Brakpan Bus Company (Proprietary) Limited
Annual Financial Statements
for the year ended June 30, 2011
Published November 30, 2011

## General Information

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Nature of business and principal activities** | Providing a public bus service to the communities of Brakpan, Springs &Tsakane and also the hiring out of its buses to individuals and organisations. |
| **Directors** | R.E. Matenche<br>P. Mokupo - Resigned 10/02/2011<br>C.M. Phetwe - Resigned 10/02/2011<br>M.J. Sishuba - Resigned 10/02/2011<br>D.R. Sibanda - Appointed 10/02/2011<br>T.S. Puzi - Appointed 10/02/2011<br>P.N. Zondo - Appointed 10/02/2011<br>J.C. Weapond - Appointed 10/02/2011 |
| **Registered office** | 1st Floor Block B Empire Park<br>55 Empire Road<br>Parktown<br>Johannesburg<br>2193 |
| **Business address** | Cnr Lemmer and Denne Road<br>Rand Colliers<br>Brakpan<br>1544 |
| **Postal address** | P.O. Box 10298<br>Dalview<br>Brakpan<br>1544 |
| **Holding company** | Ekurhuleni Metropolitan Municipality |
| **Bankers** | ABSA Bank Limited |
| **Auditors** | The Office of the Auditor General - Johannesburg |
| **Company registration number** | 2000/024331/07 |

# Index

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



**Abbreviations**

| | |
|---|---|
| BBC | Brakpan Bus Company |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| MFMA | Municipal Finance Management Act |

## Directors' Responsibilities and Approval

We are responsible for the preparation of these financial statements, which are set out on pages 7 to 52 in terms of Section 126(1) of the Municipal Financial Management Act, Act 56 of 2003, and the Companies Act of South Africa of 1973 and which I have signed on behalf of the Company.

The directors acknowledges that it is ultimately responsible for the system of internal financial control established by the Brakpan Bus Company to enable the directors to meet these responsibilities. These controls are mentioned throughout the Brakpan Bus Company in ensuring the Company's operations are conducted accordingly. The focus of the management in the Brakpan Bus Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company. While operating risk cannot be fully eliminated, the Brakpan Bus Company endeavours to minimize it.

The directors are required by the Municipal Financial Management Act, Act 56 of 2003 and the Companies Act of South Africa, Act 61 of 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in the report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of the operations and cash flow for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements

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

The annual financial statements set out on pages 4 to 52, which have been prepared on the going concern basis, were approved by the board on and were signed on its behalf by the Managing Director:

**R E Matenche**

## Directors' Report

The directors submit their report for the year ended June 30, 2011.

### 1. Review of activities

**Main business and operations**

The company is engaged in transporting passengers/workers and operates principally in Brakpan, Springs & Tsakane.

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

The financial position of the Company is considered satisfactory. The operating result for the year showed an increase in revenue over the prior year, however, the company experienced increase cost pressure that resulted in a reduced surplus. The Earnings before interest, tax, depreciation and amortisation ( EBITDA) was positive, however, has decline over prior year by 38%.

Net surplus of the entity was R478,925 (2010: profit R2,437,350), after taxation of R183,694 (2010: R945,439).

### 2. Post Statement of Financial Position events

The company has commenced negotiations with the Department of Transport for the continuation of the subsidy previously received. These negotiations were incomplete at the date of the signing of these financial statements.

### 3. Directors' interest in contracts

Directors have no interest in any contract currently in place.

### 4. Share capital / contributions from owners

There were no changes in the authorised or issued share capital of the company during the year under review.

### 5. Non-current assets

There have been no major changes in the nature of the non-current assets of the company during the year.

There have been no changes in the policy relating to the use of non-current assets except for an increase in the depreciation period and there were no asset disposals.

### 6. Dividends

No dividends were declared or paid to shareholder during the year.

### 7. Secretary

The company secretary is Alec Chesler and Company.

### 8. Auditors

The Office of the Auditor General - Johannesburg assumed responsibility of the company audit in accordance with section 270(2) of the Companies Act, and in terms of the Municipal Finance Management Act, Act 56 of 2003 from the financial year ended 30 June 2008.

### 9. Holding company

The company's shares are 100% held by Ekurhuleni Metropolitan Municipality, and the company remains a municipal entity.

# Directors' Report

**10. Directors**

The directors of the company during the year and to the date of this report are as follows:
Name

R.E Matenche (Executive Director)
D.R. Sibanda (Chairperson) - Appointed 10/02/2011
T.S. Puzi - Appointed 10/02/2011
P.N. Zondo - Appointed 10/02/2011
J.C. Weapond - Appointed 10/02/2011

P. Mokupo - Resigned 10/02/2011
M.J. Sishuba - Resigned 10/02/2011
C.M. Phetwe - Resigned 10/02/2011

The new board of directors were appointed and registered with CIPRO.

# Company Secretary's Certification

**Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act**

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

**Company Secretary**

**Place of Signature**

# Brakpan Bus Company (Proprietary) Limited
Annual Financial Statements for the year ended June 30, 2011

## Statement of Financial Position

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Trade and other receivables from exchange transactions | 17 | 2,017,294 | 914,501 |
| Cash and cash equivalents | 5 | 7,346,080 | 7,277,652 |
| | | **9,363,374** | **8,192,153** |
| Non-Current Assets | | | |
| Property, plant and equipment | 3 | 14,945,888 | 16,368,712 |
| Deferred tax | 4 | 536,165 | 241,960 |
| | | **15,482,053** | **16,610,672** |
| **Total Assets** | | **24,845,427** | **24,802,825** |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Other financial liabilities | 23 | 2,609,473 | - |
| Current tax payable | | 95,160 | 103,867 |
| Trade and other payables from exchange transactions | 18 | 750,734 | 16,252,845 |
| Provisions | 7 | 828,002 | 886,596 |
| | | **4,283,369** | **17,243,308** |
| Non-Current Liabilities | | | |
| Other financial liabilities | 23 | 12,047,459 | - |
| Deferred tax | 4 | 476,157 | - |
| | | **12,523,616** | **-** |
| **Total Liabilities** | | **16,806,985** | **17,243,308** |
| **Net Assets** | | **8,038,442** | **7,559,517** |
| **Net Assets** | | | |
| Share capital / contributions from owners | 6 | 6 | 6 |
| Accumulated surplus | | 8,038,436 | 7,559,511 |
| **Total Net Assets** | | **8,038,442** | **7,559,517** |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | | | |
| Rendering of services | | 7,397,104 | 5,858,194 |
| Bus hire | | 1,926,012 | 1,432,700 |
| Subsidy | | 9,795,795 | 9,166,484 |
| Commissions received | | 6,974 | - |
| TETA | | - | 412,500 |
| Interest received | 10 | 423,463 | 452,732 |
| **Total Revenue** | | **19,549,348** | **17,322,610** |
| **Expenditure** | | | |
| Employee related costs | 26 | (7,463,904) | (6,551,977) |
| Depreciation and amortisation | | (1,673,376) | (149,884) |
| Impairment loss/ Reversal of impairments | | (1,715) | - |
| Finance costs | | (259,786) | - |
| Debt impairment | | (400) | (13,958) |
| Repairs and maintenance | | (55,188) | (61,074) |
| General Expenses | 25 | (9,432,360) | (7,162,928) |
| **Total Expenditure** | | **(18,886,729)** | **(13,939,821)** |
| Taxation | 11 | (183,694) | (945,439) |
| **Surplus for the year** | | **478,925** | **2,437,350** |

