Blue Crane Route Economic Entity
Consolidated Annual Financial Statements
for the year ended 30 June 2011

General Information

Mayoral committee	
Executive Mayor	NM Scott
Councillors	BA Manxoweni
	KC Brown
	CF Du Preez
	WH Greeff
	N Mjikelo
	RM Bradfield
	NP Yantolo
	MK Mali
	M Nontyi
	Z Funselo
Accounting Officer	MA Mene
Chief Finance Officer (CFO)	DR Sauls
Registered office	67 Nojoli Street Somerset East 5850
Postal address	P.O. Box 21 Somerset East 5850
Auditors	Auditor General

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these consolidated annual financial statements, which are set out on pages 1 to 77, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 32 of these consolidated annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

MA Mene
Accounting Officer

30 September 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Other financial assets	8	2 716	82 404
Inventories	11	2 998 887	994 664
Other receivables from exchange transactions	12	441 501	571 272
Other receivables from non-exchange transactions	13	4 058 636	1 020 314
Trade receivables from exchange transactions	14	8 777 571	9 891 875
Cash and cash equivalents	15	23 654 605	21 585 571
		39 933 916	**34 146 100**
Non-Current Assets			
Investment property	4	1	1
Property, plant and equipment	5	51 128 422	30 977 666
Intangible assets	6	4 536	4 536
Investments in controlled entities	7	-	-
Other financial assets	8	23 692	121 102
		51 156 651	**31 103 305**
Total Assets		**91 090 567**	**65 249 405**
Liabilities			
Current Liabilities			
Employee benefit obligation	10	365 377	353 503
Other financial liabilities	16	175 141	-
Finance lease obligation	17	761 087	752 384
Unspent conditional grants and receipts	18	3 538 861	7 551 705
Provisions	19	768 303	978 316
Trade and other payables from exchange transactions	20	13 739 011	9 335 145
Trade and other payables from non-exchange	21	113 831	-
VAT payable	22	676 135	496 438
Consumer deposits	23	1 583 790	1 349 551
		21 721 536	**20 817 042**
Non-Current Liabilities			
Employee benefit obligation	10	13 416 645	14 290 519
Other financial liabilities	16	637 372	-
Finance lease obligation	17	1 103 881	1 785 336
		15 157 898	**16 075 855**
Total Liabilities		**36 879 434**	**36 892 897**
Net Assets		**54 211 133**	**28 356 508**
Net Assets			
Accumulated surplus		54 211 133	28 356 508

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Administration and management fees received		357 938	9 683
Fees earned		252 529	251 698
Fines		92 186	59 588
General		812 089	1 312 484
Government grants and subsidies	28	61 870 531	50 771 578
Income from agency services		737 193	575 285
Interest received (trading)		2 480 035	2 265 366
Interest received - investment	34	1 704 708	1 091 759
Licences and permits		1 156 753	1 206 432
Miscellaneous other revenue		1 283	-
Other income	29	898 939	1 806 901
Private work		1 285 774	4 411 201
Property rates	26	5 943 263	4 903 794
Rental of facilities and equipment		84 248	58 882
Service charges	27	71 231 600	62 555 347
Total Revenue		**148 909 069**	**131 279 998**
Expenditure			
Bulk purchases	37	(32 922 010)	(26 975 548)
Collection costs		(2 194)	(2 542)
Debt impairment	33	(10 482 185)	(6 275 232)
Depreciation and amortisation		(29 320)	(36 653)
Employee related costs	31	(45 391 778)	(40 550 570)
Finance costs	35	(2 126 885)	(1 942 884)
General Expenses	30	(29 428 346)	(26 397 757)
Remuneration of councillors	32	(2 191 350)	(2 367 701)
Repairs and maintenance		(2 920 377)	(4 011 540)
Total Expenditure		**(125 494 445)**	**(108 560 427)**
Gain on disposal of assets and liabilities		-	492 362
Actuarial gain/(loss)		2 440 000	-
Surplus for the year		**25 854 624**	**23 211 933**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3 153 482	3 153 482
Adjustments		
Prior year error (BCDA)	1 819 432	1 819 432
Asset take on - Infrastructure and investment property @ R1 per asset	15 936	15 936
Prior year adjustments 2009	155 725	155 725
Balance at 01 July 2009 as restated	**5 144 575**	**5 144 575**
Changes in net assets		
Surplus for the year	23 211 933	23 211 933
Total changes	23 211 933	23 211 933
Opening balance as previously reported	27 687 581	27 687 581
Adjustments		
Asset take on affecting net assets	15 937	15 937
Prior year adjustments (BCDA)	764 499	764 499
Prior year adjustments	(111 508)	(111 508)
Balance at 01 July 2010 as restated	**28 356 509**	**28 356 509**
Changes in net assets		
Surplus for the year	25 854 624	25 854 624
Total changes	25 854 624	25 854 624
Balance at 30 June 2011	**54 211 133**	**54 211 133**
Note(s)	42	

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Grants		57 736 722	50 868 199
Interest income		1 704 708	1 091 759
Other receipts		84 390 046	77 998 412
		143 831 476	129 958 370
Payments			
Employee costs		(48 574 168)	(39 252 754)
Finance costs		(1 820 598)	(1 448 660)
Other payments		(73 638 173)	(63 182 452)
		(124 032 939)	(103 883 866)
Net cash flows from operating activities	38	**19 798 537**	**26 074 504**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(20 180 076)	(15 917 772)
Gain on disposal of assets and laibilities	5	-	492 362
Purchase of other intangible assets	6	-	(4 535)
Net movement in financial assets		177 098	94 944
Actuarial gain/(loss) - Non cash item		2 440 000	-
Other cash item		-	219 970
Net cash flows from investing activities		**(17 562 978)**	**(15 115 031)**
Cash flows from financing activities			
Repayment of other financial liabilities		812 513	-
Finance lease payments		(979 039)	(906 094)
Net cash flows from financing activities		**(166 526)**	**(906 094)**
Net increase/(decrease) in cash and cash equivalents		**2 069 033**	**10 053 379**
Cash and cash equivalents at the beginning of the year		21 585 571	11 532 192
Cash and cash equivalents at the end of the year	15	**23 654 604**	**21 585 571**

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated 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 consolidated 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 consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated 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 consolidated annual financial statements. Significant judgements include:

Loans and receivables

The economic entity assesses its 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.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

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 the economic entity 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 the economic entity for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. 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.

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

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 19 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of infrastructure and other assets

The economic entity's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

Post retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 10.

Effective interest rate

The economic entity used the most relevant contractual risk rate applicable to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for impairment on trade and other receivables

On trade and other receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

Provision to the doubtful debts allowance accounts are caculated based on the average payment percentage as calculated per ward determining the risk in days averaged to 30, 60, 90, 120 days and higher. Provision is then determined per ward based on the ward's risk portfolio.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

1.2 Investment property (continued)

Fair value

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

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

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

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

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

Transitional provision

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

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

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the economic entity is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in 4.

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

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

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings wich is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

Item	Average useful life
Buildings	30
Plant and machinery	3 to 30
Motor vehicles	4 to 15
Office equipment	3 to 5

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

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

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

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

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

1.3 Property, plant and equipment (continued)

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

Transitional provision

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

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

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the economic entity is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5.

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

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

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

1.4 Site restoration and dismantling cost

The economic entity has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which itt is located, the obligation for which an economic 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.

If the related asset is measured using the cost model:

- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

1.5 Intangible assets (continued)

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

Intangible assets are initially recognised at cost.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

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

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

1.5 Intangible assets (continued)

Transitional provision

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

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

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the economic entity is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in 6.

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

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

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

1.6 Investments in controlled entities

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

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

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

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

1.7 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall 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 (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Accounting Policies

1.7 Financial instruments (continued)

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Non current investments	Financial asset measured at amortised cost
Other non current investments (shares)	Financial asset measured at fair value
Other	Financial asset measured at fair value

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

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

Accounting Policies

1.7 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, 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.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

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

Finance leases - lessee

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

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

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.

1.8 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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.

Transitional Provision

The municipality changed its accounting policy for leases in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework
.
According to the transitional provision, the municipality is not required to measure leases for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on leases. . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leases was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later
.
Until such time as the measurement period expires and leases is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Inventory GRAP (19),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.9 Inventories

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

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

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

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

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

1.9 Inventories (continued)

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

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

Transitional provision

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

According to the transitional provision, the economic entity is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the economic entity is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts, as disclosed in 11.

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

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

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

1.10 Non-current assets held for sale and disposal groups

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

Identification

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

The economic entity assesses annually whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Value in use

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

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

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

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.

