSA Bank - Savings - 9062642914	-	-	881	-	-	881
ABSA Bank - Fixed deposit - 2053825035	7,500	7,500	7,500	7,500	7,500	7,500
ABSA Bank - Fixed deposit - 2055844786	19,210	17,648	15,997	19,210	17,648	15,997
ABSA Bank - Fixed deposit - 2064372621	285	278	261	285	278	261
ABSA Bank - Call account - 2069984156	10,237,092	-	-	10,237,092	-	-
ABSA Bank - Fixed deposit - 2084303510	12,174	11,730	10,836	12,173	11,730	10,836
ABSA Bank - Call account - 9067623600	2,758,094	4,581,931	4,131,098	2,758,094	4,581,931	4,131,098
ABSA Bank - Fixed deposit - 3064335048	22,033	21,183	19,590	22,033	21,183	19,590
ABSA Bank - Fixed deposit - 4064313202	13,113	12,451	11,649	13,113	12,451	11,649
ABSA Bank - Fixed deposit - 5024312404	29,009	27,912	25,734	29,009	27,912	25,734
ABSA Bank - Fixed deposit - 9064335011	12,729	12,212	11,288	12,729	12,212	11,288
ABSA Bank - Fixed deposit - 9073206933	28,651	27,596	25,482	28,651	27,596	25,482
ABSA Bank - Money market - 9186985404	-	4,834,793	1,582,092	-	4,834,793	4,834,793
ABSA Bank - Money market - 9186985878	-	21,742	51,803	-	217,742	51,803

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

17. Cash and cash equivalents (continued)

ABSA Bank - Money market - 9191350545	-	-	2,259,389	-	-	2,259,389
ABSA Bank - Call account - 99216529966	48,913	388,233	-	48,913	388,233	-
Nedbank - Money market - 1263036023	6,574	6,574	6,844	6,574	6,574	6,844
Nedbank - Fixed deposit - 18312491	4,600	4,600	4,600	4,600	4,600	4,600
Nedbank - Money market - 1263034756	60,429	57,521	52,651	60,429	57,521	526,651
First National Bank - Money market - 74255023258	3,077,122	-	-	3,077,122	-	-
ABSA - Cheque account - 2200000008	637,053	1,622,710	377,515	525,227	1,139,079	322,964
ABSA - Cheque account - 4064779134	3,249,065	130,401	418,774	3,248,630	(386,358)	393,216
ABSA Bank - 409180033	-	-	6,591	-	-	6,591
ABSA Bank - 4053048314	-	-	2,910	-	-	2,910
ABSA Bank - 4055469366	-	-	215	-	-	215
ABSA Bank - 4051973385	-	-	243	-	-	243
ABSA Bank - Cheque account 4061722766	-	-	-	281,266	34,734	321,493
ABSA Bank - 081093454	-	-	-	5,538	11,049	2,923
ABSA Bank - Call account 2068788862	465,815	-	-	-	-	-
Total	**20,689,461**	**11,787,015**	**9,023,943**	**20,398,188**	**11,028,408**	**12,994,951**

18. Finance lease obligation

Minimum lease payments due				
- within one year	1,068,945	1,074,634	1,068,945	1,074,634
- in second to fifth year inclusive	1,436,511	2,515,380	1,436,511	2,515,380
	2,505,456	3,590,014	2,505,456	3,590,014
less: future finance charges	(383,383)	(652,964)	(383,383)	(652,964)
Present value of minimum lease payments	**2,122,073**	**2,937,050**	**2,122,073**	**2,937,050**
Present value of minimum lease payments due				
- within one year	880,436	805,053	880,436	805,053
- in second to fifth year inclusive	1,241,637	2,131,997	1,241,637	2,131,997
	2,122,073	**2,937,050**	**2,122,073**	**2,937,050**
Non-current liabilities	1,241,637	2,131,997	1,241,637	2,131,997
Current liabilities	880,436	805,053	880,436	805,053
	2,122,073	**2,937,050**	**2,122,073**	**2,937,050**

The average lease term is 3 to 5 years and the average effective borrowing rate was between 3% and 18%.

Interest rates are fixed at the contract date No arrangements have been entered into for contingent rent.

The economic entity's obligations under finance leases are secured by the lessor's charge over the leased assets.

