Maluti-a-Phofung Water (Pty) Ltd

(Registration number 2005/033425/07)

Annual Financial Statements
for the year ended 30 June 2011

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Municipal entity providing basic water, sanitation and revenue collection services.
Legal form	Company and municipal entity as comtemplated in the Municipal Systems Act 32 of 2000
Company registration number	2005/033425/07
Non-executive directors	Mokhesi N Netshivhodza MG Zwane CNT
Secretary	Enslins Harrismith
Accounting officer	Letsela LM
Chief Finance Officer (CFO)	Mofokeng M
Registered office	Old Government Building 2nd Industrial Area Phuthaditjhaba
Business address	Maluti-A-Phofung Water (Pty) Ltd Phuthaditjhaba 9870
Postal address	PO Box 666 Harrismith 9880
Bankers	First National Bank
Auditors	Auditor General Free State

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Abbreviations

DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (previously CMIP)

Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa (No. 61 of 1973) and the Municipal Finance Management Act 56 of 2003, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

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

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

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

The directors have reviewed the entity’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future. The entity is partially dependent on the receival of grants from the parent municipality, Maluti-a-Phofung Local Municipality.

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

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

Accounting Officer

31 August 2011

Audit Committee Report

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

Audit committee responsibility

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

The effectiveness of internal control

The system of internal controls applied by the entity over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on corporate governance requirements, internal audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management letter of the Auditor General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

Evaluation of annual financial statements

We have:

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

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

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Chairperson of the Audit Committee

Date: ______________________

Directors' Report

The directors of Maluti-a-Phofung Water (Pty) Ltd take pleasure in submitting their report for the year ended 30 June 2011.

1. Incorporation

The entity was incorporated on 20 September 2005 and obtained its certificate to commence business on the same day.

2. Review of activities

Main business and operations

The company is a municipal entity and wholly owned subsidiary of Maluti-a-Phofung Local Municipality. The entity is mainly engaged in the supply of basic water, sanitation and revenue collecting serivces in the Maluti-a-Phofung district namely; Phuthaditjaba, Harrismith and Kestell.

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

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year.

4. Share capital

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

5. Secretary

The secretary of the company is Enslins Harrismith.

6. Auditors

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

7. Directors

The directors of the company at the date of this report are as follows:

Non-executive directors
- Mokhesi N
- Netshivhodza MG
- Zwane CNT

8. Parent municipality

The Maluti-a-Phofung Local Municipality owns 100% of the entity's shares and is the ultimate parent municipality.

Statement of Financial Position

	Note(s)	2011 R	2010 R
Assets			
Current Assets			
Inventories	3	1,973,063	2,530,334
Other receivables from non-exchange transactions	4	2,529	2,500
Trade receivables from exchange transactions	6	20,669,417	17,876,588
Cash and cash equivalents	7	8,865,376	1,542,205
		31,510,385	**21,951,627**
Non-Current Assets			
Property, plant and equipment	8	2,401,283	2,761,233
Total Assets		**33,911,668**	**24,712,860**
Liabilities			
Current Liabilities			
Current portion of finance lease liability	11	144,153	-
Trade and other payables from exchange transactions	12	71,518,124	54,548,155
VAT payable	13	537,629	1,347,105
		72,199,906	**55,895,260**
Non-Current Liabilities			
Non-current portion of finance lease liability	11	403,114	492,382
Total Liabilities		**72,603,020**	**56,387,642**
Net Assets		**(38,691,352)**	**(31,674,782)**
Net Assets			
Share capital	10	300	300
Accumulated surplus / (deficit)		(38,691,653)	(31,675,086)
Total Net Assets		**(38,691,353)**	**(31,674,786)**

Statement of Financial Performance

	Note(s)	2011 R	2010 R
Revenue			
Service charges	15	28,429,484	22,219,938
Government grants & subsidies	16	68,499,000	61,792,918
Other income	17	166,107	59,637
Total Revenue		**97,094,591**	**84,072,493**
Expenses			
Employee related cost	19	50,466,996	46,083,272
Remuneration of directors	20	114,716	110,000
Depreciation and amortisation	21	1,334,917	353,030
Finance costs	22	1,950,165	1,338,144
Allowance for bad debt	24	-	293,550
Bulk purchases	25	17,684,386	13,980,486
Administration	26	5,184,683	4,156,643
General expenses	27	12,056,478	11,102,601
Repairs and maintenance		15,318,820	16,070,238
Total Expenses		**104,111,161**	**93,487,964**
Surplus / (deficit) for the year		**(7,016,570)**	**(9,415,471)**

