Planning by	Reviewed	Performed by	Final review

EAST RAND WATER CARE COMPANY (ERWAT) NPC

(REGISTRATION NUMBER 1992/005753/08)

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

General Information

Accounting Officer	NP Twala	
Chief Financial Officer	WI Louw	
Directors	EM Phasha (Chairperson)	Appointment date 29 June 2009
	MM Mochatsi	Appointment date 29 June 2009
	RS Nene	Resignation date 7 March 2011
	EE Themba	Resignation date 30 June 2011
	N Sidondi	Appointment date 29 June 2009
	ZE Letjane	Appointment date 29 June 2009
	NP Twala(Chief Excecutive Officer)	Appointment date 29 June 2009
Registered office	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkorstpruit) Kempton Park 1619	
Business address	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkorstpruit) Kempton Park	
Postal address	P O Box 13106 Norkem Park 1631	
Bankers	ABSA Bank Kempton Park	
Auditors	Auditor-General South Africa 61 Central Street Houghton	
Secretary	M Hilton-Khumalo	
Country of incorporation	South-Africa	
Nature of business	The principal activity of the company is the conveyance and treatment of waste water and the provision of related engineering services.	
Company registration number	1992/005753/08	

Index

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

Abbreviations

DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Directors' responsibilities and approval

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

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

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

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

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

The directors have reviewed ERWAT’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that ERWAT has access to adequate resources to continue in operational existence for the foreseeable future.

ERWAT is wholly dependent on EKHURULENI METROPOLITAN MUNICIPALITY for continued funding of operations. The annual financial statements are prepared on the basis that ERWAT is a going concern and that the EKURHULENI METROPOLITAN MUNICIPALITY has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the accounting officer is primarily responsible for the financial affairs of ERWAT, he is supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on ERWAT's annual financial statements. The annual financial statements have been examined by ERWAT's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 63, which have been prepared on the going concern basis, were approved by the board of directors on ------------------------------ and were signed on its behalf by:

Mr EM Phasha (Chairperson)	**Mr NP Twala (Chief Executive Officer)**

Directors' report

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

1. Review of activities

Main business and operations

ERWAT is a municipal entity. The principal activity of the company is the conveyance and treatment of waste water and the provision of related engineering services and products. 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 Board of Directors was appointed 29 June 2009 ,except for ZE Letjane who was appointed on 27 November 2009. RS Nene resigned as director on the 7 March 2011 and EE Themba resigned as director on 30 June 2011.Net surplus of the entity is 2011 R 49,742,316 (2010: surplus R 18,243,163).

ERWAT has obtained a Nedbank loan facility of R 550,000,000 to upgrade the Waterval and Welgedacht plants. The entity has not yet withdrawn any funds from the facility. The loan is guaranteed by Ekurhuleni Metropolitan Municipality. ERWAT is indebted to Ekurhuleni Metropolitan Municipality arising out of the guarantee provided by Ekurhuleni Metropolitan Municipality to Nedbank Ltd. It is agreed that ERWAT will cede, assign and transfer unto and in favour of Ekurhuleni Metropolitan Municipality all of ERWAT's right, title and interests in and to all book debts and other debts present and future, due and become due to ERWAT, from whatsoever cause debt arising and by whomever owing, in the event that ERWAT's default on its obligation.

2. Going concern

We draw attention to the fact that at 30 June 2011, the entity had accumulated surpluses of R 633,275,299 and that ERWAT's total assets exceed its liabilities by R 635,936,093.

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

The existence of ERWAT is dependent on the continued support of Ekurhuleni Metropolitan Municipality by way of service charges for treatment of waste water and the provision of related engineering services paid each year in terms of a service delivery agreement entered into between ERWAT and Ekurhuleni Metropolitan Municipality.

3. Subsequent events

The directors are not aware of any other matters or circumstances arising since the end of the financial year except for the impairment of the Grootvlei plant. The total impiarment is R 22,996,855 and is disclosed under note 3.

4. Share capital / contributed capital

ERWAT does not have share capital since it is a Non Profit Company.

5. Secretary

WI Louw resigned as the company secretary on 31 January 2011 and M Hilton-Khumalo was appointed on 01 February 2011 as company secretary.

The secretary of the entity is M Hilton-Khumalo of:

Business address

Hartebeesfontein Office Park
R25 (Bapsfontein/ Bronkhorstspruit)
KEMPTON PARK
1619

Directors' report

6. Key management emoluments

Economic entity

	Salary or Fees (R)	Bonuses and performance related payments (R)	Retirement Fund contributions (R)	Medical contributions (R)	Expense allowance (R)	Other (R)	Total package 2011 (R)	Total package 2010 (R)
Remuneration of non-executive directors								
EM Phasha(Chairperson)	108,864	-	-	-	5,093	-	113,957	112,776
MM Mochatsi	90,720	-	-	-	6,621	-	97,341	94,799
CD Modise(Resigned 27 Nov 2009)	-	-	-	-	-	-	-	49,720
N Sidondi	90,720	-	-	-	5,741	-	96,461	92,808
EE Themba	90,720	-	-	-	6,112	-	96,832	93,549
RS Nene(Resigned 7 March 2011)	70,000	-	-	-	3,565	-	73,565	93,780
ZE Letjane(Appointed 27 Nov 2009)	90,720	-	-	-	1,167	-	91,887	35,388
	541,744	-	-	-	28,299	-	570,043	572,820

	Salary or Fees (R)	Bonuses and performance related payments (R)	Retirement Fund contributions (R)	Medical contributions (R)	Expense allowance (R)	Other (R)	Total package 2011 (R)	Total package 2010 (R)
Chief executive officer								
NP Twala	1,024,897	103,100	200,905	32,592	33,442	120,000	1,514,936	1,247,689