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

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:

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

At each reporting date a review is carried out to determine whether there are any indications that any assets or cash generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an assset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised in profit for the period in respect of assets carried at historic cost , and against revaluation surpluses in respect of assets carried at revalued amounts.

Accounting Policies

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

Identification

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

The economic entity assesses annually whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable service amount of the asset.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are 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.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.13 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

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

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

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

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

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

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

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

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

1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Transitional provision

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

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the economic entity is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The economic entity acquired a transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 19.

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

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

1.15 Revenue from exchange transactions

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

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

1.15 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity, and
- The amount of the revenue can be measured reliably.

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

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

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

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

1.16 Revenue from non-exchange transactions

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

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the economic entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an economic entity either receives value from another economic entity without directly giving approximately equal value in exchange, or gives value to another economic entity without directly receiving approximately equal value in exchange.

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

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

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

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

As the economic 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 reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

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

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

Transfers

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

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

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The economic entity recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

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

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

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

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the economic entity, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

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

1.17 Investment income

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

1.18 Borrowing costs

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

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

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

1.18 Borrowing costs (continued)

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

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 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.

1.22 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.

1.23 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated 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.

1.24 Presentation of currency

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

1.25 Offsetting

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

1.26 Investments

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

Accounting Policies

1.27 Conditional grants and receipts

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

1.28 Budget information

Economic Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

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

The consolidated annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the consolidated annual financial statements. Refer to note 49.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except except for the withdrawal of the following new or revised standards as per Directive 5 as issued by the Accounting Standard Board and for the adoption of the following new or revised standards.

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measuremen withdrawn.
- IAS 19 Employee Benefits withdrawn but the municipality opted to continue until GRAP 25 becomes operative.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- Policy for Financial Instruments based on GRAP 104 adopted.
- Policies for Impairments based on GRAP 21 and GRAP 26 adopted.
- Policy for Non - exchange Transactions based on GRAP 23 adopted.

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

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

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 economic 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.

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

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

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

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the economic 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 economic 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.

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

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

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

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the economic 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.

3. New standards and interpretations (continued)

Where an entity prepares its budget and consolidated annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary consolidated annual financial statements. Where the budget and consolidated 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 consolidated annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and consolidated 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 economic entity does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

It is unlikely that the standard will have a material impact on the economic entity's consolidated 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 economic entity; and
- the cost of fair value of the asset can be measured reliably.

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

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

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

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

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

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

3. New standards and interpretations (continued)

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

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

GRAP 21: Impairment of non-cash-generating assets

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

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

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

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

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

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

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

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

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

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

GRAP 26: Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

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

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

It is unlikely that the standard will have a material impact on the economic entity's consolidated 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 economic entity to recognise:

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

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

GRAP25 defines, amongst others, the following:

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

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

3. New standards and interpretations (continued)

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

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

GRAP 104: Financial Instruments

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

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

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

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Annual Financial Statements

3. New standards and interpretations (continued)

- 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, a economic entity has transferred control of the asset to another economic entity.

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

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

GRAP 104 requires extensive disclosures on the significance of financial instruments for an economic entity's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an economic entity is exposed to as a result of its consolidated 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. A economic 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 2013.

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

The impact of this amendment is currently being assessed.

4. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1	-	1	1	-	1

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	1	1

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	1	1

The total direct and indirect operating expenses (including repairs and maintenance) for all municipal properties was R 3 961 503, repairs and maintenance R 5 666.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The values were determined by Mr Hein Mcleod the Municipal valuer who is a Registered Professional Valuer with the South African Board for Valuers, Registration No. 3257. He is also a member of the South African Institute of Valuers.

Rental income from investment properties in respect of monthly and annual leases amounted to R 243 092.

Transitional provisions

Due to a transfer of functions

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

5. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1	-	1	1	-	1
Buildings	2 499 112	-	2 499 112	2 132 196	-	2 132 196
Furniture and fixtures	84 323	(69 731)	14 592	84 323	(62 919)	21 404
Motor vehicles	3 354 559	-	3 354 559	2 201 809	-	2 201 809
Office equipment	24 796	(23 661)	1 135	23 027	(23 023)	4
IT equipment	177 827	(145 759)	32 068	170 561	(125 959)	44 602
Infrastructure	36 526 191	-	36 526 191	18 776 186	-	18 776 186
Other equipment	360	(359)	1	360	(359)	1
Capital work in progress	1 595 043	-	1 595 043	1 595 043	-	1 595 043
Heritage	32 833	(2 070)	30 763	-	-	-
Other property, plant and equipment	7 074 957	-	7 074 957	6 206 420	-	6 206 420
Total	**51 370 002**	**(241 580)**	**51 128 422**	**31 189 926**	**(212 260)**	**30 977 666**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	1	-	-	1
Buildings	2 132 196	366 916	-	2 499 112
Furniture and fixtures	21 404	-	(6 812)	14 592
Motor vehicles	2 201 809	1 152 750	-	3 354 559
Office equipment	4	1 769	(638)	1 135
IT equipment	44 602	7 266	(19 800)	32 068
Infrastructure	18 776 186	17 750 005	-	36 526 191
Other equipment	1	-	-	1
Capital work in progress	1 595 043	-	-	1 595 043
Tourism Hub - equipment	-	32 833	(2 070)	30 763
Other property, plant and equipment	6 206 420	868 537	-	7 074 957
	30 977 666	**20 180 076**	**(29 320)**	**51 128 422**

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Transfers	Depreciation	Total
Land	1	-	-	-	1
Buildings	1	2 133 219	(1 024)	-	2 132 196
Furniture and fixtures	28 215	-	-	(6 811)	21 404
Motor vehicles	2 201 809	-	-	-	2 201 809
Office equipment	2	2 560	-	(2 558)	4
IT equipment	56 068	15 818	-	(27 284)	44 602
Infrastructure	9 892 318	9 178 544	(294 676)	-	18 776 186
Other equipment	1	-	-	-	1
Capital work in progress	-	1 627 117	(32 074)	-	1 595 043
Other property, plant and equipment	3 247 380	2 960 514	(1 474)	-	6 206 420
	15 425 795	**15 917 772**	**(329 248)**	**(36 653)**	**30 977 666**

	2011	2010
Prior period error note 42		
Balance previously reported	-	30 738 561
Adjusted for infrastructure take on	-	15 936
Adjusted for finance leases	-	265 006
Adjusted for transfers affecting prior 2010 assets	-	(41 837)
Restated	**-**	**30 977 666**

Pledged as security

Carrying value of assets pledged as security:

	2011	2010
Motor vehicles	2 201 809	2 201 809
Office equipment	1 213 990	1 105 127

These assets were acquired on a finance lease as per GRAP 13 on a basis that the assest do not become the property of the municipality at the end of the lease terms and continue to be the property of the lessors.

Capitalised expenditure(excluding borrowing costs)

	2011	2010
Other property, plant and equipment	1 213 990	1 105 127
Capital work in progress	1 595 043	1 627 117
	2 809 033	**2 732 244**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

The municipality elected to adopt the transitional provisions for the implementation of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment have been recognised at R1 and additions of 2011 , 2010 and 2009 were regognised at cost. The municipality is in the process of appointing service providers to determine the infrastructure componatisation and values. This excercise is expected to be finalised in 12 months.

The service entity, Blue Crane Development Agency applies Directive 2, therefore the economic entity discloses depreciation and accumulated depreciation on this financial statements even though the economic entity applies Directive 4.

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 economic entity.

Figures in Rand	2011	2010

6. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	4 536	-	4 536	4 536	-	4 536

Reconciliation of intangible assets - 2011

	Opening balance	Total
Intangible assets	4 536	4 536

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Intangible assets	1	4 535	4 536

Transitional provisions

Intangible assets recognised at provisional amounts

The municipality elected to adopt the transitional provisions for the implementation of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain intangible assets have been recognised at R1 and additions of 2011 , 2010 and 2009 were regognised at cost. The municipality is in the process of appointing service providers to determine the infrastructure componatisation and values. This excercise is expected to be finalised in 12 months

7. Investments in controlled entities

Name of company	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Blue Crane Route Development Agency	Blue Crane Route Municipality	100.00 %	100.00 %	3 177 807	1 831 809

Restrictions relating to Controlled entities

The 100% investment in this Service entity (subsidiary) was acquired at no cost. Therefore no value can be reflected on the face of the Statement of Financial Position.