# Brakpan Bus Company (Proprietary) Limited
Annual Financial Statements for the year ended June 30, 2011

## Statement of Changes in Net Assets

| Figures in Rand | Share capital / contributions from owners | Accumulated surplus | Total net assets |
|---|---|---|---|
| **Balance at July 01, 2009** | **6** | **5,122,161** | **5,122,167** |
| Changes in net assets | | | |
| Surplus for the year | - | 2,437,350 | 2,437,350 |
| Total changes | - | 2,437,350 | 2,437,350 |
| **Balance at July 01, 2010** | **6** | **7,559,511** | **7,559,517** |
| Changes in net assets | | | |
| Surplus for the year | - | 478,925 | 478,925 |
| Total changes | - | 478,925 | 478,925 |
| **Balance at June 30, 2011** | **6** | **8,038,436** | **8,038,442** |
| Note(s) | 6 | | |

# Brakpan Bus Company (Proprietary) Limited

Annual Financial Statements for the year ended June 30, 2011

## Cash Flow Statement

| Figures in Rand | Note(s) | 2011 | 2010 |
| --- | --- | --- | --- |
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 18,022,692 | 17,242,043 |
| Interest income | | 423,463 | 452,732 |
| Other receipts | | - | 412,500 |
| | | 18,446,155 | 18,107,275 |
| **Payments** | | | |
| Employee costs | | (7,598,098) | (6,540,346) |
| Suppliers | | (24,914,059) | 8,710,979 |
| Finance costs | | (259,786) | - |
| Taxes on surpluses | 14&14 | (10,449) | (1,033,361) |
| | | (32,782,392) | 1,137,272 |
| **Net cash flows from operating activities** | 13 | **(14,336,237)** | **19,244,547** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | (252,267) | (16,235,828) |
| **Cash flows from financing activities** | | | |
| Repayment of other financial liabilities | | 14,656,932 | - |
| **Net cash flows from financing activities** | | **14,656,932** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | | **68,428** | **3,008,719** |
| Cash and cash equivalents at the beginning of the year | | 7,277,652 | 4,268,933 |
| **Cash and cash equivalents at the end of the year** | 5 | **7,346,080** | **7,277,652** |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

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

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

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

### 1.2 Property, plant and equipment

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

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

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

# Accounting Policies

### 1.2 Property, plant and equipment (continued)

Property, plant and equipment, is stated at cost less accumulated depreciation and accumulated impairment.

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. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

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

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets. The estimated useful lives are as follows:

| **Item** | **Average useful life** |
| --- | --- |
| Motor vehicles | 4 years |
| Furniture and fittings | 3 years |
| IT equipment | 3 years |
| Ticket machines | 5 years |
| Busses | 10 years |

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an assets carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the assets' recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

The entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised.

# Accounting Policies

### 1.3 Financial instruments

**Classification**

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables financial assets
- Available-for-sale financial assets
- 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.

**Recognition**

Financial assets and financial liabilities are initially recognised on the statement of financial position when the entity becomes party to the contractual provisions of the instrument.

**Measurement**

When a financial asset or financial liability is recognised initially, the entity measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the entity applies the following to determine the amount of any impairment loss:

Financial assets carried at amortised cost: If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments 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 amount of the loss is recognised in surplus or deficit.

Financial assets carried at cost: If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets: When a decline in the fair value of an available-for-sale financial asset has been recognised in accumulated surplus or deficit and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in accumulated surplus or deficit is reclassified from accumulated surplus or deficit to surplus or deficit as a reclassification adjustment even though the financial asset has not been derecognised.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active

**1.3 Financial instruments (continued)**
market.

Loans and receivables are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the entity estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the entity uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

**Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognised in accumulated surplus.

Impairment losses, interest income and dividend income are reported in surplus or deficit.

**Other financial liabilities**

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the entity estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the entity uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

**De-recognition**

*Financial assets*

A financial asset is de-recognized where the contractual rights to receive cash flow from the asset have expired, or the entity has transferred the asset and the transfer qualifies for de-recognition. A transfer qualifying for de-recognition occurs when the entity transfers the contractual rights to receive the cash flows of the financial asset. Where the entity has transferred its rights to the 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 recognized to the extent of the entity's continuing involvement in the asset.

*Financial liabilities*

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**Categorisation**

The entity has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.
A financial asset is any asset that is:
- cash;
- a contractual right to receive cash or to receive another financial asset from another entity;
- a contractual right to exchange financial instruments on potentially favourable terms;

# Accounting Policies

**1.3 Financial instruments (continued)**
- an equity instrument of another entity;
- a contract that may or will be settled in the entity's own equity instruments (subject to certain conditions).

The entity has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:
• Trade & other receivables from exchange transactions
• Bank balances and cash.

In accordance with IAS 39.09 the financial assets of the entity are classified as follows into one of the four categories allowed by this standard:

| Type of financial asset | Classification in terms of IAS 39.09 |
| --- | --- |
| Trade & other receivables from exchange transactions | Loans and receivables |
| Bank balances and cash | Available for sale |

A financial liability is any liability that is:
- a contractual obligation to deliver cash or to deliver another financial asset;
- a contractual obligation to exchange financial instruments on potentially unfavourable terms;

The entity has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:
• Trade and other payables from exchange transactions

There are two main categories of financial liabilities, classified based on how they are measured.