Directors' report

	Salary or Fees (R)	Bonuses and performance related payments (R)	Retirement Fund contributions (R)	Medical contributions (R)	Expense allowance (R)	Other (R)	Total package 2011 (R)	Total package 2010 (R)
Executive managers								
Mr WI Louw (CFO)	786,823	95,631	150,137	57,820	11,899	102,000	1,204,310	1,023,684
Mr AS Louw	772,385	98,490	155,918	38,928	-	84,000	1,149,721	1,025,827
Mr TS Mlongo	778,725	95,110	155,321	-	-	96,000	1,125,156	912,090
Mr RW Barnes	760,517	91,890	154,422	42,946	-	78,000	1,127,775	1,011,729
Mr O Sebiloane	586,647	1,000	119,167	57,051	-	116,000	879,865	901,759
Mr JW Wilken	771,973	96,250	156,751	39,208	-	69,600	1,133,782	1,011,616
Mr JS Terblanche	796,191	95,730	154,769	38,928	21,871	94,260	1,201,749	1,024,767
Mrs M Hilton-Khumalo	315,610	-	69,434	8,887	-	-	393,931	-
	5,568,871	574,101	1,115,919	283,768	33,770	639,860	8,216,289	6,911,472

6. Auditors

Auditor-General South Africa will continue in office for the next financial year.

Statement of financial position

Figures in Rand	Notes	2011	2010
Assets			
Current assets			
Trade and other receivables from exchange transactions	6	33,087,604	30,014,265
Available-for-sale-investments	5	4,110,862	-
Cash and cash equivalents	7	70,554,084	17,244,891
		107,752,550	**47,259,156**
Non-current assets			
Property, plant and equipment	3	731,881,529	737,186,987
Intangible assets	4	1,715,206	1,744,559
Available-for-sale investments	5	-	3,324,775
		733,596,735	**742,256,321**
Total assets		**841,349,285**	**789,515,477**
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	11	31,255,315	25,716,407
Provisions	10	24,561,154	18,223,480
Current portion of long term borrowings	9	12,642,167	11,643,871
		68,458,636	**55,583,758**
Non-current liabilities			
Long term borrowings	9	133,315,837	146,073,831
Provisions	10	3,638,719	2,419,768
		136,954,556	**148,493,599**
Total liabilities		**205,413,192**	**204,077,357**
Net assets		**635,936,093**	**585,438,120**
Net assets			
Reserves			
Mark to market reserve	8	2,660,794	1,905,133
Accumulated surplus		633,275,299	583,532,987
Total net assets		**635,936,093**	**585,438,120**

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Notes	2011	2010
Revenue			
Service charges	13	339,058,193	264,943,032
Other income	14	54,685,944	50,112,246
Government grants received	12	9,934,166	23,197,539
Interest received	18	5,668,840	3,443,896
Dividends received	18	65,577	27,321
Total revenue		**409,412,720**	**341,724,034**
Expenditure			
Employee related costs	16	(120,520,603)	(111,216,423)
Depreciation and amortisation	19	(29,001,379)	(29,187,244)
Impairment loss/reversal of impairments		(23,101,826)	(26,904)
Finance costs	20	(13,967,317)	(16,276,734)
Debt impairment	17	(805,382)	(12,035,394)
Repairs and maintenance		(25,429,147)	(29,288,314)
Bulk purchases	22	(111,689,006)	(90,752,568)
General expenses	15	(34,674,211)	(34,552,456)
Total expenditure		**(359,188,871)**	**(323,336,037)**
Loss on disposal of assets		(481,533)	(144,834)
Surplus for the year		**49,742,316**	**18,243,163**

Statement of changes in net assets

Figures in Rand	Mark to market reserve	Accumulated surplus	Total net assets
Balance at 01 July, 2009	**1,380,097**	**565,289,824**	**566,669,921**
Changes in net assets			
Available for sale mark to market	525,036	-	525,036
Surplus for the year	-	18,243,163	18,243,163
Total changes	525,036	18,243,163	18,768,199
Balance at 01 July 2010	**1,905,133**	**583,532,983**	**585,438,116**
Changes in net assets			
• Available for sale mark to market	755,661	-	755,661
Net income recognised directly in net assets	755,661	-	755,661
Surplus for the year	-	49,742,316	49,742,316
Total recognised income and expenses for the year	755,661	49,742,316	50,497,977
Total changes	755,661	49,742,316	50,497,977
Balance at 30 June 2011	**2,660,794**	**633,275,299**	**635,936,093**
Note	8		

Statement of cash flow

Figures in Rand	Notes	2011	2010
Cash flows from operating activities			
Receipts			
Interest income		5,668,840	3,443,896
Dividends received		65,577	27,320
Other receipts		396,878,544	325,085,629
		402,612,961	328,556,845
Payments			
Suppliers and employee costs		(276,326,826)	(257,587,737)
Finance costs		(13,967,317)	(16,276,734)
		(290,294,143)	(273,864,471)
Net cash flows from operating activities	23	**112,318,818**	**54,692,374**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(47,396,610)	(31,257,286)
Proceeds from sale of property, plant and equipment		388,326	-
Purchase of other intangible assets	4	(241,650)	(1,505,789)
Net cash flows from investing activities		**(47,249,934)**	**(32,763,074)**
Cash flows from financing activities			
Repayment of long term borrowings		(11,759,691)	(10,949,628)
Net cash flows from financing activities		**(11,759,691)**	**(10,949,628)**
Net increase in cash and cash equivalents		**53,309,193**	**10,979,672**
Cash and cash equivalents at the beginning of the year		17,244,891	6,265,219
Cash and cash equivalents at the end of the year	7	**70,554,084**	**17,244,891**

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.

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other receivables and/or loans

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

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

Available-for-sale financial assets

ERWAT follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, ERWATevaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by ERWAT is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to ERWAT for similar financial instruments.

Impairment testing

The recoverable amounts of non cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 10 - Provisions.

1.2 Property, plant and equipment

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity’s operations, that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Entity-specific value is the present value or service potential of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Property, plant and equipment are tangible items that:
(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
(b) are expected to be used during more than one reporting period.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

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

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is:
(a) the period over which an asset is expected to be available for use by an entity, or
(b) the number of production or similar units expected to be obtained from the asset by an entity.

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.