Statement of Changes in Net Assets

	Share capital	Accumulated surplus / (deficit)	Total net assets
	R	R	R
Opening balance as previously reported	300	(13,328,331)	(13,328,031)
Adjustments			
Prior year adjustments note 32	-	(8,931,284)	(8,931,284)
Balance at 01 July 2010 as restated	**300**	**(22,259,615)**	**(22,259,315)**
Changes in net assets			
Surplus / deficit for the year	-	(9,415,471)	(9,415,471)
Total changes	-	(9,415,471)	(9,415,471)
Balance at 01 July 2010	**300**	**(31,675,083)**	**(31,674,783)**
Changes in net assets			
Surplus / (deficit) for the year	-	(7,016,570)	(7,016,570)
Total changes	-	(7,016,570)	(7,016,570)
Balance at 30 June 2011	**300**	**(38,691,653)**	**(38,691,653)**

Cash Flow Statement

	Note(s)	2011 R	2010 R
Cash flows from operating activities			
Receipts			
Cash receipts from customers, government and other		26,370,146	18,942,882
Grants		68,499,000	61,792,918
Other receipts		166,107	59,637
		95,035,253	80,795,437
Payments			
Cash paid to suppliers and employees		(84,841,832)	(77,318,584)
Finance costs		(1,950,165)	(1,338,144)
		(86,791,997)	(78,656,728)
Net cash flows from operating activities	29	**8,243,256**	**2,138,709**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(974,968)	(733,615)
Cash flows from financing activities			
Repayment of finance lease liability		54,885	-
Net increase/(decrease) in cash and cash equivalents		**7,323,173**	**1,405,094**
Cash and cash equivalents at the beginning of the year		1,542,205	137,111
Cash and cash equivalents at the end of the year	7	**8,865,378**	**1,542,205**

Accounting Policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act No 56 of 2003).

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

Significant judgements include:

Trade receivables / loans and receivables

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

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

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value (or current replacement cost where inventory is held in distribution or for consumption in the production process at no charge or for a nominal charge). Management has made estimates of the selling price and direct cost to sell on certain inventory items.

Fair value estimation

The carrying value of trade receivables less impairment allowance and payables are assumed to approximate their fair values.

Useful lives and residual values

The entity re-assesses the useful lives and residual values of property, plant and equipment on a yearly basis. These assesments require judgements and assumptions to be made by management, which includes the asset's technological innovation, maintenance programs and physical condition.

Allowance for doubtful debts

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

1.2 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Initial recognition

Property, plant and equipment are initially recognised 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 the date of acquisition.

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

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

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

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

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

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

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

Subsequent measurement

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Depreciation and impairment

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

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

Item	Average useful life
Land	Indefinite life
Plant and machinery	10 years
Furniture and fixtures	6 years

1.2 Property, plant and equipment (continued)

Motor vehicles	5 years
Office equipment	6 years
IT equipment	3 years

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

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

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

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

Derecognition

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. 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 and is recognised in the Statement of financial performance.

1.3 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 municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; 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.

Subsequent to initial recognition 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

1.3 Intangible assets (continued)
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 financial reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate in the statement of financial performance.

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	3 years
Website development costs	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.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

1.4 Financial instruments

Classification

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

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

Initial recognition

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

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

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

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

1.4 Financial instruments (continued)

Subsequent measurement

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

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

Impairment of financial assets

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

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

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

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

Loans to/(from) economic entities

These include loans to and from the controlling municipality, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Cash and cash equivalents

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

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially recognised at fair value, and are subsequently recognised at amortised cost, using the effective interest rate method.

Derecognition

Financial assets

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

- the rights to receive cash flows from the asset have expired;

1.4 Financial instruments (continued)

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

Financial liabilities

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

1.5 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 asset 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 liability.

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

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

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.

1.6 Inventories

Inventories are initially recognised 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.

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

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

The cost of inventories 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 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

Accounting Policies

1.6 Inventories (continued)
distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation or 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 and 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 of 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 entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Identification

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

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

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 entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

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.

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

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

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

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the 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 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.

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

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

Reversal of impairment loss

The entity assesses 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, the entity estimates the recoverable amount of that asset.

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 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.

1.8 Impairment of non-cash-generating assets

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

Accounting Policies

Identification

The 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, the entity estimates the recoverable service amount of the asset.