Included in the balance above is a finance lease with ABSA registered in the municipality's name on behalf of the Mayor. Refer to note 8.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts				
MIG grant	1,838,221	4,343,564	1,838,221	4,342,065
Other grants	5,709,223	2,716,328	5,709,223	2,716,328
	7,547,444	**7,059,892**	**7,547,444**	**7,058,393**

See note 28 and appendix F for a reconciliation of grants and receipts from the different spheres of government.

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

20. Provisions

Reconciliation of provisions - Controlling entity - 2010

	Opening Balance	Total
Environmental rehabilitation	8,016,870	8,016,870

Reconciliation of provisions - Controlling entity - 2009

	Opening Balance	Total
Environmental rehabilitation	8,016,870	8,016,870

Non-current liabilities	5,357,398	5,357,398	5,357,398	5,357,398
Current liabilities	2,659,472	2,659,472	2,659,472	2,659,472
	8,016,870	**8,016,870**	**8,016,870**	**8,016,870**

The provision for environmental rehabilitation relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The valuation was performed by Kv3 Engineers at current value cost.

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, the environmental rehabilitation provision for landfill sites with a carrying value of R 8,016,870 (2009: R 8,016,870) was recognised at provisional amounts.

21. Trade and other payables from exchange transactions

Trade payables	6,197,125	4,275,953	5,751,462	4,274,567
Payments received in advance	486,319	355,849	450,737	319,008
Accrued leave pay	2,661,207	2,638,050	2,572,147	2,575,431
Accrued audit fees	57,000	228,500	-	-
Deposits received	16,739	7,200	16,739	7,200
	9,418,390	**7,505,552**	**8,791,085**	**7,176,206**

Trade payables are classified in terms of financial instruments as financial liabilities at amortised cost.

The fair value of trade and other payables approximates their carrying amounts.

22. VAT payable

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

22. VAT payable (continued)

Tax refunds payables	1,687,675	1,299,441	-	-

23. Consumer deposits

Water and electricity	1,349,551	1,105,422	1,349,551	1,105,422

24. Financial liabilities by category

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

Controlling entity - 2010

	Financial liabilities at amortised cost	**Non-financial liabilities**	**Total**
Finance lease obligation	-	2,122,073	2,122,073
Operating lease liability	-	10,787	10,787
Trade and other payables from exchange transactions	5,751,463	3,039,623	8,791,086
Consumer deposits	-	1,349,551	1,349,551
Retirement benefit obligation	-	14,644,022	14,644,022
Unspent conditional grants and receipts	7,547,444	-	7,547,444
Provisions	-	8,016,870	8,016,870
	13,298,907	**29,182,926**	**42,481,833**

Controlling entity - 2009

	Financial liabilities at amortised cost	**Non-financial liabilities**	**Total**
Finance lease obligation	-	2,937,050	2,937,050
Operating lease liability	-	2,361	2,361
Trade and other payables from exchange transactions	4,274,567	2,901,639	7,176,206
Consumer deposits	-	1,105,422	1,105,422
Retirement benefit obligation	-	13,121,847	13,121,847
Unspent conditional grants and receipts	7,058,393	-	7,058,393
Provisions	-	8,016,870	8,016,870
	11,332,960	**28,085,189**	**39,418,149**

25. Revenue

Rendering of services	112,363	32,732	-	-
Property rates	5,531,510	4,803,504	5,531,510	4,803,504
Service charges	56,763,416	45,791,917	56,763,416	45,791,917
Rental of facilities & equipment	58,882	82,585	58,882	82,585
Income from agency services	575,285	349,028	575,285	349,028
Fines	59,588	83,533	59,588	83,533
Licences and permits	1,206,432	859,050	1,206,432	859,050
Government grants & subsidies	49,930,996	46,482,198	45,106,435	42,125,356
Miscellaneous other revenue	6,301,532	4,008,189	6,301,532	4,008,189
	120,540,004	**102,492,736**	**115,603,080**	**98,103,162**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

25. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Rendering of services	112,363	32,732	-	-
Service charges	56,763,416	45,791,917	56,763,416	45,791,917
Rental of facilities & equipment	58,882	82,585	58,882	82,585
Income from agency services	575,285	349,028	575,285	349,028
Licences and permits	1,206,432	859,050	1,206,432	859,050
Miscellaneous other revenue	6,301,532	4,008,189	6,301,532	4,008,189
	65,017,910	**51,123,501**	**64,905,547**	**51,090,769**

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	5,531,510	4,803,504	5,531,510	4,803,504
Fines	59,588	83,533	59,588	83,533
Government grants & subsidies	49,930,996	46,482,198	45,106,435	42,125,356
	55,522,094	**51,369,235**	**50,697,533**	**47,012,393**