Recognition
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.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant

1.2 Property, plant and equipment (continued)
and equipment, they are accounted for as property, plant and equipment.

The entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

Measurement at recognition
Property, plant and equipment is initially measured at cost.

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.

An item of property, plant and equipment may be gifted or contributed to the entity. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

The cost of an item of property, plant and equipment comprises:
• its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
• any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
• the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the allowed alternative treatment in the Standard of GRAP on Borrowing Costs.

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and nonmonetary assets. The following refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

The fair value of an asset for which comparable market transactions do not exist is reliably measurable if:
• the variability in the range of reasonable fair value estimates is not significant for that asset or
• the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with the Standard of GRAP on Leases.

Measurement after recognition
Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts might in some instances be grouped in determining the depreciation charge.

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

Depreciable amount and depreciation period

Accounting Policies

1.2 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

The residual value and the useful life an asset is reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) is accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. Residual values are currently considered to be negligible and immaterial seeing that the useful life and economic life of property, plant and equipment is considered to be the same. The entity currently utilizes property, plant and equipment for its entire economic life.

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated.

Land and buildings are separable assets and are accounted separately, even when they are acquired together. Land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

If the cost of land includes the costs of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation method
The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity.

The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Impairment
To determine whether an item of property, plant and equipment is impaired, the entity applies the Standards of GRAP on Impairment of Assets. The Standards of GRAP on Impairment of Assets explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset and when it recognises, or reverses the recognition of, an impairment loss.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

The estimated useful lives are as follows:

Item	Average useful life
Land	Infinite
Leased plant	Leased Period
Plant and machinery	
- Buildings and civil structure	5 – 80 years
- Electrical components	3 – 20 years
- Mechanical Components	3 – 20 years
- Fencing	3 – 20 years
- Roads	3 – 20 years
Furniture and fixtures	3 – 33 years
Motor vehicles	5 – 25 years
Office equipment	3 – 33 years
IT equipment	3 – 16 years
Computer software	5 – 14 years
Implements	3 – 26 years

Accounting Policies

1.2 Property, plant and equipment (continued)

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

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

Leased Assets: Right of use assets
The entity has exclusive rights to use certain leased water care works for specified periods in return for a series of payments.

These rights are capitalised and are depreciated over the repayment period of the loan. Lease charges are amortised over the duration of the loan agreement on the effective interest rate method, which take into account the effective interest charge to the lease.

1.3 Fully depreciated assets still in use

If the entity made an appropriate estimate of the useful lives, residual values and depreciation method of an asset based on the information available at the previous reporting dates, it continues to measure the assets at R0. The entity discloses the fact that such asset has been fully depreciated and is still in use.

Where the entity did not appropriately review the useful life, residual values and depreciation and amortisation method in accordance with GRAP 17 and GRAP 102, and the asset is fully depreciated or amortised, but still being used, this constitutes a prior period error. The error is corrected and disclosed in accordance with the requirements of GRAP 3.

1.4 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. Intangible assets are identifiable resources controlled by the economic entity from which the economic entity expects to derive future economic benefits or service potential. Intangible assets are identifiable when they can be separated from the economic entity, i.e. is capable of being separated or divided from the economic entity and sold, exchanged, licensed or, when they arise as a result of a contractual or other legal right, excluding those legal rights that arise from statute.

The economic entity recognises an intangible asset in its statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and the economic entity can measure the cost or fair value of the asset reliably. An intangible asset is measured initially at cost. Where the economic entity acquires intangible assets, it recognise them as assets in the statement of financial position at cost.

Intangible assets are subsequently carried at cost less accumulated amortisation and accumulated impairmnet loss.The economic entity assesses whether the useful life or service potential of an intangible asset is finite or indefinite. The economic entity regards an intangible asset as having an indefinite useful life when there is no foreseeable limit to the period over which the entity expects the asset to generate net cash inflows or service potential for the entity. Intangible assets with indefinite useful lives are not amortised.

The economic entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. The useful life of an intangible asset that arises from contractual or legal rights does not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the economic entity expects to use the asset. The economic entity reviews the amortisation method, useful lives and residual values of intangible assets annually. The estimated useful lives are as follows:

Item	**Useful life**
Computer Software	5-14 years

Accounting Policies

1.5 Financial instruments

Classification

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

Initial recognition and measurement

When a financial asset or financial liability is recognised initially, the economic 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 economic 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 economic 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 economic 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 economic entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or financial assets is impaired. If any such evidence exists, the economic 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 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.

Accounting Policies

1.5 Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active 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 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 economic 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 the economic entity uses the contractual cash flows over the full contractual term of the financial instrument.

Available-for-sale financial assets

ERWAT has classified its investments in Old Mutual Unit Trusts, Sanlam and Old Mutual demutualisation shares as available-for-sale investments. The investments are mark to market on annual basis, with changes in fair value being recognised directly in equity. Investments that has no maturity date will be classified as available-for-sale. 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 net assets. 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 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 economic 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 the economic entity uses the contractual cash flows over the full contractual term of the financial instrument.

Derecognition

Financial assets

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

Accounting Policies

1.5 Financial instruments (continued)

Financial liabilities

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

Categorisation

The economic 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
- 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 economic 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 and other receivables from exchange transactions
• Cash and cash equivalents
• Investments

In accordance with IAS 39.09 the financial assets of the economic 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 and other receivables from exchnage transactions	Loans and receivables
Cash and cash equivalents	Available-for-sale
Investments	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 economic entity has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:
• Non current long term liabilities
• Trade and other payables
• Current portion of long term liabilities

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 economic 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:

Financial liabilities:

Long term liabilities (current & non-current)	Financial liability that is not measured at fair value through profit or loss
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 based on expected cash flows.
At each reporting 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. Separate classes of loans and receivables were assessed for impairment using the following methodology:

Accounting Policies

1.5 Financial instruments (continued)
ERWAT assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Tax

ERWAT is a Non Profit Company and is not liable for taxation.

1.7 Leases

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

Finance leases - lessee

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.

1.8 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.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

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

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

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the 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:

1.9 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.