8. Other financial assets

	2011	2010
Loans and receivables		
Long term loans Loans are repayble in monthly installments over periods of three to twenty years. Certain loans have a fixed interest rate of 5% and others are linked to prime interest rate	26 408	203 506
Non-current assets		
Loans and receivables	23 692	121 102
Current assets		
Loans and receivables	2 716	82 404

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

8. Other financial assets (continued)

	2011	2010
	26 408	**203 506**

Comparative figures note 43		
Balance previously reported	-	82 099
Adjusted for long term debtors	-	305
Restated	**-**	**82 404**

Comparative figures note 43		
Balance previously reported	-	121 408
Adjusted for long term debtors	-	(306)
Restated	**-**	**121 102**

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

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.

Included in the above amount for loans and receivables is an amount of R95 209 (2010), which relates to a vehicle which was purchased on behalf of the mayor via a finance lease agreement with ABSA. The mayor pays the monthly instalments of the finance lease agreement upfront every month. The amount is repayable over three and a half years and interest is levied at prime less 1%. The mayor will be the owner of the vehicle at the end of the lease in 2011.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

9. Financial assets by category

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

2011

	Financial assets amortised	Total
Other financial assets	26 409	26 409
Other receivables from exchange transactions	441 501	441 501
Other receivables from non-exchange transactions	4 058 636	4 058 636
Cash and cash equivalents	23 654 605	23 654 605
Trade receivables from exchange transactions	8 777 571	8 777 571
	36 958 722	**36 958 722**

2010

	Financial assets amortised	Total
Other financial assets	203 506	203 506
Other receivables from exchange transactions	571 272	571 272
Other receivables from non-exchange transactions	1 020 314	1 020 314
Cash and cash equivalents	21 585 571	21 585 571
Consumer debtors	9 891 875	9 891 875
	33 272 538	**33 272 538**

10. Employee benefit obligations

Defined benefit plan

To value the PRMA liability in respect of all eligible Blue Crane Route Municipality employees who belong to one of the following medical schemes:Bonitas, Hosmed, Key Health, LA Health, Samwumed

Data was used in respect of 69 active members and 17 pensioners entitled to a post-retirement medical scheme contribution subsidy. The net decrease of 2 active employees can be attributed to 15 active employees leaving Blue Crane Route Municipality since the previous valuation, and 13 new active employees.

The entire zero-coupon South African Bond Yield curve as at 30 June 2011 in the PRMA valuation of Blue Crane Route Municipality was used. Therefore, a single assumption for the discount rate is not shown. This yield curve is different from the previous valuation, where we used the “Bond Exchange of South Africa” as a reference. The zero-coupon South African Bond Yield is a more reflective measure to use in this valuation.

Since the discount rates are described using a yield curve, a yield curve is also used to describe future medical inflation. Future medical inflation is assumed to be 1% lower than the valuation discount rate at each term to maturity.

The assumtion was made that the CPI to be 3% per annum lower than the discount rate at each term to maturity. It was believed that a long-term gap of approximately 3% between CPI and the valuation discount rate is reasonable for long term valuation purposes.

Post retirement medical aid plan

The calculation is based on 86 members (2010: 86) with an avrerage age of 50.3 (2010: 49.1) and 1.4 average dependants (2010: 1.3) and an average monthly contribution of R1,425.73 (2010: R1,606.21)

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

10. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	14 644 022	13 121 847
Service and interest cost	1 932 000	1 864 721
Benefits paid	(354 000)	(342 546)
Actuarial (gain) / loss recognised in the year	(2 440 000)	-
Net liability	**13 782 022**	**14 644 022**
Non-current liabilities	13 416 645	14 290 519
Current liabilities	365 377	353 503
	13 782 022	**14 644 022**

Real discount rate	**2%**	**1% (Base)**	**0%**
Accrued PS liability as at 30 June 2011	11 872 640	13 782 108	16 073 147
Plus Service cost	540 302	662 160	809 026
Plus interest cost	713 271	829 713	969 434
Less benefits paid during 2011/2012	(363 514)	(365 377)	(367 252)
Projected PS liability as at 30 June 2012	12 762 699	14 908 604	17 484 354
	25 525 398	**29 817 208**	**34 968 709**

The service cost in the above table represents the increase in the liability due to the additional years of service accrued by active members. For the base case, where we assumed that the gap or real discount rate was 1%, we project a service cost of R0.662 million for the year ahead. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service

The interest cost is based on the discount rate assumption for the current valuation which is based on the Zero-coupon Bond Yield Curve of South Africa as at 30 June 2011, the liability accrued as at 30 June 2011 and the contributions paid during the financial year.

The benefits paid during 2011/2012 is the estimated medical scheme contributions paid by Blue Crane Route Municipality with respect to PRMA receiving members during the period 1 July 2011 to 30 June 2012.

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

Opening balance	1 522 175	-
Net expense recognised in the statement of financial performance	1 578 000	1 522 175
Closing balance	**3 100 175**	**1 522 175**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

10. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

	2011	2010
Current service cost	938 000	993 896
Interest cost	994 000	870 825
Benefits paid	(354 000)	(342 546)
Total included in employee related costs	**1 578 000**	**1 522 175**

Indicator	**Past service liability**	**Sensitivity to medical inflation**
1%	16 073 147	16.62%
Base	13 782 108	
-1%	11 872 640	-13.85%

These results indicate the extent to which the PRMA liability is sensitive to the difference between long-term medical inflation and the discount rate. The appropriate gap between these two long term rates is a matter of judgement, and the sensitivity of the results to the assumed gap does not mean that the central results are not reasonable.

10. Employee benefit obligations (continued)

Key assumptions used

The past service liability has decreased by 5.89% since the previous valuation.
From the previous valuation, the past-service liability was expected to grow with interest, service cost and reduce by benefits paid to pensioners over the past year. The service cost represents the increase in the liability due to the additional year of service accrued by active members. The projected past-service liability as at 30 June 2011 based on the previous valuation is R16.222m, which represents an increase of 10.78%. However, the past service liability produced in this valuation is significantly lower at R13.782m, which represents a 5.89% decrease from the previous valuation. The reasons for this difference are outlined below:

1. Economic and actuarial assumptions:
The yield curve applied has been updated to be reflective for the current valuation period as at 30 June 2011. The actual investment return earned over the valuation period was lower than that expected at the previous valuation. This resulted in the interest and service cost being lower than what was projected in the previous valuation, therefore decreasing the past service liability for active members.
Medical inflation is specified in relation to the discount rate, which means that the expected benefits paid to pensioners were also overstated, resulting in lower projection and hence an increase to the past service liability.
Additionally, the fixed subsidy was assumed to increase in line with salary inflation in this valuation, as opposed to medical inflation in the previous valuation. This means that the fixed subsidy increases at a lower rate than in the previous valuation, resulting in a decrease in liability.
The overall effects combined result in a small decrease in liability, namely 0.70%.

2. Subsidy policy
Based on the expectation in the previous valuation that the fixed subsidy increases in line with medical inflation, the fixed subsidy was anticipated to increase from R2,950.80 to R3,154.08 at a rate of 6.89% (assumed medical inflation in the previous valuation). However, the actual fixed subsidy in 2011 was provided to be R3,092.55, which represents an actual increase of 4.80% from the previous valuation. This causes in a slight decrease in liability.
Additionally, the subsidy policy has changed from awarding a 70% to all active employees and pensioners in the previous valuation, to awarding a 60% subsidy to active employees, and either 60% or 70% to pensioners in this valuation. This decreases the liability substantially, as it is assumed that Blue Crane Route Municipality provides a 10% lower subsidy to the majority of the employees.
The overall effect was a significant decrease in liability of 10.66%.

3. Medical contribution increases
The medical aid contributions are expected to increase with medical inflation, which was expected to be 6.89% in the previous valuation. Upon investigation of the actual medical contribution rates in 2011, it was found that the rates increased by an average of 10.02%, representing a much higher rate than what was anticipated.
This has resulted in an increase in liability of 2.08%.

4. Membership changes
There has been a net decrease in membership of 2 active members, attributable to 15 active members leaving, and 13 new active members joining Blue Crane Route Municipality. Upon investigation of these membership changes, it was found that the average past service liability of the new active members in this valuation is 32.34% lower than the average past service liability of the leaving active members in the previous valuation.
This change has caused a decrease in liability of 5.76%.
The combined effect of all the above changes was a significant decrease in liability of 5.89%.

11. Inventories

Work in progress	2 238 591	378 950
Consumable stores	760 296	615 714
	2 998 887	**994 664**

Stores issued amounted to R 1 061 880 and R 1 394 713 (2010).

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

12. Other receivables from exchange transactions

IDC	-	15 132
Employee costs in advance	11 696	17 332
Deposits	14 000	979
Other receivables	415 805	537 829
	441 501	**571 272**

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

Fair value is estimated at cost.