26. Property rates

Rates received

All properties	5,531,510	4,803,504	5,531,510	4,803,504

Valuations

Residential	11,299,418	3,687,303	11,299,418	3,687,303
Commercial	2,818,025	1,237,543	2,818,025	1,237,543
State	3,634,937	1,725,989	3,634,937	1,725,989
Agricultural	54,940,300	2,491,977	54,940,300	2,491,977
Less: Income forgone	(5,039,633)	(4,146,543)	(5,039,633)	(4,146,543)
	67,653,047	**4,996,269**	**67,653,047**	**4,996,269**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2006. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.0007 for agricultural properties, 0.000846 for business properties, 0.00750 for residential properties, 0.01876 for goverment infrastructure properties and 0.01876 for government properties is applied to property valuations to determine assessment rates (2009: 0.01550 - agricultural properties, 0.01550 - business properties, 0.01650 - residential properties, 0.01550 - government properties and infrastructure). Rebates of the first R15 000 on the value of residential properties and the first 30% on the value of government infrastructure properties are granted. (2009: R15 000 - residential properties and 30% government infrastructure).

Rates are levied on an annual basis with the final date for payment being 30 June 2010 (30 June 2009). Interest at prime plus 1% per annum (2009:prime plus 1% per annum), is levied on rates outstanding one months after due date.

The new general valuation will be implemented on 01 July 2011.

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

27. Service charges

Sale of electricity	43,839,769	32,929,443	43,839,769	32,929,443
Sale of water	5,972,904	6,114,758	5,972,904	6,114,758
Sewerage and sanitation charges	2,815,517	3,063,995	2,815,517	3,063,995
Refuse removal	3,871,459	3,362,084	3,871,459	3,362,084
Other service charges	263,767	321,637	263,767	321,637
	56,763,416	**45,791,917**	**56,763,416**	**45,791,917**

28. Government grants and subsidies

Equitable share	29,549,900	23,234,780	29,549,900	23,234,780
Government grant - MIG	15,253,072	13,775,779	10,428,511	9,418,937
Government grant - Other	5,128,024	9,471,639	5,128,024	9,471,639
	49,930,996	**46,482,198**	**45,106,435**	**42,125,356**

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

For a detail reconciliation refer to Appendix F.

29. General expenses

Accounting fees	130,069	47,701	-	-
Advertising	456,950	171,063	445,983	163,215
Auditors remuneration	2,086,160	595,772	2,086,160	595,772
Bank charges	177,242	190,283	169,914	182,300
Consulting and professional fees	1,096,786	1,486,277	1,044,913	1,484,902
Consumables	300,093	338,760	295,062	329,032
Donations	1,465	-	1,465	-
Entertainment	896,127	750,227	872,039	724,820
Animal Costs	17,500	15,493	17,500	15,493
Insurance	640,471	625,956	626,664	608,181
Conferences and seminars	19,525	23,223	19,525	23,223
IT expenses	7,950	7,709	-	-
Lease rentals on operating lease	1,203,087	607,758	1,191,369	599,078
Marketing	32,880	44,677	-	-
Magazines, books and periodicals	16,482	18,710	15,373	18,405
Fuel and oil	1,535,498	1,669,123	1,535,498	1,669,123
Postage and courier	946	1,917	-	-
Printing and stationery	756,241	714,660	733,048	693,908
Protective clothing	106,120	95,007	106,120	95,007
Security (Guarding of municipal property)	548,312	463,327	546,724	461,666
Telephone and fax	1,091,157	1,057,199	1,055,969	1,026,908
Transport and freight	29,688	28,423	29,688	28,423
Training	11,382	22,789	11,382	22,789
Travel - local	206,594	192,229	-	-
Title deed search fees	26,476	5,722	26,476	5,722
Utilities - water and electricity	2,008,838	1,158,792	1,975,358	1,118,268
Tourism development	2,157,578	1,144,253	89,583	138,221
Licences	467,187	283,429	467,187	283,429
Conditional grant expenditure	2,247,607	9,669,168	2,247,607	9,669,168
Chemicals	321,568	370,993	321,568	370,993
Other expenses	823,477	542,577	781,178	527,719
	19,421,456	**22,343,217**	**16,713,353**	**20,855,765**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