1.10 Employee benefits

Defined contribution plans

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

Other post retirement obligations

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

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

Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when:

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

a) **Post retirement medical provision**

ERWAT provides post retirement medical benefits to some of its already retired employees and a provision is thus raised for the obligation.

b) **Bonus provision**

A provision for 13th cheques to be paid in November is raised.

c) **Incentive bonus provision**

A provision for incentive bonuses is raised. The bonuses will only be approved by the board of directors if they are satisfied with ERWAT's performance at the end of the financial year.

d) **Leave pay provision**

The liability is based on the total accrued leave days at year end.

e) **Other provisions**

Includes a provision for water and electricity accounts not received yet, based on an estimate of previous months usage and workmen's compensation commission based on estimates.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

1.12 Revenue from exchange transactions

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

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

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

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.14 Borrowing costs

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

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

1.14 Borrowing costs (continued)

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

Extended periods is periods that exceeds 3 months.

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

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

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

1.15 Comparative figures

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.

1.16 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the 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.

1.17 Fruitless and wasteful expenditure

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

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

1.18 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 economic 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.

Accounting Policies

1.19 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.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Assets available-for-sale reserve

Available for sale financial assets are held for an indefinite period of time and may be sold in response to needs for liquidity or changes in equity prices. Unrealised gains or losses arising from the changes in the fair value of annual financial statement assets are recognised in equity. On disposal of annual financial statement assets, the fair value adjustments accumulated in equity are recognised in the statement of financial performance.

1.22 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.

1.23 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably
- The technical feasibility of the product or process can be demonstrated
- The existence of a market or, if to be used internally rather than sold, its usefulness to the entity can be demonstrated
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.24 Going concern

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

1.25 Related parties

In accordance with IPSAS 20 related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accounting purposes and enable users to better understand the financial statements of the reporting entity. In respect of transactions between related parties the entity should disclose:

a)The nature of the related parties relationships;

b)The types of transactions that have occurred;

Accounting Policies

1.25 Related parties (continued)

c)The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decisions making and accountability purposes.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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:

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 is for years beginning on or after 01 April 2013.

The entity expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the 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.

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

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

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

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

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this standard is currently being assessed.

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

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

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

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

The entity has adopted the interpretation for the first time in the 2011 annual financial statements.

The impact of the interpretation is set out in note Changes in Accounting Policy.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

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).

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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 01 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

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;
- 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;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- 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.

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

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

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

The entity expects to adopt the standard for the first time in the 2014 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2012.

The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this amendment is currently being assessed.

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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.

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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 01 April 2011.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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.

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

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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 01 April 2013.

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

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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.

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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?
- 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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The entity expects to adopt the interpretation for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Derecognition:
- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- 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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Plan to sell the controlling interest in a controlled entity:

- 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 01 April 2011.

The entity expects to adopt the amendment for the first time in the 2012 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 is for years beginning on or after 01 April 2011.

The entity expects to adopt the standard for the first time in the 2012 annual financial statements.

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 is for years beginning on or after 01 April 2014.

The entity expects to adopt the standard for the first time in the 2015 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the 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 is for years beginning on or after 01 April 2014.

The entity expects to adopt the standard for the first time in the 2015 annual financial statements.

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

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2011			2010		
	Cost	Accumulated depreciation/ impairment	Carrying value	Cost	Accumulated depreciation/ impairment	Carrying value
Buildings	310,325,286	(33,246,595)	277,078,691	310,685,606	(29,454,206)	281,231,400
Plant and machinery	33,031,751	(21,848,140)	11,183,611	31,805,890	(19,732,115)	12,073,775
Furniture and fixtures	7,947,898	(6,015,788)	1,932,110	7,648,459	(5,310,863)	2,337,596
Motor vehicles	11,401,236	(6,311,935)	5,089,301	10,934,651	(5,753,931)	5,180,720
Capital work in progress	75,947,465	-	75,947,465	59,491,143	-	59,491,143
Minor plant	538,402,587	(177,752,236)	360,650,351	535,713,979	(158,841,626)	376,872,353
Leased assets	10,604,194	(10,604,194)	-	10,604,194	(10,604,194)	-
Total	**987,660,417**	**(255,778,888)**	**731,881,529**	**966,883,922**	**(229,696,935)**	**737,186,987**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	281,231,400	-	(239,709)	-	(3,887,629)	(25,371)	-	277,078,691
Plant and machinery	12,073,775	2,664,951	(14,397)	(427)	(3,346,839)	(379,453)	186,001	11,183,611
Furniture and fixtures	2,337,596	650,650	(89,177)	-	(1,000,311)	(592)	33,944	1,932,110
Motor vehicles	5,180,720	1,199,339	(325,781)	-	(964,643)	(334)	-	5,089,301
Capital work in progress	59,491,143	39,453,177	-	-	-	(22,996,855)	-	75,947,465
Minor plant	376,872,353	3,428,493	(84,272)	-	(19,539,881)	(26,342)	-	360,650,351
	737,186,987	**47,396,610**	**(753,336)**	**(427)**	**(28,739,303)**	**(23,428,947)**	**219,945**	**731,881,529**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings	282,293,451	2,726,571	-	(3,788,622)	-	281,231,400
Plant and machinery	12,637,060	2,908,963	(139,726)	(3,314,641)	(17,881)	12,073,775
Furniture and fixtures	2,584,250	792,927	(5,108)	(1,033,585)	(888)	2,337,596
Motor vehicles	6,074,899	-	-	(893,804)	(375)	5,180,720
Capital work in progress	203,677,938	(144,186,795)	-	-	-	59,491,143
Minor plant	227,647,013	169,015,620	-	(19,782,520)	(7,760)	376,872,353
	734,914,611	**31,257,286**	**(144,834)**	**(28,813,172)**	**(26,904)**	**737,186,987**

Other information

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)		
Property, plant and equipment	6,587,527	4,842,820

Property, plant and equipment retired from active use and held for disposal (Carrying amount)

Assets amounting to the cost of R 6,587,527 had a nil useful life; 2010 the cost of assets with a nil useful life was R 4,842,820.