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

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating 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 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.

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.

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 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.

Reversal of an impairment loss

The entity assesses 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 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.

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.

Accounting Policies

1.9 Share capital

Ordinary shares are classified as equity.

1.10 Employee benefits

Short-term employee benefits

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

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

Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the 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.

Provisions are not recognised for future operating losses.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

Accounting Policies

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the 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 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 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 surveys of work performed.

Interest and dividends

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

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

Dividends, or their equivalents are recognised, in surplus or deficit, when the 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.

Accounting Policies

1.13 Revenue from non-exchange transactions

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 arises when the 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.

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

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 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 entity.

When, as a result of a non-exchange transaction, the 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.

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 entity and the fair value of the assets can be measured reliably.

1.14 Comparative figures

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

1.15 Unauthorised expenditure

Unauthorised expenditure 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.

Accounting Policies

1.16 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.

1.17 Irregular expenditure

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

1.18 Presentation of currency

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

1.19 Offsetting

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

1.20 Conditional grants and receipts

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

1.21 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

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

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. The entity regards all individuals from the level of directors and management as key management.

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

1.22 Budget information

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

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

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

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

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

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

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

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

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

The impact of the interpretation is not material.

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 18: Segment Reporting

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

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

The effective date of the standard is still to be determined by the Minister of Finance.

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

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

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

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

The effective date of the standard is for financial years commencing on or after 1 April 2012.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information in the Financial Statements

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

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'statement of comparison of budget and actual amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

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

The effective date of the standard is for financial years commencing on or after 1 April 2012.

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

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

GRAP 103: Heritage Assets

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

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

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

The standard requires 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 requires 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.

2. 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 financial years commencing on or after 1 April 2012.

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

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

GRAP 21: Impairment of Non-Cash-Generating Assets

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

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

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

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

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

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

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

2. New standards and interpretations (continued)

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.

The effective date of the standard is for financial years commencing on or after 1 April 2012.

The impact of this standard is currently being assessed.

GRAP 26: Impairment of Cash-Generating Assets

Cash-generating assets are those assets held by an 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, a entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, a entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a entity applies the appropriate discount rate to those future cash flows.

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

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

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

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

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

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

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

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

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

The effective date of the standard is for financial years commencing on or after 1 April 2012.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

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

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

The standard also deals with entity combinations and curtailments and settlements.

The effective date of the standard is still to be determined by the Minister of Finance.

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

GRAP 104: Financial Instruments

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

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

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

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

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

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

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

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

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be

2. New standards and interpretations (continued)

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

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

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

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:
- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an entity has transferred control of the asset to another entity.

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

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

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

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

The effective date of the standard is still to be determined by the Minister of Finance.

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

GRAP 105: Transfer of Functions between Entities Under Common Control

GRAP 105 establishes accounting policies for the acquirer and transferor in a transfer of functions between entities under common control.The effective date of the standard is to be determined by the Minister of Finance and the standard was issued during November 2010.

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

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

GRAP 106: Transfer of Functions between Entities Not Under Common Control

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The effective date of the standard is to be determined by the Minister of Finance and the standard was issued during November 2010.

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

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

GRAP 107: Mergers

GRAP 107 establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

The effective date of the standard is is to be determined by the Minister of Finance and the standard was issued during November 2010.

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

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

Improvements to other standards

Improvements are proposed to the following standards of GRAP as part of the Accounting Standards Board's improvement project:
- GRAP 1 - 4
- GRAP 9 - 14
- GRAP 16, 17, 19 and 100

The following standards of GRAP are affected by the Interpretations issued:
- GRAP 9 and 10
- GRAP 13
- GRAP 19

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

The entity does not envisage the adoption of the interpretations and standards until such time as they becomes applicable to the entity's operations.

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

Notes to the Annual Financial Statements

	2011 R	2010 R

3. Inventories

Consumable stores	1,866,025	2,262,554
Water	107,038	267,780
	1,973,063	**2,530,334**

4. Other receivables from non-exchange transactions

Deposits	2,529	2,500

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

Other receivables from non-exchange transactions past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. None of the receivables were impaired.