13. Other receivables from non-exchange transactions

Government grants and subsidies	3 565 427	89 928
Property rates	260 929	403 538
Other receivables from non-exchange revenue	232 280	526 848
	4 058 636	**1 020 314**

Property rates		
Porperty rates	2 911 094	2 293 515
Provision for bad debts: Property rates	(2 650 165)	(1 889 977)
	260 929	**403 538**

Property rates age analysis		
Current (0-30days)	204 082	331 445
31-60 days	53 238	56 178
61-90 days	96 563	34 667
91-120 days	18 052	31 886
> 121 days	2 539 159	1 839 339
	2 911 094	**2 293 515**

Provision for bad debts: Property rates		
Impairment balance prior year	(1 889 977)	(1 635 074)
Contributions to provision	(1 127 686)	(254 903)
Debt impairment written off against provision	367 498	-
	(2 650 165)	**(1 889 977)**

Prior period error note 42		
Balance previously reported	-	1 647 450
Adjusted for 50% of property rates written off	-	(627 715)
Adjust for VAT (Reclassification) Refer note 14	-	28
Adjust for cashier shortage	-	580
Adjust for councillors backpay	-	(29)
Restated	**-**	**1 020 314**

As of 30 June 2011, other receivables from non-exchange transactions of R 1 127 686 (2010: R 254 903) were impaired and provided for.
The amount of the provision was R 2 650 165 as at 30 June 2011 (2010: R 1 889 977).

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

Figures in Rand	2011	2010

13. Other receivables from non-exchange transactions (continued)

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of other receivables from non-exchange transactions

Other receivables from non-exchange transactions	4 058 607	1 020 314

The fair value has been determined by using the face value of the outstanding capital.

14. Trade receivables from exchange transactions

	2011	2010
Gross balances		
Electricity	6 269 623	5 371 184
Water	7 918 202	7 262 691
Sanitation	1 316 779	1 473 561
Sewerage	3 667 942	3 593 229
Refuse	5 980 802	5 812 107
Other	903 046	1 241 546
	26 056 394	**24 754 318**
Less: Provision for debt impairment		
Electricity	(1 666 087)	(1 287 512)
Water	(6 051 780)	(5 007 944)
Sanitation	(1 080 462)	(1 178 100)
Sewerage	(2 865 694)	(2 473 034)
Refuse	(4 785 192)	(4 169 450)
Other	(829 608)	(746 403)
	(17 278 823)	**(14 862 443)**
Net balance		
Electricity	4 603 536	4 083 672
Water	1 866 422	2 254 747
Sanitation	236 317	295 461
Sewerage	802 248	1 120 195
Refuse	1 195 610	1 642 657
Other	73 438	495 143
	8 777 571	**9 891 875**
Electricity		
Current (0 -30 days)	3 426 400	3 046 082
31 - 60 days	629 969	484 305
61 - 90 days	250 533	335 134
91 - 120 days	208 835	195 794
>121 days	1 753 886	1 309 869
	6 269 623	**5 371 184**

Figures in Rand	2011	2010

14. Trade receivables from exchange transactions (continued)

Water		
Current (0 -30 days)	981 556	785 490
31 - 60 days	384 424	332 669
61 - 90 days	405 064	286 490
91 - 120 days	329 834	263 089
>121 days	5 817 324	5 594 953
	7 918 202	**7 262 691**
Sanitation		
Current (0 -30 days)	61 961	87 712
31 - 60 days	14 101	24 208
61 - 90 days	13 927	23 737
91 - 120 days	13 518	23 436
>121 days	1 213 271	1 314 468
	1 316 778	**1 473 561**
Sewerage		
Current (0 -30 days)	428 375	362 155
31 - 60 days	134 895	131 147
61 - 90 days	117 510	116 158
91 - 120 days	113 352	107 563
>121 days	2 873 810	2 876 206
	3 667 942	**3 593 229**
Refuse		
Current (0 -30 days)	582 307	548 934
31 - 60 days	202 453	215 991
61 - 90 days	185 128	200 195
91 - 120 days	180 007	192 994
>121 days	4 830 907	4 653 993
	5 980 802	**5 812 107**
Other (specify)		
Current (0 -30 days)	46 388	-
31 - 60 days	15 567	-
61 - 90 days	79 249	-
91 - 120 days	10 525	-
>121 days	751 317	1 241 546
	903 046	**1 241 546**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

14. Trade receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	5 526 988	4 830 373
31 - 60 days	1 381 411	1 188 320
61 - 90 days	1 051 410	961 714
91 - 120 days	856 068	782 876
>121 days	17 240 517	16 991 036
	26 056 394	24 754 319
Less: Provision for debt impairment	(17 278 823)	(14 862 444)
	8 777 571	**9 891 875**

Prior period error note 42 and Comparative figures note 43		
Balance previously reported	-	7 306 331
Adjusted for VAT	-	2 587 779
Adjusted for water levies write off	-	(1 021)
Adjusted for water levies write off prior to 2010	-	(1 186)
VAT reclassification. Refer note 13	-	(28)
Restated	**-**	**9 891 875**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(14 862 444)	(12 857 930)
Contributions to provision	(9 354 356)	(2 401 523)
Debt impairment written off against provision	6 937 977	397 010
	(17 278 823)	**(14 862 443)**

Credit quality of trade receivables from exchange transactions

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

Fair value of trade receivables from exchange transactions

Trade receivables from exchange transactions	8 777 571	9 891 875

The fair value has been determined by using the face value of the outstanding capital.

Trade receivables impaired

As of 30 June 2011, consumer debtors of R 6 937 977 (2010: R 397010) were impaired and provided for.

The amount of the provision was R 17 278 823 as at 30 June 2011 (2010: R 14 862 443).

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 966	1 863
Bank balances	1 558 946	3 908 869
Short-term deposits	22 090 693	17 674 839
	23 654 605	**21 585 571**

Notes to the Consolidated Annual Financial Statements

15. Cash and cash equivalents (continued)

The economic 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 - Fixed deposit - 2053825035	7 500	7 500	7 500	7 500	7 500	7 500
ABSA Bank - Fixed deposit - 2055844786	20 612	19 210	17 648	20 612	19 210	17 648
ABSA Bank - Fixed deposit - 2064372621	289	285	278	289	285	278
ABSA Bank - Call account - 2069984156	-	10 237 092	-	-	10 237 092	-
ABSA Bank - Fixed deposit - 2084303510	12 497	12 174	11 730	12 497	12 173	11 730
ABSA Bank - Call account - 9067623600	6 147 075	2 758 094	4 581 931	6 147 075	2 758 094	4 581 931
ABSA Bank - Fixed deposit - 3064335048	22 599	22 033	21 183	22 599	22 033	21 183
ABSA Bank - Fixed deposit - 4064313202	13 526	13 113	12 451	13 526	13 113	12 451
ABSA Bank - Fixed deposit - 5024312404	29 891	29 009	27 912	29 891	29 009	27 912
ABSA Bank - Fixed deposit - 9064335011	13 089	12 729	12 212	13 089	12 729	12 212
ABSA Bank - Fixed deposit - 9073206933	29 513	28 651	27 596	29 513	28 651	27 596
ABSA Bank - Money market - 9186985404	-	-	4 834 793	-	-	4 834 793
ABSA Bank - Money market - 9186985878	-	-	21 742	-	-	21 742
ABSA Bank - Call account - 99216529966	269 692	48 913	388 233	269 692	48 913	388 233
Nedbank - Money market - 1263036023	6 424	6 574	6 574	6 424	6 574	6 574
Nedbank - Fixed deposit - 18312491	4 600	4 600	4 600	4 600	4 600	4 600
Nedbank - Money market - 1263034756	62 777	60 429	57 521	62 777	60 429	57 521
First National Bank - Money market - 74255023258	3 253 591	3 077 122	-	3 253 591	3 077 122	-
ABSA - Cheque account - 2200000008	942 357	637 053	1 622 710	1 005 843	525 227	1 139 079
ABSA - Cheque account - 4064779134	29 647	3 249 065	130 401	8 266	3 248 630	(386 358)
Investec - Fixed deposit - 50004430117	12 197 019	-	-	12 197 019	-	-
ABSA - Current account - 4061722786	558 580	118 943	281 266	558 580	118 943	281 266
ABSA - Current account - 9166711247	2 035	20 186	5 538	2 035	20 186	5 538
ABSA - Current account - 9255926268	1 933	-	-	1 933	-	1 933
ABSA - Call account - 2070091576	-	1 337 313	456 815	-	1 337 313	456 815
ABSA - Credit card	(17 712)	(4 116)	-	(17 712)	(4 116)	-
Total	**23 607 534**	**21 695 972**	**12 530 634**	**23 649 639**	**21 583 710**	**11 532 177**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