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.

Grootvlei Biosure plant (Cost 2011: R 22,996,855; 2010 R 22,996,855) is not currently operational as the Grootvlei mine was liquidated. The contract between ERWAT and the new owners of the Aurora mine could not be renewed due to the financial difficulties the new owners are experiencing.The Grootvlei Biosure plant is impaired in this financial year as as the plant is no longer providing economic benefits.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Intangible assets

	2011			2010		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,090,333	(1,375,127)	1,715,206	3,065,509	(1,320,950)	1,744,559

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Disposals	Amortisation	Impairment reversal	Total
Computer software, other	1,744,559	241,650	(116,100)	(262,077)	107,174	1,715,206

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Amortisation	Total
Computer software, other	612,842	1,505,789	(374,072)	1,744,559

5. Available-for-sale investments

Name of entity	Carrying amount 2011	Carrying amount 2010	Fair value 2011	Fair value 2010
Sanlam demutualisation shares	430,212	356,845	430,212	356,845
Old Mutual demutualisation shares	641,245	529,995	641,245	529,995
Old mutual unit trust	3,039,405	2,437,935	3,039,405	2,437,935
	4,110,862	3,324,775	4,110,862	3,324,775

The board of directors decided to sell the shares, therefore the shares are classified in the current financial year as current asset.

Fair value

The fair values, determined annually at end of the reporting period, were determined as follows:
- The fair values of listed or quoted investments are based on the quoted market price.
- The fair values on investments not listed or quoted are estimated using the discounted cash flow analysis.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Trade and other receivables from exchange transactions

	2011	2010
Trade receivables	6,707,482	10,690,836
Deposits	511,918	511,918
Prepayments	50,470	78,079
Related parties receivables	26,581,512	18,533,273
Provision for bad debts	(764,961)	(2,195,239)
Salaries	1,183	-
VAT receivable	-	2,395,398
	33,087,604	**30,014,265**

The directors consider the carrying amount of trade and other receivables to approximate their fair value.

Credit quality of trade and other receivables from exchange transactions that are neither past due nor impaired can be assessed by reference to external credit ratings(if available) or to historical information about counterparty default rate.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011	2010
Cash on hand	16,300	16,000
Bank balances	53,937,784	17,228,891
Short-term deposits	16,600,000	-
	70,554,084	**17,244,891**

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

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

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June, 2010	30 June, 2009
ABSA bank - current account - 260 170 120	51,849,070	15,878,449	6,202,443	51,832,594	15,878,449	6,179,919
ABSA bank- Salary account - 260 170 139	2,110,471	1,346,619	198,059	2,110,471	1,346,619	198,059
Petty cash and floats	-	-	-	16,300	16,000	15,000
Clearing account	-	-	-	(5,281)	3,823	(127,759)
INCA bank- Long term loan - 50610027704	16,600,000	-	-	16,600,000	-	-
Total	**70,559,541**	**17,225,068**	**6,400,502**	**70,554,084**	**17,244,891**	**6,265,219**

8. Mark-to-market reserve

	2011	2010
Opening balance	1,905,133	1,380,097
Movement for the year	755,661	525,036
	2,660,794	**1,905,133**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Long term borrowings

At amortised cost		
ABSA Bank loan	31,504,502	37,764,869
Account number 3020478989 @ 7,25% Redeemable 31/05/2015		
Acc number 3020478442 @8,25% Redeemable 31/05/2015		
Account number 3020478581 @ 8,25% Redeemable 31/05/2015		
INCA Bank loan	82,155,642	84,509,601
Account number 50610027704 @ 7,00% Redeemable 28/06/2024		
DBSA Bank loan	32,297,860	35,443,232
Account number 107801 @ 15.00% Redeemable 30/09/2020		
Account number 10780202 @ 9,61% Redeemable 30/09/2020		
	145,958,004	**157,717,702**

Non-current liabilities		
At amortised cost	133,315,837	146,073,831
Current liabilities		
At amortised cost	12,642,167	11,643,871
	145,958,004	**157,717,702**

Fair value of the financial liabilities carried at amortised cost		
Bank loans	145,958,004	157,717,702

10. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Under provision/(Over provision)	Total
Post retirement medical provision	2,419,768	1,474,245	(255,294)	-	3,638,719
Bonus provision	2,711,355	6,052,800	(5,903,232)	157,993	3,018,916
Incentive bonus	3,386,143	3,483,333	(3,322,291)	-	3,547,185
Leave pay provision	7,042,399	2,863,138	(1,711,839)	(577,612)	7,616,086
Other provisions	5,083,583	9,105,586	(3,810,202)	-	10,378,967
	20,643,248	**22,979,102**	**(15,002,858)**	**(419,619)**	**28,199,873**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Post retirement medical provision	1,727,721	876,315	(184,268)	2,419,768
Bonus provision	1,700,870	5,734,473	(4,723,988)	2,711,355
Incentive bonus provision	3,081,516	2,866,667	(2,562,040)	3,386,143
Leave pay provision	6,531,116	2,967,685	(2,456,402)	7,042,399
Other provisions	2,155,890	3,783,725	(856,032)	5,083,583
	15,197,113	**16,228,865**	**(10,782,730)**	**20,643,248**

	2011	2010
Non-current liabilities	3,638,719	2,419,768
Current liabilities	24,561,154	18,223,480
	28,199,873	**20,643,248**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Provisions (continued)

Post retirement medical provision

ERWAT provides post retirement medical benefits to some of its already retired employees and a provision is thus raised for the obligation.

Bonus provision

A provision for 13th cheques to be paid in November is raised.

Incentive bonus provision

A provision for incentive bonuses is raised. The bonuses will only be approved by the board of directors if they are satisfied with ERWAT's performance at the end of the financial year.

Leave pay provision

The liability is based on the total accrued leave days at year end.

Other provisions

Includes a provision for water and electricity accounts not received yet, based on an estimate of previous months usage and workmen's compensation commission based on estimates.