30. Employee related costs

Basic	27,176,976	24,278,305	25,483,022	22,137,127
Bonus	1,977,604	1,763,734	1,977,604	1,763,734
Medical aid contributions	1,291,239	1,124,909	1,291,239	1,124,909
UIF	297,255	274,984	281,245	252,708
WCA	199,165	480,872	199,165	480,872
SDL	334,582	267,380	314,395	241,661
Leave pay	245,068	451,690	245,068	451,690
Post-employment benefits - Pension - Defined contribution plan	651,350	-	651,350	-
Travel, motor car, accommodation, subsistence and other allowances	660,203	595,236	660,203	595,236
Overtime payments	990,912	984,501	990,912	984,501
13th Cheques	156,569	153,596	-	-
Car allowance	315,000	480,000	-	-
Other allowances	1,897,945	1,475,301	1,867,263	1,428,547
Bargaining council	13,312	12,023	13,312	12,023
Other contributions	4,444	4,719	4,444	4,719
Pension contributions	3,501,060	3,158,492	3,501,060	3,158,492
Relocation costs	3,000	-	3,000	-
	39,715,684	**35,505,742**	**37,483,282**	**32,636,219**

Remuneration of municipal manager

Annual Remuneration	482,276	438,170	482,276	438,170
Travel allowance	120,000	120,000	120,000	120,000
Performance Bonuses	40,925	32,880	40,925	32,880
Contributions to UIF, Medical and Pension Funds	88,352	80,409	88,352	80,409
	731,553	**671,459**	**731,553**	**671,459**

Remuneration of chief finance officer

Annual Remuneration	436,999	401,229	436,999	401,229
Travel allowance	120,000	120,000	120,000	120,000
Contributions to UIF, Medical and Pension Funds	1,542	3,335	1,542	3,335
Other	9,793	-	9,793	-
	568,334	**524,564**	**568,334**	**524,564**

Remuneration of manager - corporate services

Annual Remuneration	424,193	371,914	424,193	371,914
Travel allowance	191,691	191,691	191,691	191,691
Contributions to UIF, Medical and Pension Funds	21,088	23,452	21,088	23,452
Other	10,250	-	10,250	-
	647,222	**587,057**	**647,222**	**587,057**

Remuneration of manager - community services

Annual Remuneration	230,230	428,553	230,230	428,553
Travel allowance	52,000	96,000	52,000	96,000
Contributions to UIF, Medical and Pension Funds	4,858	13,098	4,858	13,098

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

30. Employee related costs (continued)

Other	9,039	-	9,039	-
	296,127	**537,651**	**296,127**	**537,651**

Remuneration of manager - infrastructure services

Annual Remuneration	385,205	332,293	385,205	332,293
Travel allowance	120,000	120,000	120,000	120,000
Performance Bonuses	32,770	-	32,770	-
Contributions to UIF, Medical and Pension Funds	70,879	61,352	70,879	61,352
	608,854	**513,645**	**608,854**	**513,645**

BCDA Chief executive officer

Annual Remuneration	204,080	428,641	204,080	428,641
Car Allowance	435,000	112,500	45,000	112,500
Performance Bonuses	34,836	34,863	34,836	34,863
Contributions to UIF, Medical and Pension Funds	749	1,872	749	1,872
Cell phone allowance	4,383	10,958	4,383	10,958
	679,048	**588,834**	**289,048**	**588,834**

BCDA Directors

Annual Remuneration	1,343,125	1,389,284	1,343,125	1,389,284
Car Allowance	282,120	337,500	282,120	337,500
Performance Bonuses	112,689	110,689	112,689	110,689
Contributions to UIF, Medical and Pension Funds	5,970	7,321	5,970	7,321
Cell phone allowance	26,298	32,874	26,298	32,874
	1,770,202	**1,877,668**	**1,770,202**	**1,877,668**

31. Remuneration of councillors

Mayor and councillors	2,275,099	2,024,116	2,275,099	2,024,116

In-kind benefits

The mayor nor councillors received any in-kind benefits.