Any other financial liabilities are classified as financial liabilities that are not measured at fair value through profit or loss.

In accordance with IAS 39.09 the financial liabilities of the entity are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the following instruments are held for trading.

| Type of financial liability | Classification in terms of IAS 39.09 |
| --- | --- |
| Trade and other payables from exchange transactions | Financial liability that is not measured at fair value through profit or loss |

**Impairment of financial assets**

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis or group, based on expected cash flows.

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment of financial assets. If there is evidence then the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39 as an expense in the Statement of Financial Performance.

**1.4 Tax**

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

### 1.4 Tax (continued)

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

### 1.5 Leases

Where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity, the lease is classified as a finance lease.

Operating leases are those leases that do not transfer substantially all the risks and rewards associated with ownership of an asset to the entity.

**Operating leases – The entity as lessee**

Lease payments under an operating lease are recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit to the entity. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

### 1.6 Share capital / contributions from owners

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

Equity instruments issued by the company are classified according to the substance of the contractual arrangements entered into.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

### 1.7 Employee benefits

**Short-term employee benefits**

**Defined Contribution Funds**

Where an employee has rendered services to the entity during the year, the entity recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

### 1.8 Provisions and contingencies

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 28.

### 1.8 Provisions and contingencies (continued)

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) 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 amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Provisions are reviewed annually and those estimated to be settled within the next twelve months are treated as current liabilities. All other provisions are treated as long term liabilities.

### 1.9 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

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

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:
- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Interest revenue is recognised on a time proportion basis.

Service revenue is recognised by reference to the stage of completion of the transaction at balance sheet date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

### 1.10 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

### 1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the 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.

### 1.11 Impairment of cash-generating assets (continued)

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 entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

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

### 1.12 Impairment of non-cash-generating assets

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

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

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 service amount is the higher of a non-cash-generating asset's 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 entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

### 1.13 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the entity received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

**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 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.

# Accounting Policies

### 1.14 Comparative figures

Budget information has been provided in an annexure to these financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### 1.15 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.16 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

### 1.17 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 entity'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.

### 1.18 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 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.

### 1.19 Conditional grants and receipts

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

### 1.20 Going concern

These annual financial statements have been prepared on a going concern basis.

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2011 or later periods:

**IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities**

The interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- recognised as part of the cost of an item of property, plant and equipment in accordance with the Standard of GRAP on Property, Plant and Equipment (as revised in 2010); and
- recognised as a liability in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) .

The interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

- a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;
- a change in the current market-based discount rate as defined in paragraph .52 of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and
- an increase that reflects the passage of time (also referred to as the unwinding of the discount).

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

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

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

**IGRAP 3: Determining Whether an Arrangement Contains a Lease**

This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

The issues addressed in this Interpretation of the Standards of GRAP are:

- how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
- when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
- if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

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

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

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

**IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**

This Interpretation of the Standards of GRAP applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

The issues addressed in this Interpretation of the Standards of GRAP are:

- the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
- a contributor's right to access the assets is restricted.

**2. New standards and interpretations (continued)**

A residual interest in a fund that extends beyond a right to reimbursement, such as a right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of the Standard of GRAP on Financial Instruments and is not within the scope of this Interpretation of the Standards of GRAP.

The issues addressed in this Interpretation of the Standards of GRAP are:

- how should a contributor account for its interest in a fund?
- when a contributor has an obligation to make additional contributions, for example, in the event of the liquidation of another contributor, how should that obligation be accounted for?

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

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

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

**IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies**

This Interpretation of the Standards of GRAP provides guidance on how to apply the requirements of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010).

The questions addressed in this Interpretation of the Standards of GRAP are:

- how should the requirement '… stated in terms of the measuring unit current at the reporting date' in paragraph .10 of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) be interpreted when an entity applies the Standard of GRAP?
- a contributor's right to access the assets is restricted.

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

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

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

**IGRAP 6: Loyalty Programmes**

This Interpretation of the Standards of GRAP applies to customer loyalty award credits that:

- an entity grants to its customers as part of a transaction, i.e. a sale of goods, rendering of services, use by a customer of entity assets; and
- subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

The Interpretation of the Standards of GRAP addresses accounting by the entity that grants award credits to its customers.

The issues addressed in this Interpretation of the Standards of GRAP are:

- whether the entity's obligation to provide free or discounted goods or services ('awards') in the future should be recognised and measured by
  - allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue (applying the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) and the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers); or
  - providing for the estimated future costs of supplying the awards; and
- if consideration is allocated to the award credits:
  - how much should be allocated to them;
  - when revenue should be recognised; and
  - if a third party supplies the awards, how revenue should be measured.

**2. New standards and interpretations (continued)**

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

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

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

**IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

This Interpretation of the Standards of GRAP applies to all post-employment defined benefits and other long-term employee defined benefits.

For the purpose of this Interpretation of the Standards of GRAP, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

The issues addressed in this Interpretation of the Standards of GRAP are:

- When refunds or reductions in future contributions should be regarded as available in accordance with paragraph .68 of the Standard of GRAP on Employee Benefits.
- How a minimum funding requirement might affect the availability of reductions in future contributions

The Interpretation of the Standards of GRAP addresses accounting by the entity that grants award credits to its customers.

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

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

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

**IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions**

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by entities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:

- Is the agreement within the scope of the Standard of GRAP on Construction Contracts (as revised in 2010) or the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010)?
- When should revenue from the construction of assets in exchange transactions be recognised?

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

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

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

**IGRAP 9: Distributions of Non-cash Assets to Owners**

This Interpretation of the Standards of GRAP applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

- distributions of non-cash assets (e.g. items of property, plant and equipment, entity combinations as defined in the Standard of GRAP on Entity Combinations, ownership interests in another entity or disposal groups as defined in the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)); and
- distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

### 2. New standards and interpretations (continued)

This Interpretation of the Standards of GRAP applies only to distributions in which all owners of the same class of residual interests are treated equally.