11. Trade and other payables from exchange transactions

Trade payables	21,348,867	15,699,854
Payments received in advanced - contract in process	282,186	282,186
Deposits	27,806	28,673
Payroll creditors	908,269	742,570
Related party payables	2,545,903	8,708,383
Credit balances in debtors	129,204	121,696
Other payables	68,189	133,045
VAT payable	5,944,891	-
	31,255,315	**25,716,407**

The directors consider the carrying amount of trade and other payables to approximate fair value.

12. Revenue

Service charges	339,058,193	264,943,032
Levies	1,611,299	156,613
Interest received - external investments	308,099	22,478
Interest earned - bank	492,654	628,140
Interest earned - fair value adjustment	3,256,788	2,636,665
Interest received – trading	65,577	27,321
Government grants received	9,934,166	23,197,539
Other income	54,685,944	50,112,246
	409,412,720	**341,724,034**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	339,058,193	264,943,032
Interest earned - outstanding debtors	1,611,299	156,613
Interest received - external investments	308,099	22,478
Interest earned - bank	492,654	628,140
Interest earned fair value adjustment	3,256,788	2,636,665
Interest received – trading	65,577	27,321
Other income	54,685,944	50,112,246
	399,478,554	**318,526,495**

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

Transfer revenue		
Government grants received	9,934,166	23,197,539

13. Service charges

Sewerage and sanitation charges	339,058,193	264,943,032

14. Other income

Income directorate	-	700
Reversal of bad debt provision	2,195,239	4,745,562
Tender income	71,520	40,780
Devon sundry income	489,269	489,269
Housing and leases	220,885	199,690
Insurance claims received	29,852	124,483
Learnership income	693,614	513,979
Income administration	108,508	259,754
Income technical	18,043,670	16,951,594
Income laboratory	23,920,651	19,875,182
Income operations	8,178,365	6,296,169
Discount received	460,869	615,084
Bad debts recovered	273,502	-
	54,685,944	**50,112,246**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

15. General expenses

Advertising	464,886	420,886
Assessment rates & municipal charges	722,329	998,429
Auditors remuneration	706,621	750,922
Bank charges	170,250	168,555
Cleaning	625,496	737,931
Computer expenses	848,562	699,886
Consulting and professional fees	2,082,466	2,789,611
Consumables	328,785	368,984
Discount allowed	1,442,145	-
Donations	682,655	248,873
Entertainment	664,220	516,510
Flowers	59,622	39,983
Lease rentals	704,100	647,248
Conferences and seminars	301,935	277,832
Rental of equipment	398,128	252,382
Hiring of fleet	6,747,564	7,444,143
Marketing	1,293,673	1,501,192
Postage and courier	12,514	10,647
Printing and stationery	365,649	407,960
Research and development costs	225,479	236,223
Security (guarding of municipal property)	4,661,088	5,136,494
Subscriptions and membership fees	83,225	115,623
Telephone and fax	1,916,076	1,960,788
Transport and freight	3,201,352	3,081,420
Training	1,468,005	1,038,161
Travel - local	751,967	446,644
Health and safety expense	1,658,309	2,388,778
Laboratory charges	2,087,110	1,866,351
	34,674,211	**34,552,456**

16. Employee related costs

Basic	67,181,029	61,574,320
Bonus	5,498,465	5,731,021
Medical expenses	64,221	79,167
Workmens compensation	768,842	1,188,976
Skills development levy	130,753	677,417
Other payroll levies	-	23,816
Leave pay provision charge	2,916,974	2,972,446
Other short term costs	129,583	135,030
Post-employment benefits - medical aid	1,232,269	668,124
Overtime payments	6,159,998	6,274,701
Long-service awards	44,126	101,044
Car allowance	4,034,511	3,454,688
Housing benefits and allowances	745,849	794,394
Bursary schemes	333,840	266,785
Company contributions	26,784,758	23,479,373
Protective clothing	378,226	355,634
Learnerships	3,139	-
Long-term benefits - incentive scheme	3,543,977	2,866,667
Remuneration of non-executive directors	570,043	572,820
	120,520,603	**111,216,423**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Employee related costs (continued)

Remuneration of the chief executive officer

Annual remuneration	948,718	760,721
Car allowance	120,000	120,000
Performance bonuses	179,279	135,710
Contributions to UIF, medical and pension funds	233,497	197,218
Travel and other	33,442	-
	1,514,936	**1,247,689**

The remuneration of the chief executive officer is included in the employee related costs.

Remuneration of chief financial officer

Annual remuneration	729,813	611,449
Car allowance	102,000	102,000
Performance bonuses	152,641	110,971
Contributions to UIF, medical and pension funds	207,957	199,264
Expense allowance	11,899	-
	1,204,310	**1,023,684**

The remuneration of the chief financial officer is included in the employee related costs.

Remuneration of executive managers

Annual remuneration	4,440,866	3,712,284
Car allowance	537,860	537,860
Performance bonuses	819,652	629,749
Contributions to UIF, medical and pension funds	1,191,730	1,007,895
Other	21,871	-
	7,011,979	**5,887,788**

The remuneration of the executive managers is included in the employee related costs.

17. Debt impairment

Contributions to debt impairment provision	764,960	2,195,239
Bad debts written off	40,422	9,840,155
	805,382	**12,035,394**

18. Investment revenue

Dividend revenue		
Unit trusts - local	65,577	27,321
Interest revenue		
Fair value adjustment receivables	3,256,788	2,636,665
Bank	492,654	628,140
Interest received on investments	308,099	22,478
Interest earned on outstanding debtors	1,611,299	156,613
	5,668,840	**3,443,896**
	5,734,417	**3,471,217**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Depreciation and amortisation

Property, plant and equipment	28,739,302	28,813,172
Intangible assets	262,077	374,072
	29,001,379	**29,187,244**

20. Finance costs

Interest on long term borrowings	12,441,380	14,709,999
Bank	-	92,782
Fair value adjustments on payables	1,283,926	1,265,763
Other interest paid	34	-
Unwinding of discount	241,977	208,190
	13,967,317	**16,276,734**