5. VAT receivable

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

6. Trade receivables from exchange transactions

Gross balances		
Service receivables - water and sanitation	21,366,889	17,876,588
Less: Provision for debt impairment		
Service receivables - water and sanitation	(697,472)	-
Net balance		
Service receivables - water and sanitation	21,366,889	17,876,588
Less provision for debt impairment	(697,472)	-
	20,669,417	**17,876,588**
Water and sanitation		
Current (0 -30 days)	21,366,889	17,876,588
Debt impairment provision		
> 365 days	(697,472)	-
Reconciliation of debt impairment provision		
Contributions to provision	(697,472)	-

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

The entity has a service level agreement with Maluti-a-Phofung Local Municipality in terms of which the entity renders water, sanitation and revenue collection services to the Municipality.

Notes to the Annual Financial Statements

	2011 R	2010 R

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011 R	2010 R
Cash on hand	6,997	4,458
Cash at bank	8,858,355	1,537,723
Credit card	24	24
	8,865,376	**1,542,205**

No assets were pledged as security for overdraft facilities.

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

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

The company had the following bank accounts

Current Account (Primary Bank Account)	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
First National Bank Limited - Current (620 9384 2667)	9,912,482	1,553,293	272,628	-	-	-
Cashbook	-	-	-	8,858,355	1,537,723	132,650
Total	**9,912,482**	**1,553,293**	**272,628**	**8,858,355**	**1,537,723**	**132,650**

8. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	299,115	-	299,115	286,835	-	286,835
Other assets	7,219,786	(5,870,657)	1,349,129	6,965,753	(4,880,866)	2,084,887
Plant and machinery	3,777,349	(3,024,310)	753,039	3,068,695	(2,679,184)	389,511
Total	**11,296,250**	**(8,894,967)**	**2,401,283**	**10,321,283**	**(7,560,050)**	**2,761,233**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Buildings	286,835	12,280	-	299,115
Other assets	2,084,887	254,033	(989,791)	1,349,129
Plant and machinery	389,511	708,655	(345,127)	753,039
	2,761,233	**974,968**	**(1,334,918)**	**2,401,283**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Buildings	194,060	92,775	-	286,835
Other assets	1,774,984	640,839	(330,936)	2,084,887
Plant and machinery	411,605	-	(22,094)	389,511
	2,380,649	**733,614**	**(353,030)**	**2,761,233**

Notes to the Annual Financial Statements

	2011 R	2010 R

8. Property, plant and equipment (continued)

Pledged as security

None of the assets were pledged as security.

9. Financial assets by category

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

2011

	Loans and receivables	Total
Trade and other receivables from exchange transactions	21,760,543	21,760,543
Other receivables from non-exchange transactions	2,529	2,529
Cash and cash equivalents	8,865,376	8,865,376
	30,628,448	**30,628,448**

2010

	Loans and receivables	Total
Trade and other receivables from exchange transactions	19,701,205	19,701,205
Other receivables from non-exchange transactions	2,500	2,500
Cash and cash equivalents	1,542,205	1,542,205
	21,245,910	**21,245,910**

10. Share capital

	2011 R	2010 R
Authorised		
1,000 Ordinary shares of R1 each	1,000	1,000

The unissued ordinary shares are under the control of the directors in terms of a resolution of shareholders passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

	2011 R	2010 R
Issued		
300 Ordinary shares of R1 each	300	300

11. Finance lease liability

	2011 R	2010 R
Minimum lease payments due		
- within one year	1,606,504	1,396,960
- in second to fifth year inclusive	724,010	2,314,350
	2,330,514	3,711,310
less: future finance charges	(1,783,247)	(3,218,928)
Present value of minimum lease payments	**547,267**	**492,382**
Present value of minimum lease payments due		
- within one year	144,153	(54,885)
- in second to fifth year inclusive	403,114	547,267
	547,267	**492,382**
Non-current liabilities	403,114	492,382
Current liabilities	144,153	-

Notes to the Annual Financial Statements

	2011 R	2010 R

11. Finance lease liability (continued)

	547,267	**492,382**

A contract was entered into by the entity on 1 December 2009 for the rental of 41 colour printers and 6 digital copier machines. The period of the contract is 36 months ending 30 November 2012. The monthly rental amounts to R123,104 excluding VAT with a 15% escalation charge per annum as calculated from the commencement date of 1 December 2009. The interest rate implicit to the lease is calculated at 275.32% per annum.

The entity did not default on any of the principal or interest repayments during the period of the lease agreements. No terms were renegotiated before the financial statements were authorised.