This Interpretation of the Standards of GRAP does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

This Interpretation of the Standards of GRAP does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. The Standard of GRAP on Entity Combinations states that ‘A group of individuals shall be regarded as controlling an entity when, as a result of binding arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.’ Therefore, for a distribution to be outside the scope of this Interpretation of the Standards of GRAP on the basis that the same parties control the asset both before and after the distribution, a group of individual owners receiving the distribution must have, as a result of binding arrangements, such ultimate collective power over the entity making the distribution.

This Interpretation of the Standards of GRAP does not apply when an entity distributes some of its ownership interests in a controlled entity but retains control of the controlled entity. The entity making a distribution that results in the entity recognising a minority interest in its controlled entity accounts for the distribution in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements.

This Interpretation of the Standards of GRAP addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by owners who receive such a distribution.

When an entity declares a dividend or similar distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend or similar distribution payable. Consequently, this Interpretation of the Standards of GRAP addresses the following issues:

- When should the entity recognise the dividend or similar distribution payable?
- How should an entity measure the dividend or similar distribution payable?
- When an entity settles the dividend or similar distribution payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable?

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

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

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

**IGRAP 10: Assets Received from Customers**

This Interpretation of the Standards of GRAP applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.

Agreements within the scope of this Interpretation of the Standards of GRAP are those in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), or infrastructure used in a public-private partnership agreement (see the Guideline on Accounting for Public-private Partnerships), or assets received in a transfer of functions.

The Interpretation of the Standards of GRAP addresses the following issues:

- Is the definition of an asset met?

**2. New standards and interpretations (continued)**

- If the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?
- If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a receipt of cash from its customer?

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

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

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

**IGRAP 13: Operating Leases – Incentives**

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

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

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

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

**IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease**

An entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, an entity may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the investor that is shared with the entity in the form of a fee, and not to convey the right to use an asset.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- how to determine whether a series of transactions is linked and should be accounted for as one transaction;
- whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
  - whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
  - how the entity should account for other obligations resulting from the arrangement; and
  - how the entity should account for a fee it might receive from an investor.

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

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

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

**IGRAP 15: Revenue – Barter Transactions Involving Advertising Services**

**2. New standards and interpretations (continued)**

An entity (seller) may enter into a barter transaction to provide advertising services in exchange for receiving other services from its customer (customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium. An example could be where a municipality offers advertising services to local businesses in its community newsletters in exchange for repairs and maintenance services provided by those businesses. These repair and maintenance services may, for example, take the form of repairing and maintaining office buildings or motor vehicles owned by the municipality.

In some cases, no cash or other consideration is exchanged between the entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

A seller that provides advertising services in the course of its ordinary activities recognises revenue under the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar in terms of paragraph .18 in the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) and the amount of revenue can be measured reliably in terms of paragraph .20(a) in the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010). This Interpretation of the Standards of GRAP only applies to an exchange of dissimilar services. An exchange of similar advertising services is not a transaction that generates revenue under the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010).

The issue is under what circumstances can a seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

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

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

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

**GRAP 1 (as revised 2010): Presentation of Financial Statements**

The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy.

All amendments to be applied retrospectively.

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

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

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

**GRAP 2 (as revised 2010): Cash Flow Statements**

The revision resulted in various terminology and definition changes.

Operating cash flows:

- Where an entity is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.

Investing cash flows:

- Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.

### 2. New standards and interpretations (continued)

Acquisitions and disposals of controlled entities and other operating units:
- Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

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

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

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

**GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors**

The revision resulted in various terminology and definition changes.

Paragraphs added to Changes in accounting policies
- A change from one basis of accounting to another basis of accounting is a change in accounting policy.
- A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies
- The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- Commentary on the selection of benchmark and alternative accounting policies has been deleted.

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

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

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

**GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates**

Terminology changes:

Where reference has been made to the net realisable values of inventories, current replacement cost has also been included to allow for the appropriate valuation of inventories where they are distributed as part of a non-exchange transaction. Reference to ‘trade’ receivables has been amended to ‘receivables’.

Monetary items:

Paragraph .15 clarifies that child support grants are ‘payables’, and not just ‘obligations’ in terms of the current requirements of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19).

All amendments to be applied retrospectively.

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

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

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

**GRAP 9 (as revised 2010): Revenue from Exchange Transactions**

The revision resulted in various terminology and definition changes.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

Dividends or similar distributions declared from pre-acquisition surpluses:
Paragraph .36 has been amended to encompass not only securities, but any contributed capital.

Various amendments, deletions and additions to examples included in the appendix.

All amendments to be applied retrospectively

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

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

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

**GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies**

Certain terminology changes:
- The reference to ‘current cost’ in paragraph .30 has been deleted.
- Where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Net monetary position:
References to ‘surplus’ or ‘deficit’ have been changed, throughout the document, to ‘gain’ or ‘loss’.

Interpretations:
Text included in this Standard of GRAP from IFRIC Interpretation 7 on Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies has been deleted.

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

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

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

**GRAP 11 (as revised 2010): Construction Contracts**

The revision resulted in certain terminology changes:

Other amendments:
- An example has been added to clarify when an entity acts as a contractor in a construction contract arrangement.
- The example in paragraph .11 has been deleted as it is inappropriate for the South African public sector.
- The explanatory text relating to ‘contractors’ has been amended to clarify that an entity can be a contractor if it performs construction related activities itself or through subcontractors.

All amendments to be applied retrospectively

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

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

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

**GRAP 12 (as revised 2010): Inventories**

The revision resulted in various terminology and definition changes.

Cost formulas:
Paragraph .34 was amended and .35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

**2. New standards and interpretations (continued)**

Recognition as an expense:
Where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Fair value measurement:
The appendix on how to determine fair value has been deleted.

All amendments to be applied retrospectively

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

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

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

**GRAP 13 (as revised 2010): Leases**

The revision resulted in various terminology and definition changes.

Scope:
Paragraph .04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Non-current Assets Held for Sale and Discontinued Operations:
Paragraph .51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations shall be accounted for in accordance with that Standard.

Guidance on accounting for finance leases by lessors:
The paragraph (previously paragraph .53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for Public Private Partnerships supersedes this guidance.

Guidance on operating lease incentives and substance over legal form:
The guidance included in the original text on substance over legal form has been deleted.

Classification of leases on land and buildings elements:
The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

All amendments to be applied retrospectively

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

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

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

**GRAP 14 (as revised 2010): Events After the Reporting Date**

Existence of a liability for dividends or similar distributions:
Paragraph .13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

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

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

### 2. New standards and interpretations (continued)

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

**GRAP 16 (as revised 2010): Investment Property**

The revision resulted in various terminology and definition changes.