21. Auditors' remuneration

Fees	706,621	750,922

22. Bulk purchases

Electricity	69,617,550	50,206,436
Water	1,243,171	876,170
Sewer purification	40,828,285	39,669,962
	111,689,006	**90,752,568**

23. Cash generated from operations

Surplus	49,742,316	18,243,163
Adjustments for:		
Depreciation and amortisation	29,001,379	29,187,244
Loss on disposal of assets	481,533	144,834
Dividends received	(1)	-
Impairment loss/reversal of impairments	23,101,826	26,904
Debt impairment	805,382	7,289,832
Movements in operating lease assets and accruals	-	(69,456)
Movements in provisions	7,556,624	5,446,134
Changes in working capital:		
Trade and other receivables from exchange transactions	(5,482,417)	(345,072)
Consumer debtors	(805,382)	(7,289,832)
Trade and other payables form exchange transactions	(392,304)	5,217,774
VAT	8,340,288	(3,132,347)
Interest receivable on available for sale asset	(30,426)	(26,804)
	112,318,818	**54,692,374**

24. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	5,900,258	4,463,627

This committed expenditure relates to plant and equipment and will be financed by available bank facilities.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. Contingencies and guarantees

ERWAT is currently in dispute with Black Child Productions CC and Trinity Entertainment CC. ERWAT was to act as DWA's (Department of Water Affairs) implementing agent as per the memorandum of understanding for the war on leaks programme in the Ekurhuleni area. The service provider was to be recommended by ERWAT, in stead the above close corporation was contracted without any knowledge of ERWAT and they are claiming R10 000 000 for work performed from ERWAT. According to ERWAT the R10 000 000 should be paid by the Department of Water Affairs.

At 30 June 2011 the company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise. In the ordinary course of business, the company has given guarantees amounting to 2011: R 2,999,270 (2010: R 2,999,270) to third parties.

26. Related parties

Relationships
Controlling entity
Ekurhuleni Metropolitan Municipality.
Other members of the group: Brakpan Bus company and Ekhurhuleni Development company

Related party balances

	2011	2010
Amounts included in trade payable regarding related parties		
EKURHULENI METROPOLITAN MUNICIPALITY	2,545,903	8,708,383
Amounts included In trade receivables		
EKURHULENI METROPOLITAN MUNICIPALITY	26,581,512	18,533,273
Grants received		
EKURHULENI METROPOLITAN MUNICIPALITY	9,934,166	23,197,539

Related party transactions

	2011	2010
Purchases from related parties		
EKURHULENI METROPOLITAN MUNICIPALITY	34,688,802	32,684,458
Sales to related parties		
EKURHULENI METROPOLITAN MUNICIPALITY	354,012,147	305,368,928

27. Comparative figures

Certain comparative figures have been reclassified.

Government grant received

During 2011 EMM decided that the income ERWAT has received prior year amounting to R 7,219,613 for two water and electricity accounts should be classified as a grant received. The prior year the R 7,219,613 was classified as sundry income. Note 26 Related parties changed from R 15,977,926 to R 23,197,539 and the other income (note 14) Income operations from R 13,515,782 to R 6,296,168. Grants received are disclosed seperately on the income statement.

Provision for post retirement medical aid

Provision for post retirement medical aid has been classified as a non-current provision, this provision was previously classified as a current provision. Refer to note 10.

Reversal of bad debt provision

The reversal of bad debt provision are classified seperately under other income as R4,745,562(note 14). Previously it was stated under debt impairment. Debt impairment (note 17) is now R12,035,394.

Notes to the Annual Financial Statements

Figures in Rand		2011	2010

27. Comparative figures (continued)

The effects of the reclassification are as follows:

		2011	2010
Statement of financial position			
Non-current liabilities - provisions		-	(2,419,768)
Current liabilities - provisions		-	2,419,768
Statement of Financial Performance			
Sundry income		-	(7,219,613)
Government grants received		-	7,219,613
Reversal of bad debt provision		-	4,745,562
Debt impairment		-	(4,745,562)
		-	-

28. 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 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 (excluding derivative financial liabilities) disclosed in note 9, cash and cash equivalents disclosed in note 7, 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.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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.

		2011	2010
Total borrowings			
Other financial liabilities	9	(145,958,004)	(157,717,702)
Less: cash and cash equivalents	7	70,554,084	17,244,891
Net debt		(75,403,920)	(140,472,811)
Total equity		635,936,093	585,532,987
Total capital		**560,532,173**	**445,060,176**

Financial risk management

Liquidity risk

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.

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Risk management (continued)

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	12,642,168	13,806,910	103,495,617	16,013,309
Trade and other payables	31,255,315	-	-	-

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	11,643,871	12,906,422	45,029,314	88,138,093
Trade and other payables	25,716,407	-	-	-

Interest rate risk

The entity's interest rate risk arises from long-term borrowings. ERWAT manages interest rate risk so that fluctuations in variable rates do not have a material impact on surplus/deficit through negotiations with the banks for fixed interest rates, as well as the lowest rates by request for tenders for the lowest rates.

At year end, financial instruments exposed to interest rate risk is indicated in note 9. ERWAT's income and operating cash are substantially independent of changes in market rates.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

Price risk

The entity is exposed to equity securities price risks because of investments held by the entity and classified on the statement of financial position as available-for-sale.

29. Going concern

We draw attention to the fact that at 30 June 2011, the entity had accumulated surpluses of R 633,275,299 and that the entity's total assets exceed its liabilities by R 635,936,093.

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

The ability of the entity to continue as a going concern is dependent on the continued support of Ekurhuleni Metropolitan Municipality(parent municipality) by way of service charges for treatment of waste water and the provision of related engineering services paid each year in terms of the service delivery agreement entered into between ERWAT and Ekurhuleni Metropolitan Municipality.

30. Irregular expenditure

	2011	2010
Add: Irregular Expenditure - current year	2,029,778	340,325
Less: Amounts condoned	(2,029,778)	(340,325)
	-	-

Details of irregular expenditure not recoverable (not condoned)

-

The Supply Chain Management policy section 36(2) stipulates that the accounting officer may deviate from the procurement process in certain instances, provided that the records the reasons for any deviations and report them in the next Board meeting. He must include a note to the financial statements details of such deviations.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

30. Irregular expenditure (continued)

Contrary to this requirement the R 2,029,778 was not reported to the Board therefore they are irregular.