32. Debt impairment

Contributions to debt impairment provision	6,106,121	6,045,384	6,106,121	6,045,384
Debts impaired	169,691	-	169,691	-
	6,275,812	**6,045,384**	**6,275,812**	**6,045,384**

33. Investment revenue

Interest revenue				
Bank	1,013,565	1,046,853	1,013,552	1,045,358
Interest source 1	76,715	120,726	-	-
Interest source 2	1,479	1,586	1,479	1,586
	1,091,759	**1,169,165**	**1,015,031**	**1,046,944**

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

34. Depreciation and amortisation

Property, plant and equipment	36,653	52,689	-	-

35. Finance costs

Trade and other payables	314	-	314	-
Finance leases	269,581	283,922	269,581	283,922
Bank	-	419	-	-
Interest cost - PRMA liability	870,825	-	870,825	-
	1,140,720	**284,341**	**1,140,720**	**283,922**

36. Auditors' remuneration

Fees	2,086,160	595,772	2,086,160	595,772

37. Bulk purchases

Electricity	26,467,467	20,477,057	26,467,467	20,477,057
Water	1,151,516	428,063	1,151,516	428,063
	27,618,983	**20,905,120**	**27,618,983**	**20,905,120**

38. Cash generated from operations

Surplus	21,727,786	17,508,516	21,679,897	17,376,046
Adjustments for:				
Depreciation and amortisation	36,653	52,689	-	-
Gain on sale of assets and liabilities	2,182,575	-	2,182,575	-
Finance costs - Finance leases	269,581	283,922	269,581	283,922
Debt impairment	6,275,812	(6,045,384)	6,275,812	(6,045,384)
Movements in operating lease assets and accruals	8,426	2,361	8,426	2,361
Movements in retirement benefit assets and liabilities	1,522,175	-	1,522,175	-
Changes in working capital:				
Inventories	(371,007)	(543,127)	(371,007)	(543,127)
Trade and other receivables from exchange transactions	(562,695)	(584,066)	(544,785)	(611,315)
Other receivables from non-exchange transactions	(285,679)	135,111	(285,679)	135,111
Consumer debtors	(7,956,669)	6,342,628	(7,956,669)	6,342,628
Trade and other payables from exchange transactions	1,912,838	(3,406,099)	1,614,879	(3,503,149)
VAT	431,057	(613,958)	42,823	(1,089,736)
Unspent conditional grants and receipts	487,552	(1,752,464)	489,051	(1,753,963)
Consumer deposits	244,129	1,105,422	244,129	1,105,422
	25,922,534	**12,485,551**	**25,171,208**	**11,698,816**

39. Other cash item 1

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for				
• Property, plant and equipment	9,179,271	5,709,583	9,179,271	5,709,583

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources and grant funding.

Operating leases - as lessee (expense)

Minimum lease payments due				
- within one year	296,437	309,632	296,437	309,632
- in second to fifth year inclusive	643,533	939,969	643,533	939,969
	939,970	**1,249,601**	**939,970**	**1,249,601**

Operating lease payments represent rentals payable by the economic entity for certain of its office equipment. Leases are negotiated for an average term of three to five years and rentals. No contingent rent is payable.

41. Contingencies

Matter: Blue Crane Route Municipality vs Vincemus and three others: - The municipality lanched an application to declare four rental agreements entered into to be set aside. The amount claimed approximates R150 000. One of the agreements is underpinned by fraud and the three others were concluded contrary to proper procurement processes. The matter has been set down for hearing of oral evidence whether procurement complied with the Constitution and other governing legislation.

Matter: Corporate finance solutions vs Blue Crane Route Municipality: - The plaintiff has sued for arrear rental payments arising from a ceded agreement. The municipality has counterclaimed for an order declaring the agreement invalid on the basis that the municipal official who entered into the original agreement was not authorised to do so and did not act in term of the peremptory procurement legislation. The amount claimed is R422 000. An application for a trial date has been submitted and a plea to amend the particulars of the claim is being prepared.

Matter: Blue Crane Route vs Claasen and three others: - The municipality has issued a summons for the recovery of monies from the defendants as a result of predjudice suffered by the municipality and benefit derived by the defendants. The amount claimed approximates R4 189 000. The defendants have not pleaded to amended particulars of the claim.

Matter: Blue Crane Route vs Autumn star trading and seven others: - The municipality has sued for the recovery of monies from the first defendant, directors and shareholders of the first defendant and the municipality's former municipal manager. The claim is based on the service provider not providing intended works and Council being mislead by the former municipal manager.The amount claimed approximates R1 661 000. Pleadings have been closed and an application for a trial date has been submitted.

Matter: Vincemus vs Blue Crane Route Municipality: - The plaintiff has sued for the payment of arrears in terms of four agreements. The agreements in question are those which the municipality seeks to have declared invalid in the Vincemus case above. The amount claimed approximates R2 005 100. Appearance to defend has been entered into and a plea will be prepared.