Recognition of investment property:
- Additional commentary has been included in paragraph .19 and .20 to explain paragraph .18 that outlines the recognition criteria for investment property.
- This Standard includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard, but not the initial development. As a result paragraphs .10 and .11 were amended, paragraphs .60 and .61 inserted, and paragraphs .25 and .65(e) of the original text deleted.
- The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably.
- Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:
Entities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

Amendments to be applied as follow:
- Paragraphs .10(e), .54, .59, .62 and .65 were amended, paragraphs .60 and .61 were added and paragraph .25 and .11 (d) of the original text (2004) was deleted by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact. The related amendment to paragraph .05 in the Standard of GRAP on Property, Plant and Equipment is also applied earlier.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

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

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

**GRAP 17 (as revised 2010): Property, Plant and Equipment**

The revision resulted in various terminology and definition changes.

Scope:
- The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions.
- Investment properties under construction have been removed from the scope.

Measurement at initial recognition:
Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.

Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Derecognition:
- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.

**2. New standards and interpretations (continued)**

- Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.

Disclosures:

- The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used.
- The requirement to disclose the cost basis for revaluated assets was removed.

Amendments to be applied as follow:

- Paragraphs .05, .23 and .24 were amended and paragraph .79 was added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

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

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

**GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets**

The revision resulted in certain terminology changes.

Social benefits:
Paragraphs .08 and .16(a) clarify that social benefits due at year end are ‘payables’, as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:
Paragraph .87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Interpretations:
In developing the Standard initially, the Board included relevant text from any Interpretation that had been issued by the International Financial Reporting Interpretations Committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds in line with the Board’s decisions. The Board concluded at its May 2008 meeting that it would issue any Interpretations as separate documents rather than dispersing the text of the Interpretations across various Standards. As a result, paragraphs .37 to .43, .74 to .80, and Appendix F of the previous version of GRAP 19, have been deleted.

All amendments to be applied retrospectively.

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

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

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

**GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations**

The revision resulted in various terminology and definition changes.

Scope:
Paragraph .07 has been added to clarify the application of other Standards of GRAP to assets classified as non-current assets (or disposal groups) held for sale.

Plan to sell the controlling interest in a controlled entity:

**2. New standards and interpretations (continued)**

- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control in a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the required criteria are met.
- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control of a controlled entity shall disclose the information required when the controlled entity is a disposal group that meets the definition of a discontinued operation.

Examples included in Appendix:
An additional example has been included regarding sale expected to be completed within one year.

Amendments to be applied as follow:
Paragraphs .13 and .42 were added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply the amendments earlier, it shall disclose this fact.

- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

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

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

**GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard has not been set yet.

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

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

**GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard has not been set yet.

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

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

### 2. New standards and interpretations (continued)

**GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard has not been set yet.

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

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

**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 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 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

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 has not been set yet.

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

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

**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.

### 2. New standards and interpretations (continued)

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 July 01, 2012.

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

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

**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 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 July 01, 2012.

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

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

**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.

**2. New standards and interpretations (continued)**

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 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.

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 July 01, 2012.

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

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

**2. New standards and interpretations (continued)**

**GRAP 21: Impairment of non-cash-generating assets**

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

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

An 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 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 July 01, 2012.

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

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

**GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by an 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 entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an 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 entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

**2. New standards and interpretations (continued)**

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 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 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 July 01, 2012.

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

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

**GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an 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 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 entity in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;

**2. New standards and interpretations (continued)**

- 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 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 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;
- 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.

**2. New standards and interpretations (continued)**

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 has not been set yet.

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

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

**GRAP 104: Financial Instruments**

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

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

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an 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 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 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 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 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.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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 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 entity can however designate such an instrument to be measured at fair value.

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

Once an 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 entity has transferred control of the asset to another entity.

An 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 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 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 entity’s statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an 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 entity is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

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 July 01, 2012.

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

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

The aggregate impact of the initial application of the statements and interpretations on the entity's annual financial statements is expected to be as follows:

### 3. Property, plant and equipment

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Furniture and fixtures | 137,558 | (53,032) | 84,526 | 63,192 | (32,504) | 30,688 |
| Motor vehicles | 766,706 | (433,936) | 332,770 | 612,003 | (295,687) | 316,316 |
| IT equipment | 95,709 | (72,157) | 23,552 | 72,511 | (56,403) | 16,108 |
| Busses | 16,005,600 | (1,500,560) | 14,505,040 | 16,005,600 | - | 16,005,600 |
| Ticket machines | 1,061,895 | (1,061,895) | - | 1,061,895 | (1,061,895) | - |
| **Total** | **18,067,468** | **(3,121,580)** | **14,945,888** | **17,815,201** | **(1,446,489)** | **16,368,712** |

**Reconciliation of property, plant and equipment - 2011**

| | **Opening balance** | **Additions** | **Depreciation** | **Impairment loss** | **Total** |
|---|---|---|---|---|---|
| Furniture and fixtures | 30,688 | 74,366 | (19,828) | (700) | 84,526 |
| Motor vehicles | 316,316 | 154,703 | (138,249) | - | 332,770 |
| IT equipment | 16,108 | 23,198 | (14,739) | (1,015) | 23,552 |
| Busses | 16,005,600 | - | (1,500,560) | - | 14,505,040 |
| | **16,368,712** | **252,267** | **(1,673,376)** | **(1,715)** | **14,945,888** |

**Reconciliation of property, plant and equipment - 2010**

| | **Opening balance** | **Additions** | **Depreciation** | **Total** |
|---|---|---|---|---|
| Furniture and fixtures | 15,957 | 33,034 | (18,303) | 30,688 |
| Motor vehicles | 141,139 | 187,414 | (12,237) | 316,316 |
| IT equipment | 17,451 | 9,780 | (11,123) | 16,108 |
| Other property, plant and equipment | - | 16,005,600 | - | 16,005,600 |
| Ticket machines | 108,221 | - | (108,221) | - |
| | **282,768** | **16,235,828** | **(149,884)** | **16,368,712** |

The company has assets with a cost value of R1.34 million which have been depreciated to a zero value. These assets are very old and are considered to have useful lives of twelve months or less. Accordingly no value has been placed on them. In addition the company has a number of assets which also are very old which it received as a donation from it's shareholder at a zero value. These asset are also considered to have no useful lives and no value has been placed on them.