31. Deviation from supply chain management regulations

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

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

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and will be reported to the Board of Directors.

	2011	2010
The expenses incurred, as listed hereunder, have been approved/condoned		
Emergencies	1,351,750	-
Sole suppliers	479,491	-
Other	198,537	-
	2,029,778	**-**

32. 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 from exchange transactions	33,087,604	-	33,087,604
Cash and cash equivalents	-	70,554,084	70,554,084
Unit trust and demutualisation shares	-	4,110,862	4,110,862
	33,087,604	**74,664,946**	**107,752,550**

2010

	Loans and receivables	Available-for-sale	Total
Trade and other receivables from exchange transactions	30,014,265	-	30,014,265
Cash and cash equivalents	-	17,224,891	17,224,891
Unit trust and demutualisation shares	-	3,324,775	3,324,775
	30,014,265	**20,549,666**	**50,563,931**

33. 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
Trade and other payables from exchange transactions	31,255,315	31,255,315
Long term liabilities (current and non-current)	145,958,004	145,958,004
	177,213,319	**177,213,319**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Financial liabilities by category (continued)

2010

	Financial liabilities at amortised cost	Total
Trade and other payables from exchange transactions	25,716,407	25,716,407
Long term liabilities (current and non-current)	157,717,702	157,717,702
	183,434,109	**183,434,109**

34. Events after the reporting date

Management decided to impair the Grootvlei Biosure plant, after reporting date, as it is providing no economic benefit. The impairment is R22,996,855, reducing the surplus for the year to R49,742,316.

35. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2011	2010
Current fees	706,621	750,922
Amount paid - current year	(706,621)	(750,922)
	-	-

PAYE and UIF

	2011	2010
Current year fee	15,867,835	14,085,461
Amount paid - current year	(15,689,781)	(14,085,461)
	178,054	-

Pension and Medical Aid Deductions

	2011	2010
Current year fee	25,496,042	22,727,314
Amount paid - current year	(25,496,042)	(22,727,314)
	-	-

VAT

	2011	2010
VAT receivable	-	2,395,398
VAT payable	5,944,891	-
	5,944,891	**2,395,398**

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

36. Utilisation of Long-term liabilities reconciliation

	2011	2010
Outstanding long-term liabilities	157,717,702	168,667,329
Redemption of loans	(11,759,698)	(10,949,627)
	145,958,004	157,717,702
Used to finance property, plant and equipment	(145,958,004)	(157,717,702)
Unspend long term laibilities	-	-

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

37. 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							
Service charges	341,595,002	-	341,595,002	339,058,193	2,536,809	99 %	99 %
Investment revenue	1,613,000	-	1,613,000	5,734,417	(4,121,417)	356 %	356 %
Transfers recognised - operational	-	-	-	9,934,166	(9,934,166)	100 %	100 %
Other own revenue	56,058,797	-	56,058,797	54,685,944	1,372,853	98 %	98 %
Total revenue (excluding capital transfers and contributions)	**399,266,799**	**-**	**399,266,799**	**409,412,720**	**(10,145,921)**	**103 %**	**103 %**
Employee costs	(127,480,089)	-	(127,480,089)	(120,520,603)	(6,959,486)	95 %	95 %
Debt impairment	(1,106,000)	-	(1,106,000)	(805,382)	(300,618)	73 %	73 %
Depreciation and asset impairment	(29,725,734)	-	(29,725,734)	(52,103,205)	22,377,471	175 %	175 %
Finance charges	(29,741,633)	-	(29,741,633)	(13,967,317)	(15,774,316)	47 %	47 %
Materials and bulk purchases	(118,498,018)	-	(118,498,018)	(111,689,006)	(6,809,012)	94 %	94 %
Repairs and maintenance	(45,227,729)	-	(45,227,729)	(25,429,147)	(19,798,582)	56 %	56 %
Other expenditure	(47,487,596)	-	(47,487,596)	(35,155,744)	(12,331,852)	74 %	74 %
Total expenditure	**(399,266,799)**	**-**	**(399,266,799)**	**(359,670,404)**	**(39,596,395)**	**90 %**	**90 %**
Surplus/(Deficit) for the year	**-**	**-**	**-**	**49,742,316**	**(49,742,316)**	**100 %**	**100 %**

Notes to the Annual Financial Statements

Figures in Rand

37. 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	259,558,439	(142,404,763)	117,153,676	47,638,261	69,515,415	41 %	18 %
Sources of capital funds							
Transfers recognised - capital	-	-	-	9,934,166	(9,934,166)	DIV/0 %	100 %
Borrowing	259,558,439	(231,407,709)	28,150,730	-	28,150,730	- %	- %
Internally generated funds	-	89,002,946	89,002,946	37,704,095	51,298,851	42 %	100 %
Total sources of capital funds	**259,558,439**	**(142,404,763)**	**117,153,676**	**47,638,261**	**69,515,415**	**41 %**	**18 %**
Cash flows							
Net cash from (used) operating	33,283,338	-	33,283,338	112,318,818	(79,035,480)	337 %	337 %
Net cash from (used) investing	(259,558,439)	-	(259,558,439)	(47,249,934)	(212,308,505)	18 %	18 %
Net cash from (used) financing	247,690,044	-	247,690,044	(11,759,691)	259,449,735	(5)%	(5)%
Net increase/(decrease) in cash and cash equivalents	**21,414,943**	**-**	**21,414,943**	**53,309,193**	**(31,894,250)**	**249 %**	**249 %**
Cash and cash equivalents at the beginning of the year	29,038,234	-	29,038,234	17,244,891	11,793,343	59 %	59 %
Cash and cash equivalents at year end	**50,453,177**	**-**	**50,453,177**	**70,554,084**	**(20,100,907)**	**140 %**	**140 %**