12. Trade and other payables from exchange transactions

Accrued leave pay	6,188,367	5,272,138
Department of Water and Environmental Affairs	57,960,930	45,547,000
Trade payables	4,985,879	3,461,822
Payroll liabilities - PAYE	451,399	-
Deposits	1,931,549	267,195
	71,518,124	**54,548,155**

The carrying amount for trade and other payables approximates their fair value due to the short time period between initiation and settlement thereof. The effect of discounting is not material.

The entity did not default on any of the principal or interest repayments during the period. No terms were renegotiated before the financial statements were authorised.

13. VAT payable

VAT payable	537,629	1,347,105

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

14. 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
Finance lease liability	547,267	547,267
Trade and other payables from exchange transactions	71,690,096	71,690,096
	72,237,363	**72,237,363**

2010

	Financial liabilities at amortised cost	Total
Finance lease liability	492,382	492,382
Trade and other payables from exchange transactions	54,548,156	54,548,156
	55,040,538	**55,040,538**

Notes to the Annual Financial Statements

	2011 R	2010 R

15. Service charges

Sale of water	18,927,690	15,608,957
Sewerage and sanitation charges	9,501,794	6,610,981
	28,429,484	**22,219,938**

16. Government grants and subsidies

Equitable share	57,555,000	47,043,920
Water services operating subsidy grant	10,944,000	14,748,998
	68,499,000	**61,792,918**

Equitable share

Current-year receipts	57,555,000	47,043,920
Conditions met - transferred to revenue	(57,555,000)	(47,043,920)
	-	-

In terms of the service delivery agreement with Maluti-a-Phofung Local Municipality, this grant is used for services in particular for the delivery of free basic water services to low income households and all infrastructural development of the water services system.

Water services operating subsidy grant

Current-year receipts	10,944,000	14,784,998
Conditions met - transferred to revenue	(10,944,000)	(14,784,998)
	-	-

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to the entity by Maluti-a-Phofung Local Municipality.

17. Other income

Sundry Income	59,627	59,637
SETA refund	106,480	-
	166,107	**59,637**

18. Operating deficit

Operating deficit for the year is stated after accounting inter alia for the following:

Operating lease charges		
Premises		
• Contractual amounts	221,791	3,620
	-	-
Depreciation on property, plant and equipment	1,334,917	353,030
Employee costs	50,581,712	46,193,272
Recruitment costs	9,742	56,977

19. Employee related costs

Employee related costs - salaries and leave pay	29,510,029	27,260,963
Performance and other bonuses	2,321,355	2,634,221
Employee related costs - UIF, pensions and medical aid contributions	7,854,709	7,645,210

Notes to the Annual Financial Statements

	2011 R	2010 R
19. Employee related costs (continued)		
Other short term costs	390	-
Overtime payments	5,472,239	4,074,770
Skills development levies	360,999	239,364
Telephone / cellphone allowance	2,000	-
Travel, motor car, accommodation, subsistence and other allowances	4,945,275	4,228,744
	50,466,996	**46,083,272**

Remuneration of Director Operations

	2011 R	2010 R
Annual remuneration	376,863	387,363
Allowances	148,791	137,521
Bonuses	31,405	31,405
	557,059	**556,289**

Remuneration of Chief Financial Officer

	2011 R	2010 R
Annual remuneration	497,004	506,390
Allowances	166,951	161,102
	663,955	**667,492**

Remuneration of Chief Executive Officer

	2011 R	2010 R
Annual remuneration	518,957	518,957
Allowances	223,508	212,145
	742,465	**731,102**

Remuneration of Director Human Resources, Corporate Affairs and Administration Support

	2011 R	2010 R
Annual remuneration	296,302	329,306
Car Allowance	159,751	135,337
Bonuses	21,304	19,510
Medical aid fringe benefit	3,413	3,413
	480,770	**487,566**

20. Remuneration of directors

	2011 R	2010 R
Sitting fees - Non executive directors	114,716	110,000

21. Depreciation and amortisation

	2011 R	2010 R
Property, plant and equipment	1,334,917	353,030

22. Finance costs

	2011 R	2010 R
Fair value adjustments on payables	498,320	569,083
Interest paid	1,451,845	769,061
	1,950,165	**1,338,144**

23. Taxation

No provision for tax has been made, as the entity is exempt from tax according to Section 10(1)(d) of the Income Tax Act.