16. Other financial liabilities

Held at amortised cost		
Absa Bank loan The loan commenced at 19 October 2010 The term of the loan is 5 years repayable semi yearly with an interest rate of 9.75%. First payment of R 125,114, was payable on 31 December 2010.	812 513	-
Non-current liabilities		
At amortised cost	637 372	-
Current liabilities		
At amortised cost	175 141	-
	812 513	**-**

17. Finance lease obligation

Minimum lease payments due		
- within one year	918 760	985 788
- in second to fifth year inclusive	1 183 059	2 012 320
	2 101 819	2 998 108
less: future finance charges	(236 851)	(460 388)
Present value of minimum lease payments	**1 864 968**	**2 537 720**
Present value of minimum lease payments due		
- within one year	761 087	752 384
- in second to fifth year inclusive	1 103 881	1 785 336
	1 864 968	**2 537 720**
Non-current liabilities	1 103 881	1 785 336
Current liabilities	761 087	752 384
	1 864 968	**2 537 720**
Prior period error note 42		
Balance previously reported (Current & Non-Current)	-	2 349 947
Adjusted for lease liability according to amortisation schedule	-	2 771
Adjusted for additional leases identified	-	265 006
Adjusted for capital portion of liability 2010	-	(43 454)
Adjusted for capital portion prior to 2010	-	(36 550)
Restated	**-**	**2 537 720**

It is economic entity policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 9% and 23%).

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

The economic entity's obligations under finance leases are secured by the lessor's charge over the leased assets.
Included in the balance above is a finance lease with ABSA registered in the municipality's name on behalf of the Mayor. Fully redeemed in 2011. Refer to note 7.
All financial leases before 1 July 2008 are treated as contingent payment.
There is no subleases

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG grant	-	1 823 670
Other grants	3 538 861	5 728 035
	3 538 861	**7 551 705**

The nature and extent of government grants recognised in the consolidated annual financial statements and an indication of other forms of government assistance from which the economic entity has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

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

Grant description	Unspent balance 2010	Receipts	Transfer operating expenditure	Transfer capital expenditure	Total
CBP Ward Implementation Plan	2 243	-	(50)	-	2 193
MSIG Funds	-	750 000	(750 000)	-	-
DWAF	824 455	-	(145 920)	-	678 535
Aeroville Cemetery	46 543	-	-	-	46 543
Library	28 233	-	-	-	28 233
FMG	-	1 200 000	(1 021 883)	(178 117)	-
CIP Funds	169 487	-	-	-	169 487
Valuations	-	200 000	(88 868)	-	111 132
IEC	-	121 600	(73 790)	(28 766)	19 044
DR WH CRAIB TRUST FUND	13 015	-	-	-	13 015
Free Basic services	11 945	-	-	-	11 945
LED-ZAMA Ukuphila Trust	-	53 000	(18 478)	-	34 522
HIV Drugs	18 384	-	(18 384)	-	-
IDP	245 937	-	(176 746)	-	69 191
Zoning Map	30 843	-	(15 990)	-	14 853
Cacadu: Roads & Stormwater	-	599 999	-	(244 281)	355 718
Project Consolidate	92 381	-	-	-	92 381
Environmental Impact	63 000	-	-	-	63 000
Spatial development framework	29 950	-	-	-	29 950
Water services Fund	100 000	-	-	-	100 000
CMIP Trust	151 861	-	-	-	151 861
NER	86 833	468 000	-	(554 833)	-
Cacadu: Taxi Rank	104 110	-	-	-	104 110
Cacadu: Rainwater Harvesting	-	377 785	(116 070)	-	261 715
Cacadu: Arts & Crafts	100 000	-	-	-	100 000
Cacadu: Elect Masterplan	3 360 296	-	-	(2 533 910)	826 386
Cacadu: Library Grant	-	23 530	(3 979)	(16 866)	2 685
Skills Development	18 812	736 183	(506 602)	-	248 393
Audit cost - AG	-	428 871	(424 902)	-	3 969
Housing development fund	229 705	-	(229 705)	-	-
	5 728 033	**4 958 968**	**(3 591 367)**	**(3 556 773)**	**3 538 861**

Grant description	Unspent balance 2010	Receipts	Transfer operating expenditure	Transfer capital expenditure	Total
MIG	1 823 670	10 122 000	(2 177 418)	(13 243 751)	(3 475 499)
MSIG	(89 928)	-	-	-	(89 928)
	1 733 742	**10 122 000**	**(2 177 418)**	**(13 243 751)**	**(3 565 427)**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

18. Unspent conditional grants and receipts (continued)

Prior period error note 42		
Balance previously reported	-	7 532 893
Adjusted for reclassifiaction from trade payables	-	18 812
Restated	**-**	**7 551 705**

19. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	620 400	768 303	(620 400)	768 303
Shortfall pension fund	357 916	-	(357 916)	-
	978 316	**768 303**	**(978 316)**	**768 303**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Performance bonus	252 780	367 620	620 400
Shortfall pension fund	-	357 916	357 916
	252 780	**725 536**	**978 316**

Prior period error note 42		
Balance previously reported	-	1 003 719
Adjusted for overstatement for pension short fall fund	-	(14 211)
Adjusted for balance prior to 2010	-	(11 192)
Restated	**-**	**978 316**

Performance bonus - after March 2012 performance appraisal will be finalized, it is estimated that this amount will be paid out to employees during that time.

The provision for environmental rehabilitation will be created when the the valuation on PPE is finalised in terms of Directive 4 as issued by the Accounting Standards Board.

The economic entity don't have a permit for the Pearston landfill site. They applied for a permit and they await approval.

In 2010 an amount of R 357,916 was payable in terms of Rule 17(5) of Section 7C(1) of the Pension Funds Act, 24 of 1956, therefor an adjustment of R 14,211 was made. Refer to note 42 proir period adjustments. The amount was paid after year end.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

20. Trade and other payables from exchange transactions

	2011	2010
Trade payables	9 387 654	6 017 540
Payments received in advanced	1 340 136	353 370
COID	434 601	-
Accrued leave pay	2 533 355	2 636 817
Other accrued expenses	-	264 798
Accrued audit fees	-	57 000
Deposits received	43 265	5 620
	13 739 011	**9 335 145**

Prior period error note 42		
Balance previously reported	-	9 615 860
Adjusted for cancelation of orders	-	(951)
Adjusted for reclassification to from unspent grants	-	(18 812)
Adjusted for hall deposits written off	-	(11 119)
Adjusted for discounting	-	(69 483)
Adjusted for cancelation orders etc.	-	(40 706)
Adjusted for cancelation of orders (PPE)	-	(41 838)
Adjusted for payments made in respect of no liabilities provided	-	48 260
Adjusted for cancelation of orders and unclaimed wages prior to 2010	-	(52 892)
Adjusted for bank overdraft incorrectly classified (BCDA)	-	(4 114)
Adjusted for accrual on leave pay, no obligation (BCDA)	-	(89 060)
Restated	**-**	**9 335 145**

21. Trade and other payables from non-exchange

Dept of Roads - Licences	113 831	-

22. VAT payable

VAT	676 135	496 438

Reclassification VAT payable		
Balance previously reported	-	691 86
Adjusted due to reclassifications	-	2 587 780
Adjusted for VAT not previously recovered	-	(232 061)
Adjust for VAT not previously recovered. Prior to 2010	-	(56 275)
VAT provision incorrectly recorded. No liability excisted	-	(675 439)
VAT provision incorrectly recorded. No liability excisted (BCDA) Prior to 2010	-	(1 819 432)
Restated	**-**	**496 438**

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

23. Consumer deposits

Electricity	1 583 790	1 349 551

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

24. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	Total
Trade and other payables	13 739 011	13 739 011

2010

	Financial liabilities at amortised cost	Total
Trade and other payables	9 335 145	9 335 145

25. Revenue

	2011	2010
Property rates	5 943 263	4 903 794
Service charges	71 231 600	62 555 347
Rental of facilities & equipment	84 248	58 882
Interest received – trading	2 480 035	2 265 366
Income from agency services	737 193	575 285
Fines	92 186	59 588
Licences and permits	1 156 753	1 206 432
Government grants & subsidies	61 870 531	50 771 578
Miscellaneous other revenue	1 283	-
	143 597 092	**122 396 272**

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

	2011	2010
Service charges	71 231 600	62 555 347
Rental of facilities & equipment	84 248	58 882
Interest received – trading	2 480 035	2 265 366
Income from agency services	737 193	575 285
Licences and permits	1 156 753	1 206 432
Miscellaneous other revenue	1 283	-
	75 691 112	**66 661 312**

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

	2011	2010
Property rates	5 943 263	4 903 794
Fines	92 186	59 588
Goverment grants & subsidies	61 870 531	50 771 578
	67 905 980	**55 734 960**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

26. Property rates

Rates received

All properties	5 943 263	4 903 794

Valuations

Residential	1 691 750 240	1 604 556 650
Commercial	84 481 150	82 387 560
State	24 410 630	20 923 870
Agricultural	333 573 801	334 988 601
Goverment	131 743 165	108 650 415
	2 265 958 986	**2 151 507 096**

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

Rates are levied on an annual basis with the final date for payment being 30 June 2011 (30 June 2010). Interest at prime plus 1% per annum (2010:prime plus 1% per annum), is levied on rates outstanding one month after due date.