Matter: Blue Crane Route vs Van Rensburg: - The municipality has sued for the recovery of money representing a fraudulent inflated mark-up of disbursements charged by the defendant to the municipality. The defendant has also been reported to the Cape Law Society. The amount claimed approximates R68 000. Default judgment was applied for and the defendant has since entered an appearance to defend.

The outcome of all of the above matters cannot be estimated with certainty.

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

42. Related parties

Relationships
Controlled entities - Blue Crane Development Agency — Refer to note 7

Related party transactions

Internet expenses				
Blue Crane Route Development Agency			1,020	-
Employee costs				
Blue Crane Development Agency			88,563	87,478
Audit fees				
Blue Crane Development Agency			298,405	-

43. Comparative figures

The municipality have adopted the standards of GRAP and consequently certain comparative figures have been re-stated and reclassified.

Refer to note 2, Changes in Accounting Policy, for an analysis of the effect on the comparative figures.

44. Risk management

Liquidity risk

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

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

Interest rate risk

The economic entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk.

At year end, financial instruments exposed to interest rate risk were as follows:

Financial instrument				
Short term deposits	16,337,526	10,034,041	16,337,526	10,034,041
Finance leases	(2,122,073)	(2,937,050)	(2,122,073)	(2,937,050)
	14,215,453	**7,096,991**		

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Customers cannot be refused basic services and so constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but is all dependant on the political will for execution to control the credit risk. Large consumers may have to produce large guarantees and / or deposits to minimise the credit risk.

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

Financial instrument	**Economic entity - 2010**	**Economic entity - 2009**		
Short term deposits	16,337,526	10,034,041	16,337,526	10,034,041

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

44. Risk management (continued)

Consumer debtors	7,272,124	620,120	7,272,124	620,120
Trade and other receivables	1,661,492	482,922	1,661,492	482,922

45. 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 economic entity 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 from various spheres of Government for the ongoing operations for the economic entity.

46. Events after the reporting date

There are no events after the reporting date to report on.

47. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	1,635	88,800	1,635	88,800

48. Irregular expenditure

Irregular Expenditure - current year	-	538,849	-	538,849

49. In-kind donations and assistance

Cacadu District Municipality donated certain fire equipment to the value of R406 000.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription	258,200	112,284	258,200	112,284
Amount paid - current year	(258,200)	(112,284)	(258,200)	(112,284)
	-	-	-	-

Material losses through criminal conduct

None.

Audit fees

Current year fee	1,787,755	1,179,568	1,787,755	1,179,568
Amount paid - current year	(1,787,755)	(1,179,568)	(1,787,755)	(1,179,568)
	-	-	-	-

PAYE and UIF

Current year deductions	3,885,215	3,459,291	3,885,215	3,459,291
Amount paid - current year	(3,885,215)	(3,459,291)	(3,885,215)	(3,459,291)
	-	-	-	-

Pension and Medical Aid Deductions

Notes to the Annual Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2010	2009	2010	2009

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

Current year deductions	6,986,323	6,215,419	6,986,323	6,215,419
Amount paid - current year	(6,986,323)	(6,215,419)	(6,986,323)	(6,215,419)
	-	-	-	-

VAT

VAT receivable	1,046,913	1,089,736	1,046,913	1,089,736
VAT payable	1,687,675	1,299,441	-	-
	2,734,588	**2,389,177**	**1,046,913**	**1,089,736**

VAT output payables and VAT input receivables are shown in note 15.

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

Councillors' arrear consumer accounts

No councillors had any arrear consumer accounts during the year.

Supply chain management regulations

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

Incident				
Infrastructure vehicle purchase	1,203,176	-	1,203,176	-
VAM system purchase and implementation	180,000	-	180,000	-
	1,383,176	**-**	**1,383,176**	**-**

51. Actual operating expenditure versus budgeted operating expenditure

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

52. Actual capital expenditure versus budgeted capital expenditure

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

53. Reconciliation between budget and statement of financial performance

Net profit per statement of financial performance	21,679,897	-	21,679,897	-
Grant expenditure	(25,666,123)	-	(25,666,123)	-
Debt impairment	3,359,412	-	3,359,412	-
Finance costs	322,724	-	322,724	-
Provision for depreciation	(12,012,064)	-	(12,012,064)	-
Bulk purchases	(884,716)	-	(884,716)	-
Income not realised - grants	8,707,503	-	8,707,503	-
Net profit per budget	**(4,493,367)**	**-**	**(4,493,367)**	**-**