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 entity.

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 4. Deferred tax

**Deferred tax asset**

| | | |
|---|---|---|
| Tax losses and other differences | 536,165 | - |
| Temporary differences on property, plant and equipment | (476,157) | 241,960 |
| | **60,008** | **241,960** |

**Reconciliation of deferred tax asset (liability)**

| | | |
|---|---|---|
| At beginning of the year | 241,960 | 207,515 |
| Movement in provision | (181,952) | 34,445 |
| | **60,008** | **241,960** |

### 5. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 8,400 | 6,000 |
| Bank balances | 7,337,680 | 7,271,652 |
| | **7,346,080** | **7,277,652** |

Bank balances include cash in banks and investments in money market instruments, net of outstanding bank overdrafts, detailed as follows:

| | | |
|---|---|---|
| **ABSA Current account - 4052643454** | | |
| Cash at beginning of year | 169,248 | 1,197,158 |
| Cash at the end of the year | 512,892 | 169,248 |
| Cash movement for the year | 343,644 | (1,027,910) |
| **ABSA Money Market account - 9193942873** | | |
| Cash at beginning of year | - | 3,065,775 |
| Cash movement for the year | - | (3,065,775) |
| **ABSA Investment account -** | | |
| Cash at beginning of year | 7,102,404 | - |
| Cash at the end of the year | 6,824,788 | 7,102,404 |
| Cash movement for the year | (277,616) | 7,102,404 |

**The entity had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | **June 30, 2011** | **June 30, 2010** | **June 30, 2009** | **June 30, 2011** | **June 30, 2010** | **June 30, 2009** |
| ABSA - Current account - 4052643454 | 1,413,583 | 143,096 | 7,240,807 | 512,894 | 169,248 | 1,197,158 |
| ABSA - Money market account - 9193942873 | 6,824,788 | 7,062,659 | 3,012,611 | 6,824,786 | 7,102,404 | 3,065,775 |
| **Total** | **8,238,371** | **7,205,755** | **10,253,418** | **7,337,680** | **7,271,652** | **4,262,933** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

## 6. Share capital / contributions from owners

| | | |
|---|---|---|
| **Authorised** | | |
| 1000 Ordinary shares of R1 each | 1,000 | 1,000 |
| **Reconciliation of number of shares issued:** | | |
| Reported as at 01 July 2010 | 6 | 6 |
| **Issued** | | |
| Ordinary | 6 | 6 |

## 7. Provisions

**Reconciliation of provisions - 2011**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for bonuses | 382,519 | 438,613 | (382,519) | 438,613 |
| Provision for leave pay | 504,077 | 429,801 | (544,489) | 389,389 |
| | **886,596** | **868,414** | **(927,008)** | **828,002** |

**Reconciliation of provisions - 2010**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for bonuses | 334,606 | 382,519 | (334,606) | 382,519 |
| Provision for leave pay | 406,520 | 419,683 | (322,126) | 504,077 |
| | **741,126** | **802,202** | **(656,732)** | **886,596** |

The provisions represents the present value of the directors' best estimate of the direct costs of the employee cost.

## 8. Revenue

| | | |
|---|---|---|
| Passenger fares | 7,397,104 | 5,858,194 |
| Private hire | 1,926,012 | 1,432,700 |
| Subsidy | 9,795,795 | 9,166,484 |
| | **19,118,911** | **16,457,378** |
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Rendering of services | 7,397,104 | 5,858,194 |
| Private hire | 1,926,012 | 1,432,700 |
| | **9,323,116** | **7,290,894** |
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| Subsidy | 9,795,795 | 9,166,484 |

## 9. Operating surplus

Operating surplus for the year is stated after accounting for the following:

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

## 9. Operating surplus (continued)

| | | |
|---|---|---|
| **Operating lease charges** | | |
| Premises | | |
| • Contractual amounts | 60,861 | 50,042 |
| Motor vehicles | | |
| • Contractual amounts | 100,000 | 200 |
| Equipment | | |
| • Contractual amounts | 52,342 | 20,456 |
| | **213,203** | **70,698** |

| | | |
|---|---|---|
| Impairment on property, plant and equipment | 1,715 | - |
| Depreciation on property, plant and equipment | 1,673,376 | 149,884 |
| Employee costs | 7,463,904 | 6,551,977 |

## 10. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Interest from investment account | 422,384 | 452,629 |
| Interest from current account | 1,079 | 103 |
| | **423,463** | **452,732** |

## 11. Taxation

**Major components of the tax expense**

| | | |
|---|---|---|
| **Current** | | |
| Local income tax | 1,742 | 979,884 |
| **Deferred** | | |
| Deferred tax (asset) / liability | 181,952 | (34,445) |
| | **183,694** | **945,439** |

**Tax rate**

**Tax Rate**

| | | |
|---|---|---|
| Applicable tax rate | 28.00 % | 28.00 % |

The income tax rate was 28% in 2010 as well as is 28% in 2011.

The entity has an assessable tax loss of R1,109,794 as at 30 June 2011.

**Reconciliation between applicable tax rate and average effective tax rate**

Average effective tax rate is 28% (2010: 28%), made up as follows:

| | | |
|---|---|---|
| Applicable income tax rate | 28 | 28 |

## 12. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 400,435 | 337,102 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 13. Cash (used in) generated from operations

| | | |
|---|---|---|
| Surplus | 478,925 | 2,437,350 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 1,673,376 | 149,884 |
| Impairment deficit | 1,715 | - |
| Debt impairment | 400 | 13,958 |
| Movements in provisions | (58,594) | 145,470 |
| Movement in tax receivable and payable | (8,707) | (53,476) |
| Annual charge for deferred tax | 181,952 | (34,447) |
| **Changes in working capital:** | | |
| Trade and other receivables from exchange transactions | (1,102,793) | 804,848 |
| Consumer debtors | (400) | (13,958) |
| Trade and other payables from exchange transactions | (15,502,111) | 15,794,918 |
| | **(14,336,237)** | **19,244,547** |

### 14. Tax paid

| | | |
|---|---|---|
| Balance at beginning of the year | (103,867) | (335,442) |
| Current tax for the year recognised in surplus or deficit | (1,742) | (979,884) |
| Adjustments | - | 178,098 |
| Balance at end of the year | 95,160 | 103,867 |
| | **(10,449)** | **(1,033,361)** |

### 15. Related parties

**Relationships**

| | |
|---|---|
| Holding company | Ekurhuleni Metropolitan Municipality |

**Related party balances**

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

| | | |
|---|---|---|
| Ekurhuleni Metropolitan Municipality | 3,780 | 9,735 |
| Ekurhuleni Metropolitan Municipality | (659,552) | (16,177,371) |

**Related party transactions**

**Purchases from (sales to) related parties**

| | | |
|---|---|---|
| Ekurhuleni Metropolitan Municipality - Operating leases | 110,000 | 200 |

The municipality provides services on behalf of the entity, which pays for these services on a quarterly basis, subject to cash availability.