A general rate of 0.0007 for agricultural properties, 0.00846 for business properties, 0.00750 for residential properties, 0.01876 for govenrment infrastructure properties and 0.01876 for government properties is applied to property valuations to determine assessment rates (2010: 0.01705 - agricultural properties, 0.01705 - bussiness properties, 0.01705 - residential properties, 0.01705 - government properties and infrastructure). Rebates of the first R15 000 on the value of residential properties and the first 30% on the value of government infrastructure properties are granted. (2009: R15 000 - residential properties and 30% government infrastructure).

The new general valuation will be implemented on 01 July 2012.

27. Service charges

Sale of electricity	49 579 843	44 458 205
Sale of water	10 056 235	7 796 447
Sewerage and sanitation charges	4 829 576	4 161 522
Refuse removal	6 481 601	5 875 406
Other service charges	284 345	263 767
	71 231 600	**62 555 347**

28. Government grants and subsidies

Equitable share	31 051 274	24 914 256
Government grant - MIG	15 436 114	10 956 866
Government grant - Other	8 048 079	7 382 116
Provincial and district municipality grants	7 105 359	7 453 182
Own funding grants	229 705	65 158
	61 870 531	**50 771 578**

29. Other income

Insurance claims	165 601	54 789
Donations	-	406 000
Biltong festive	490 246	972 552
Housing	243 092	373 560
	898 939	**1 806 901**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

30. General expenses

Accounting fees	46 848	106 241
Advertising	565 331	615 384
Auditors remuneration	2 742 980	2 109 988
Bank charges	186 799	177 242
Consulting and professional fees	3 168 124	1 083 628
Consumables	389 521	298 828
Donations	10 712	1 465
Entertainment	979 322	1 230 692
Animal Costs	4 211	17 500
Insurance	551 772	640 196
Conferences and seminars	19 963	19 525
IT expenses	-	7 950
Rentals ad hoc	770 483	773 587
Fleet	-	428 787
Marketing	122 116	32 880
Magazines, books and periodicals	20 556	16 482
Fuel and oil	1 722 321	1 535 498
Postage and courier	-	946
Printing and stationery	664 985	747 781
Protective clothing	118 889	106 120
Incubator school project	75 365	-
General project expenditure	4 627	-
Security (Guarding of municipal property)	483 493	548 312
Telephone and fax	1 343 152	1 091 157
Transport and freight	18 515	29 688
Training	62 237	11 382
Travel - local	20 113	206 594
Title deed search fees	20 036	26 476
Utilities - water and electricity	2 857 724	2 008 838
Tourism development	662 594	2 067 995
Indigents - Free basic services	6 831 351	6 364 352
Housing	292 271	-
Licences	393 317	466 607
Stipends - ward committee	225 000	-
Conditional grant expenditure	2 971 605	2 479 571
Chemicals	576 947	321 568
Other expenses	505 066	824 497
	29 428 346	**26 397 757**

Other expenses		
Ward committees	1 562	45 555
Mayor's discretionary expenses	-	48 106
Various special events	159 238	65 083
Dis/re-connection fees	1 649	7 415
Levies-other	202 507	432 940
Pauper burials	2 430	1 900
Fruitless, wastefull, unauthorised expenditure	294	1 640
Re-location costs	-	4 352
Private works	58 379	96 188
Alien vegetation	-	3 216
Prodiba	74 591	73 678
Medical expenses	-	1 106
Internet expenses	4 416	10 442
Webhosting and Administrat	-	32 562
General Expenditure	-	315
	505 066	**824 498**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

31. Employee related costs

Basic	30 773 176	27 235 106
Bonus	2 623 635	2 345 224
Medical aid - company contributions	1 421 643	1 291 239
UIF	283 617	283 805
WCA	434 601	199 165
SDL	335 569	334 582
Leave pay provision charge	509 838	309 738
Post-employment benefits - Pension - Defined contribution plan	584 000	651 350
Travel, motor car, accommodation, subsistence and other allowances	1 038 860	660 203
Overtime payments	1 581 368	990 912
13th Cheques	-	156 569
Car allowance	251 829	315 000
Other allowances	1 430 596	1 897 945
Bargaining council	14 547	13 312
Other contributions	4 298	4 444
Pension contributions	4 094 129	3 858 976
Relocation costs	10 072	3 000
	45 391 778	**40 550 570**

Remuneration of municipal manager

Annual Remuneration	533 914	532 023
Car Allowance	120 000	120 000
Performance Bonuses	101 356	103 875
Contributions to UIF, Medical and Pension Funds	91 641	88 352
	846 911	**844 250**

Remuneration of chief finance officer

Annual Remuneration	473 887	446 791
Car Allowance	180 000	170 000
Performance Bonuses	55 958	86 567
Contributions to UIF, Medical and Pension Funds	1 546	1 542
	711 391	**704 900**

Remuneration of manager - corporate services

Annual Remuneration	516 723	434 444
Car Allowance	167 794	191 691
Performance Bonuses	46 858	90 612
Contributions to UIF, Medical and Pension Funds	1 547	21 088
Other	126 658	-
	859 580	**737 835**

Remuneration of manager - community services

Annual Remuneration	533 837	271 867
Car Allowance	120 000	52 000
Contributions to UIF, Medical and Pension Funds	1 546	4 858
Other	-	61 833
	655 383	**390 558**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

31. Employee related costs (continued)

Remuneration of manager - infrastructure

Annual Remuneration	452 694	425 726
Car Allowance	90 000	120 000
Performance Bonuses	93 921	86 567
Contributions to UIF, Medical and Pension Funds	75 930	70 879
Other	118 482	-
	831 027	**703 172**

32. Remuneration of councillors

Councillors	2 191 350	2 367 701
	2 191 350	**2 367 701**

In-kind benefits

The mayor nor the councillors received any in-kind benefits.

33. Debt impairment

Contributions to debt impairment provision	10 482 041	6 106 121
Debts impaired	144	169 111
	10 482 185	**6 275 232**

34. Investment revenue

Interest revenue		
Unlisted financial assets	59 453	76 715
Interest	1 368	1 479
Bank	1 643 887	1 013 565
	1 704 708	**1 091 759**

The amount included in Investment revenue arising from exchange transactions.

The amount included in Investment revenue arising from non-exchange transactions.

Total interest income, calculated using the effective interest rate.

35. Finance costs

Trade and other payables	789 212	577 835
Finance leases	306 287	494 224
Late payment of tax	37 386	-
Interest cost - PRMA liability	994 000	870 825
	2 126 885	**1 942 884**

36. Auditors' remuneration

Fees	2 742 980	2 109 988

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

37. Bulk purchases

Electricity	31 970 769	25 820 465
Water	951 241	1 155 083
	32 922 010	**26 975 548**

38. Cash generated from operations

Surplus	25 854 624	23 211 933
Adjustments for:		
Depreciation and amortisation	29 320	36 653
Loss on sale of assets and liabilities	-	(492 362)
Finance costs - Finance leases	306 287	494 224
Debt impairment	10 482 185	6 275 232
Movements in retirement benefit assets and liabilities	(862 000)	1 522 175
Movements in provisions	(210 013)	682 277
Actuarial valuation	(2 440 000)	-
Changes in working capital:		
Inventories	(2 004 223)	(84 755)
Other receivables from exchange transactions	129 771	(564 195)
Other receivables from non-exchange transactions	(3 038 322)	695 059
Consumer debtors	(9 367 881)	(10 358 848)
Trade and other payables from exchange transactions	4 403 866	2 016 824
VAT	179 697	1 902 846
Taxes and transfers payable (non exchange)	113 831	-
Unspent conditional grants and receipts	(4 012 844)	493 312
Consumer deposits	234 239	244 129
	19 798 537	**26 074 504**

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	9 179 271
• Motor vehicles	621 621	-
• Housing projects	6 705 159	-
• Infrastructure	13 795 122	-
	21 121 902	**9 179 271**

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

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	10 416	10 416
- in second to fifth year inclusive	13 020	23 436
	23 436	**33 852**

Minimum lease payments recognised as an expense during the period amount to R13365. Leased equipment are contracted for remaining periods of between one and three years, with renewal options available in certain instances.Smoothing is not possible as no escalation percentage is set by Nashua.

40. Contingencies

Matter: Blue Crane Route Municipality vs Bennie Goodman Macembe (Aubrey du Preez). In this matter the Plaintiff claims an amount of R32 000.00. We have served and filed a request to further particulars of the Plaintiff's claim on 12 April 2010. We still have to receive the further particulars from the Plaintiff's attorneys. We can bring an application to compel the Plaintiff to provide us with the further particulars, failing which we can apply to court to have the claim dismissed. We can also leave the matter and see if the Plaintiff is ever going to take the next step.
In our letter dated 4 August 2010 we stated that there is a reasonable defence should this matter proceed further and end in court.

Matter: Blue Crane Route Municipality vs N J Jack. In this matter the Plaintiff claims an amount of R225 000.00. In a fairly recent judgment Parliament has been given 18 months within which to amend the Road Accident Fund Act in order that the said Act complies with the Constitutional Court directive. The Constitutional Court declared unconstitutional the provision which limits the claim of a person, who was a passenger in the offending vehicle, to R25 000.00. This is only applicable to cases where the court has not given judgment or where a final settlement has been reached. The result is that Plaintiff in this matter may not have a claim and will the claim then have to be withdrawn.Plaintiff's attorneys requested that the matter be pended until such time as the Act has been amended. We are not sure to what extent Parliament is going to amend the Act, in other words, whether the limitation will be set at a higher amount or discard the limitation entirely. It will either reduce the amount for which the Municipality can be held liable or not be held liable at all

Matter: Blue Crane Route Municipality vs V G Njiyela. The capital amount of R449 220.00 was paid to Plaintiff's attorneys after judgment was obtained against the Municipality. The Plaintiff's attorneys still have to set down their Bills of Costs for taxation. We have not been served with their Bills of Costs and cannot confirm the amounts thereof

Matter: Blue Crane Route Municipality vs N A Xakaxa. The capital amount of R195 000.00 was paid to Plaintiff's attorneys after judgment was obtained against the Municipality. The Plaintiff's attorneys still have to set down their Bills of Costs for taxation. We have not been served with their Bills of Costs and cannot confirm the amounts thereof.

Matter: Blue Crane Route Municipality vs Alfred Thys. Judgment on the merits has been handed down by court in terms of which the Municipality shall be liable for the yet to be proven damages suffered by Plaintiff. He claimed an amount of R342 720.00.

In the meantime Plaintiff's attorneys served us with their Bills of Costs amounting to R95 355.95 before taxation. We have objected to various items on the Bills of Costs, which, if upheld, will reduce the total costs payable to the Plaintiff's attorneys.

Matter: Blue Crane Route Municipality vs Alfred Thys. The capital amount of R110 000.00 was paid to Plaintiff's attorneys after judgment was obtained against the Municipality. The Plaintiff's attorneys served us with their Bills of Costs amounting to R54 956.53 before taxation thereof. We have objected to various items on the Bills of Costs, which, if upheld, will reduce the total costs payable to the Plaintiff's attorneys.

On behalf on the Municipality summons was issued for the recovery of R 1,661,425.56 from the entity trading as Municipal Support Services, together with its directors and shareholders and the municipality's former manager, regarding work conducted on the municipalwater and sanitation project (Asection 78 feasibility study was sought, as resolved by the then Council, However, the appointed service provider commenced with the water and sanitation work and not a feasibility study.)The First Defendant filed a counter claim for the payment of R 1,001,626.65 for monies earned under the project and R 312,385. for damages arising from the unexpired portion of the R500 000 (portion of legal costs recoverable upon successful litigation) n/a agreement.The trial was set down for hearing on 19 October 2010. The trial was postponed sine dies when it transpired that the First Defendant had been deregistered and the First Defendant was ordered to make application for its re-registration. Until such time that the application regarding the re-registration of the First Defendant has been finalized the trial should not proceed as the First Defendant's status will have implications on the Municipality's trial preparation. Pursuant to the order of Court of 19 October 2010 an erstwhile member of the company launched an application for its reregistration out of the Kimberley High Court. A rule nisi was issued by the Court on 12 August 2011. A return date, 28 October 2011,has been set for the municipality's representatives to appear to argue why the reregistration should not be made final.

Summons was issued against the Municipality's former Municipal Manager, Claasen, and CFO,Louw, Advocate Patel and Mr Goosen for the recovery of monies (R 4,188,774.30) expended in the acquisition of certain equipment from Pinnolta,subsequently financed by various financial houses and for allegations of fraud and money laundering. Since the issue of R500 000 (portion of legal costs recoverable upon successful litigation) n/a summons, the Fourth Defendant has been removed.The matter was set down for trial on 15 August 2011. Matter has been postponed sine dies as a result of the application for postponement brought on the Municipality's behalf pursuant to the third defendant's application in terms of rule 6(11).Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.

40. Contingencies (continued)

Corporate Finance Solutions issued summons for the payment of R421,927.38 as and for arrear payments arising from a rental agreement which was allegedly ceded to it, together with interest thereon at prime plus 5%,confirmation of cancellation of the agreement, the return of specified goods and costs of suit between attorney and own client. The Municipality has entered its plea for the dismissal of the Plaintiff's claim, with costs, which in broad terms is premised on improper procurement, in that the ceded rental agreement relied upon was invalid and of no force and effect as same was signed by the Municipality's former financial manager, Davy Louw, who purported to contract on the Municipality's behalf, however he was not authorized by the Council to do so and he did not act in terms of the peremptory legislation governing procurement by local municipalities, more particularly the Municipal Systems Act, the Municipal Finance Management Act, the Preferential Procurement R500 000 (portion of legal costs recoverable upon successful litigation) Policy Framework Act and sections 173 and 124 of the Cape Municipal Ordinance Act 20 of 1974.A counter claim has been lodged, wherein the Municipality requests, where there is a finding that the Plaintiff is the lawful cessionary of the rental agreement relied upon by the Plaintiff, an order declaring the rental agreement relied upon to be invalid and of no force and effect for the same reasons set out above. The matter was set down for trial on 22 March 2011. The Plaintiff successfully brought an application for postponement of the matter due to its and Counsel's unavailability and the prejudice it's client shall endure in briefing alternative legal representation. A new trial date has been applied for

Contingent assets

Matter: Blue Crane Route Municipality vs Santam. An employee had an accident while transporting people. Santam claimed that the driver was under the influence alchohol. The municipality did not agree to this statement and submitted a claim againts Santam to the amount of R305 000. This matter is not finalized yet , they are awaiting a court date to finalize this matter.

Matter: Blue Crane Route Municipality vs Standard Bank. Computers to the amount of R350 645.84 were bought using a finance lease agreement with Standard Bank . Standard Bank claimed that the municipality never paid them. However, the municipality stated that they sold the computers and the proceeds of the sale were used to pay Standard Bank. The outstanding balance is still under dispute awaiting court date.

Matter: Blue Crane Route Municipality vs Vincemus. It is estimated that legal cost amounting to R 300 000 would be receivable if this matter is fianlised.