### 16. Directors' emoluments

| | | |
|---|---|---|
| Fees to non executive directors | 115,752 | 122,377 |
| Remuneration to executive director | 478,723 | 364,391 |
| | **594,475** | **486,768** |

### 17. Trade and other receivables from exchange transactions

| | | |
|---|---|---|
| Trade receivables | 2,013,407 | 928,459 |
| Prepaid expenses | 3,887 | - |
| Allowance for doubtful debt | - | (13,958) |
| | **2,017,294** | **914,501** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 18. Trade and other payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 2,307 | 11,696 |
| Other payables - Ekurhuleni Metropolitan Municipality | 659,552 | 16,177,371 |
| Prepayments received | 88,875 | 63,778 |
| | **750,734** | **16,252,845** |

### 19. Going concern

The entity has an interim contract with the department of transport for the provision of transport services for which it receives a subsidy on a monthly basis.This contract has been renewed to March 2012. This places uncertiainty on the company's earnings and cash flows after this period .The management is endevouring to ensure that a long term cotract is put in place.

### 20. Events after the reporting date

The company has continued it's negotiations with the Department of Transport for the continuation of the subsidy previously received. These negotiations were incomplete at the date of the signing of these financial statements.

### 21. Government assistance

Brakpan Bus Company is using 30 busses and an administrative building that belongs to Ekurhuleni Metropolitan Municipality at a cost that is significantly lower than the market rental. The company is paying a nominal amount of R100,000 for the busses per year and R10,000 for the other fixed assets.

### 22. Financial assets by category

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

**2011**

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| Trade and other receivables | 2,017,294 | - | 2,017,294 |
| Cash and cash equivalents | - | 7,346,080 | 7,346,080 |
| | **2,017,294** | **7,346,080** | **9,363,374** |

**2010**

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| Trade and other receivables | 914,501 | - | 914,501 |
| Cash and cash equivalents | - | 7,277,652 | 7,277,652 |
| | **914,501** | **7,277,652** | **8,192,153** |

### 23. Other financial liabilities

| | | |
|---|---|---|
| **Held at amortised cost** | | |
| Bank loan | 14,656,932 | - |
| Nedbank loan. Commenced in April 2011 with a duration of 5 year at an interest rate of prime less 1.5%. Monthly repayments are on average R302,178 including capital and interest and vary according the days in a month. The loan is guaranteed by the controlling entity. | | |

| | | |
|---|---|---|
| **Non-current liabilities** | | |
| At amortised cost | 12,047,459 | - |

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **23. Other financial liabilities (continued)** | | |
| **Current liabilities** | | |
| At amortised cost | 2,609,473 | - |
| | **14,656,932** | **-** |

**24. Financial liabilities by category**

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

**2011**

| | **Financial liabilities at amortised cost** | **Total** |
|---|---|---|
| Other financial liabilities | 14,656,932 | 14,656,932 |
| Trade and other payables | 750,734 | 750,734 |
| Tax payable | 95,160 | 95,160 |
| | **15,502,826** | **15,502,826** |

**2010**

| | **Financial liabilities at amortised cost** | **Total** |
|---|---|---|
| Trade and other payables | 16,252,845 | 16,252,845 |
| Tax payable | 103,867 | 103,867 |
| | **16,356,712** | **16,356,712** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 25. General expenses

| | | |
|---|---|---|
| Advertising | 27,586 | 51,427 |
| Auditors remuneration | 400,435 | 337,102 |
| Bank charges | 101,769 | 97,891 |
| Cleaning | 27,489 | 24,138 |
| Computer expenses | 81,700 | 79,181 |
| Consulting and professional fees | 1,044,656 | 74,520 |
| Consumables | 53,282 | 30,251 |
| Hire | 17,139 | - |
| Insurance | 84,197 | 146,652 |
| Lease rentals on operating lease | 213,203 | 70,698 |
| Motor vehicle expenses | 6,774,912 | 5,691,874 |
| Postage | 552 | 287 |
| Printing and stationery | 45,136 | 34,058 |
| Protective clothing | 96,616 | 138,142 |
| Security | 194,018 | 169,648 |
| Staff welfare | 10,000 | - |
| Subscriptions and membership fees | 24,312 | 15,528 |
| Telephone and fax | 28,881 | 26,642 |
| Training | 13,889 | 13,500 |
| Travel - local | 1,480 | 2,200 |
| Electricity | 45,395 | 41,817 |
| Sewerage and waste disposal | 14,485 | 19,924 |
| Water | 10,171 | 10,895 |
| Other expenses | 76,943 | 67,345 |
| Refreshments | 17,837 | 13,406 |
| Refund - Special busses | 26,277 | 5,802 |
| | **9,432,360** | **7,162,928** |

### 26. Employee related costs

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Basic salary | 343,394 | 266,085 |
| Car Allowance | 37,200 | - |
| Bonus | 28,608 | 22,165 |
| Provident fund contributions | 34,339 | 26,608 |
| Cellular phone allowance | 4,800 | 4,200 |
| | **448,341** | **319,058** |

**Remuneration of chief executive officer**

| | | |
|---|---|---|
| Basic salary | 394,581 | 328,063 |
| Car Allowance | 42,750 | - |
| Bonus | 31,393 | 27,328 |
| Provident fund contributions | 39,458 | 32,806 |
| Cellular phone allowance | 10,000 | 9,000 |
| | **518,182** | **397,197** |

**Remuneration of other senior manager**

| | | |
|---|---|---|
| Basic salary | 343,394 | 266,085 |
| Car Allowance | 37,200 | - |
| Bonus | 28,608 | 22,165 |
| Provident fund contribution | 34,339 | 26,608 |
| Cellular phone allowance | 4,800 | 4,200 |
| | **448,341** | **319,058** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
| --- | --- | --- |

### 27. Commitments

**Operating leases – as lessee (expense)**

| **Minimum lease payments due** | | |
| --- | --- | --- |
| - within one year | 110,000 | 110,000 |
| - in second to fifth year inclusive | 110,000 | 220,000 |
| | **220,000** | **330,000** |

Operating lease payments represents rentals payable by the entity to the controlling entity for office premises and busses. The lease term started on 1 July 2010 and is for a duration of 3 year. The controlling entity has the option to increase the lease amounts at their discression. The payments are currently R100,000 per annum for busses (2010 - R100) and R10,000 per annum for the premises (2010 - R100).

### 28. Contingencies

The entity is a defendant in a legal action amounting to R50,000 for accidents that involves busses and third parties as well as a labour case of R250,000.

| | | |
| --- | --- | --- |
| Court proceedings | 300,000 | 250,000 |

### 29. Prior period errors

**2010**
Over provision for tax in prior yaers - corrected in current year.

Prepaid revenue accounted for.

The correction of the error(s) results in adjustments as follows:

| | | |
| --- | --- | --- |
| **Statement of financial position** | | |
| Current tax payable | - | 178,099 |
| Prepayments | - | (70,000) |
| Opening Accumulated Surplus or Deficit | - | 57,512 |
| **Statement of Financial Performance** | | |
| Rendering of services | - | 12,488 |
| Taxation | - | (178,099) |

### 30. Risk management

**Capital risk management**

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents disclosed in note 5, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the entity monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

**Liquidity risk**

# Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 30. Risk management (continued)

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

**Interest rate risk**

The entity's interest rate risk arises from long-term borrowings.

The entity analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The entity has a long term loan from Nedbank which carries interest at prime les 1.5 basis points.

### 31. Irregular expenditure

Irregular expenditure amounting to R409,545 have been incurred relating to dealings with suppliers where tax clearance certifictes were not received by the entity.

### 32. Additional disclosure in terms of Municipal Finance Management Act

**Audit fees**

| | | |
|---|---|---|
| Current year subscription / fee | 400,435 | 337,102 |
| Amount paid - current year | (400,435) | (337,102) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 493,751 | 395,800 |
| Amount paid - current year | (493,751) | (395,800) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 480,244 | 443,293 |
| Amount paid - current year | (480,244) | (443,293) |
| | - | - |

**Supply chain management regulations**

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

### 33. Utilisation of Long-term liabilities reconciliation

| | | |
|---|---|---|
| Long-term liabilities raised | 14,656,932 | - |
| Used to finance property, plant and equipment | (14,656,932) | - |
| | - | - |

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

# Notes to the Annual Financial Statements

Figures in Rand

### 34. Statement of comparative and actual information

**2011**

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| **Financial Performance** | | | | | | | |
| Investment revenue | 400,413 | 455,867 | 455,867 | 423,463 | 32,404 | 93 % | 106 % |
| Other own revenue | 23,224,288 | 22,233,767 | 22,233,767 | 19,125,885 | 3,107,882 | 86 % | 82 % |
| **Total revenue (excluding capital transfers and contributions)** | **23,624,701** | **22,689,634** | **22,689,634** | **19,549,348** | **3,140,286** | **86 %** | **83 %** |
| Employee costs | (7,902,174) | (8,019,246) | (8,019,246) | (7,463,904) | (555,342) | 93 % | 94 % |
| Debt impairment | (7,500) | (7,500) | (7,500) | (400) | (7,100) | 5 % | 5 % |
| Depreciation and asset impairment | (3,628,106) | (3,628,106) | (3,628,106) | (1,675,091) | (1,953,015) | 46 % | 46 % |
| Finance charges | (1,578,528) | (789,264) | (789,264) | (259,786) | (529,478) | 33 % | 16 % |
| Other expenditure | (10,411,418) | (9,487,287) | (9,487,287) | (9,487,548) | 261 | 100 % | 91 % |
| **Total expenditure** | **(23,527,726)** | **(21,931,403)** | **(21,931,403)** | **(18,886,729)** | **(3,044,674)** | **86 %** | **80 %** |
| **Surplus/(Deficit)** | **96,975** | **758,231** | **758,231** | **662,619** | **95,612** | **87 %** | **683 %** |

# Notes to the Annual Financial Statements

Figures in Rand

### 34. Statement of comparative and actual information (continued)

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| Taxation | (27,153) | (212,304) | (212,304) | (183,694) | (28,610) | 87 % | 677 % |
| **Surplus/(Deficit) for the year** | **69,822** | **545,927** | **545,927** | **478,925** | **67,002** | **88 %** | **686 %** |

# Notes to the Annual Financial Statements

Figures in Rand

### 34. Statement of comparative and actual information (continued)

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| **Capital expenditure and funds sources** | | | | | | | |
| Total capital expenditure | (210,000) | (210,000) | (210,000) | (252,267) | 42,267 | 120 % | 120 % |
| **Sources of capital funds** | | | | | | | |
| Internally generated funds | (210,000) | (210,000) | (210,000) | (252,267) | 42,267 | 120 % | 120 % |
| **Cash flows** | | | | | | | |
| Net cash from (used) operating | 3,709,330 | (11,693,866) | (11,693,866) | (14,336,237) | 2,642,371 | 123 % | (386)% |
| Net cash from (used) investing | (210,000) | (210,000) | (210,000) | (252,267) | 42,267 | 120 % | 120 % |
| Net cash from (used) financing | (3,600,000) | 13,200,000 | 13,200,000 | 14,656,932 | (1,456,932) | 111 % | (407)% |
| **Net increase/(decrease) in cash and cash equivalents** | **(100,670)** | **1,296,134** | **1,296,134** | **68,428** | **1,227,706** | **5 %** | **(68)%** |
| Cash and cash equivalents at the beginning of the year | 5,216,905 | 7,277,652 | 7,277,652 | 7,277,652 | - | 100 % | 140 % |
| **Cash and cash equivalents at year end** | **5,116,235** | **8,573,786** | **8,573,786** | **7,346,080** | **1,227,706** | **86 %** | **144 %** |