41. Related parties

Relationships

Nico Lombard (Director)	Blitzkraal & Lombard Adventures and Boerdery
Robin Beach (Director)	Plover Properties
	East Cape Rescue & Micromatica 171
	Rooftop Quality Tap Distributors
	Madson Properties
Chris Wilken (Director)	Ripple Effect 17

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Figures in Rand	2011	2010

42. Prior period errors

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

Statement of financial position		
Trade and other payables : payments made in respect of no liabilities provided. Refer to note 20	-	(48 261)
Trade and other receivables : water levies write off. Refer to note 14	-	(1 020)
Rates : 50% write off on agricultural rates. Refer to note 13	-	(627 715)
Councilors allowance : Back pay for councilors previously overstated. Refer to note 13	-	(29)
Deposit received : Stale cheques written off for Hall deposits. Refer to note 12	-	495
Deposit received : Refunds paid for Hall deposits previously written off. Refer to note 12.	-	(495)
Additional Vat claimes. Refer to note 22.	-	232 061
Trade and other payables - cancelation of orders - Refer to note 20	-	40 706
Amounts received in advance : adjustment to current liability including cancelation of orders. Refer to note 20	-	951
Provision : overstatement for pension short fall. Refer to note 19	-	14 211
Deposits : Hall deposits written off - Refer to note 20	-	11 119
Cashier shortage: Recovered previously written off. Refer to note 13	-	580
Financial lease : Correction of opening balance. Refer to note 17	-	(2 771)
PPE transfers : Cancelation of liabilty "orders", previously capitalized	-	(41 838)
Trade creditors: cancelations of orders - Refer to note 20	-	41 838
Unspent grants: Reclassify from trade payables. Refer to note 18	-	(18 812)
Trade payables: Reclassify to unspent grants - Refer to note 20	-	18 812
Trade payables: Discounting IAS39 - Refer to note 20	-	69 482
PPE - Finance leases (Nasua printers) - 2008 - Refer to note 4	-	265 006
Finance leases - liability - 2008 - Refer to note 17	-	(265 006)
Finance lease - liability - 2010 (reduced with capital portion) - Refer to note 17	-	43 454
Infrastructure and Investment property take on - Refer to note 4.	-	15 937
Accumulated surplus	-	(15 937)
Trade receivables from exchange transactions adjust balance for water levies write off prior to 2010. Refer note 14	-	(1 185)
Finance lease obligation adjust liability previously not recorded prior to 2010. Refer note 17	-	36 551
Provisions adjust shortfall pension fund prior to 2010. Refer note 19	-	11 192
Trade and other payables from exchange transactions adjust unclaimed wages and cancelation of orders prior to 2010. Refer note 20	-	52 892
VAT not claimed prior to 2010. Refer note 22	-	56 275
Bank overdraft incorrectly classified as trad and other payables (BCDA). Refer note 20	-	4 114
Bank overdraft incorrectly classified as trad and other payables (BCDA)	-	(4 114)
Accrual for leave pay, incorrectly included. There was no obligation. (BCDA). Refer note 20	-	89 060
VAT provision incorrectly recorded. No liability excisted (BCDA)	-	675 439
VAT provision incorrectly recorded. No liability excisted (BCDA) Prior to 2010	-	1 819 432
Opening accumulated surplus adjusted. (BCDA)	-	(1 819 432)
	-	**652 992**

Figures in Rand	2011	2010

42. Prior period errors (continued)

Statement of Financial Performance (see note above for reference)

Employee cost	-	3 750
Entertainment	-	26 000
General income	-	495
Property rates	-	627 715
Bulk water purchases	-	3 567
Conditional grant - MIG	-	14 945
Sale of water	-	1 020
Councilors allowances	-	29
General income	-	(189 781)
Repairs and maintenance	-	(2 957)
Profesional fees	-	(13 158)
Insurance	-	(275)
Stock adjusment	-	(1 265)
Printing and stationary	-	(15 095)
Licences	-	(580)
Contribution to pension	-	(14 211)
Fees earned	-	(11 119)
Bad debts written off	-	(580)
Conditional grant - Perimeter fence	-	(51 103)
Interest	-	2 771
Interest cost: Discounting IAS39	-	(69 482)
Interest income: Discounting IAS39	-	(559 382)
Revenue electricity: Discounting IAS39	-	559 382
Electricity purchases: Discounting IAS39	-	(647 002)
Interest cost: Discounting IAS39	-	647 002
Lease payments	-	(34 549)
Interest cost - lease payments	-	34 549
Rent equipment (capital portion of finance lease)	-	(43 454)
Councillors remuneration	-	13 450
UIF	-	(13 450)
Adjustment on opening retained income 2010	-	(155 725)
Salaries and wages. Accrual for leave pay, incorrectly included. There was no obligation. (BCDA).	-	(89 060)
Audit fees (BCDA)	-	298 405
Interent expenses (BCDA)	-	1 020
Donation received (BCDA)	-	(299 425)
VAT provision incorrectly recorded. No liability excisted	-	(675 439)
	-	**(652 992)**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

43. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Trade receivables from exchange transactions	-	7 304 127
Consumer debtors	-	(7 304 127)
Other recievables from exchange transactions	-	552 024
Trade and other receivables from exchange transactions	-	(552 024)
Trade receivables from exchange transactions	-	2 587 780
VAT Receivable	-	(2 587 780)
Loans and receivables (Non Current)	-	305
Loans and receivables (Current)	-	(305)
Statement of Financial Performance		
Service charges	-	(6 364 352)
Indigent - Free basic services	-	6 364 352

44. Risk management

Financial risk management

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

The economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the economic entity's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, economic entity treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

44. Risk management (continued)

Interest rate risk

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

The economic entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the economic entity to fair value interest rate risk. During 2011 and 2010, the economic entity's borrowings at variable rate were denominated in the Rand.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	10.00 %	8 777 571	-	-	-	-
Other receivables from non exchange transactions	10.00 %	4 058 607	-	-	-	-
Long term receivables	10.00 %	26 408	-	-	-	-
Cash in current banking institutions	5.00 %	22 090 693	-	-	-	-
Trade and other payables - extended credit terms	7.00 %	(9 387 654)	-	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The economic 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. If customers are independently rated, these ratings are used..

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

Financial instrument	2011	2010
Trade receivables from exchange transactions	8 665 952	9 891 875
Other receivables from non-exchange transactions	4 058 607	1 020 314
Other receivables from exchange transactions	441 501	571 272
Short term deposits	22 090 693	17 674 839

The municipality holds deposits R1 583 790 (2010 R1 349 551) from consumer debtors. No guarantees or collateral was provided to third parties.

45. Going concern

We draw attention to the fact that at 30 June 2011, the economic entity had accumulated surplusses of R 54 211 133 and that the economic entity's total assets exceed its liabilities by R 54 211 133.

The consolidated 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.

46. Events after the reporting date

There are no events after reporting date to report on.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

47. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	294	1 640
Penalties	9 000	-
Interest	28 264	-
	37 558	**1 640**

48. Irregular expenditure

Opening balance	1 223 231	757 371
Add: Irregular Expenditure - current year	1 795 346	1 223 231
Less: Amounts recoverable (not condoned)	(60 248)	-
Less: Amounts not recoverable (not condoned)	(1 162 983)	(757 371)
	1 795 346	**1 223 231**

Details of irregular expenditure – current year

Employee Costs - Increases not authorised	71 088
Three quotations not obtained for purchases Tourism Hub	1 579 724
Credit Card Purchases not authorised	144 534
	1 795 346

Details of irregular expenditure recoverable (not condoned)

Councillor allowances in excess of gazette	60 248

Details of irregular expenditure not recoverable (not condoned)

Competetive bidding not in terms of supply chain management	638 024
Tax clearance sertificate not obtained	522 395
Procurement quotation process	2 554
	1 162 973

49. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	25 854 624	23 211 933
Adjusted for:		
Depreciation not utilised	(4 313 124)	(3 611 818)
Grant expenditure	-	(25 434 159)
Finance cost	-	510 048
Bulk purchases	-	(1 409 699)
Debt impairment - provision more than budgeted	5 861 493	3 359 412
Grant income not realised	-	8 578 517
Capital transfers not budgeted	(5 385 844)	-
External loan wrongly in revenue budget	3 500 000	-
Legal Fees - Budget overspent	967 196	-
Environmental Health subsidy - less than budgeted	2 383 848	-
Other	(905 986)	99 160
Net surplus per approved budget	**27 962 207**	**5 303 394**

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2011	2010

49. Reconciliation between budget and statement of financial performance (continued)

The reconciliation above only concist of the economic entiy's budget information. As per Blue Crane Development Agency annual financial statements, it stipulates that due to the fact that the financial statements and the budgeted period does not agree,made it impossible to reconcile the actual results to budgeted figures

50. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

	2011	2010
Opening balance	35 577	36 841
Current year subscription / fee	4 897 381	4 415 056
Amount paid - current year	(4 430 798)	(4 416 320)
	502 160	**35 577**

The full outstanding amount of R 460,781 was paid in July 2011.

Pension and Medical Aid Deductions

	2011	2010
Current year subscription / fee	7 994 270	6 986 323
Amount paid - current year	(7 994 270)	(6 986 323)
	-	**-**

Councillors' arrear consumer accounts

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

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
CFB Du Preez	2 071	-	2 071
NM Nontyi	189	-	189
WH Greeff	4	-	4
NM Mali	222	-	222
Z Funiselo	-	92	92
	2 486	**92**	**2 578**