Notes to the Annual Financial Statements

	2011 R	2010 R

24. Allowance for bad debt

Impairment of debtors	-	293,550

25. Bulk purchases

Electricity and chemicals	5,951,664	4,612,282
Water	11,732,722	9,368,204
	17,684,386	**13,980,486**

26. Administration fees

Administration fees - Uzinzo	5,184,683	4,156,643

27. General expenses

Account deliveries	235,103	232,932
Advertising	45,903	152,726
Auditors remuneration	1,998,712	1,125,552
Awareness campaigns	152,625	24,998
Bank charges	40,892	37,288
Branding program	13,578	75,068
Cleaning	704,899	4,611
Community awareness	-	772
Computer software	33,788	45,028
Consulting and professional fees	891,754	617,585
Consumables	62,546	126,283
Corporate social responsibility	11,981	7,398
Credit control charges	-	73,376
Donations	-	462
Entertainment	35,319	92,663
Penalties and interest	83,659	103,114
General costs	1,661	522
Health and safety	75,042	64,439
IT expenses	1,927,588	915,941
Insurance	1,786,641	3,425,556
Printing and stationery	183,625	345,152
Promotions and sponsorships	146,888	126,686
Rates and taxes	-	555,037
Recruitment costs	9,742	56,977
Redemption	-	5
Rental and lease payments	221,791	3,620
Security costs	(420)	328
Services rendered	-	16,100
Show and exhibition costs	149,237	52,102
Staff study support	123,659	110,201
Stock adjustments	883,252	1,248,623
Student training	338,417	80,410
Subscriptions and membership fees	(698)	(681)
Telephone and fax	1,733,126	1,223,352
Training	166,168	158,375
	12,056,478	**11,102,601**

28. Auditors' remuneration

Fees	1,998,712	1,125,552

Notes to the Annual Financial Statements

	2011 R	2010 R

29. Cash generated from operations

	2011 R	2010 R
Deficit	(7,016,570)	(9,415,471)
Adjustments for:		
Depreciation	1,334,917	353,030
Allowance for doubtful debts	-	293,550
Accrual for leave pay and bonusses	-	282,918
Changes in working capital:		
Inventories	557,271	1,288,986
Other receivables from non-exchange transactions	(29)	(2,139,423)
Consumer debtors	(2,792,829)	-
Trade and other payables from exchange transactions	16,969,969	11,475,119
VAT	(809,473)	-
	8,243,256	**2,138,709**

30. Contingent liability

The Department of Water and Environmental Affairs

The contigency disclosed for the Department of Water and Environmental affairs is as a result of the entity disputing interest charged to them by the department. The interest charged was calculated on invoices that were not applicable to the entity.

The contingency disclosed for the Department of Water and Environmental affairs also pertains to invoices that were made out to the entity, but were invoices for purchases made from the Trans Caledon Tunnel Authority (TCTA). The entity does not purchase water from this entity.

Maluti-a-Phofung Local Municipality

The contingency refer to the transactions between Maluti-a-Phofung Local Municipality and the entity. The invoices sent to Maluti-a-Phofung did not include VAT in the amounts that were charged. There is a dispute between the two entities as Circular No. 55 of the Receiver of Revenue states that the grants and income received by the entity are zero rated, but because it is a municipal entity, it is liable for VAT.

Management can not reliably estimate the financial effect of the claims due to uncertainties relating to when the cases will be resolved and management are not able to realibly determine the amount payable. The amounts disclosed, where applicable, reflects the claim against the entity.

	2011 R	2010 R
Dispute with Maluti-a-Phofung Local Municipality on VAT not declared on grants received	7,991,550	
Interest charged to the entity accounts at Department of Water & Environmental Affairs	15,450,356	15,450,356
Dispute with Department of Water and Environmental affairs on TCTA invoices	27,990,604	18,242,494
	51,432,510	**33,692,850**

Notes to the Annual Financial Statements

	2011 R	2010 R

31. Related parties

Relationships:

Ultimate controlling entity	Maluti-a-Phofung Local Municipality

Related party balances

	2011 R	2010 R
Amounts included in trade receivable/(trade payable) regarding related parties		
Maluti-a-Phofung Local Municipality	33,592,405	20,839,687
Maluti-a-Phofung Local Municipality (Insurance)	(8,039,590)	(6,795,707)
Maluti-a-Phofung Local Municipality (Rates and taxes)	(7,414,949)	(5,754,816)

Related party transactions

	2011 R	2010 R
Total service charges		
Maluti-a-Phofung Local Municipality (Water and sewer)	(32,183,029)	(19,600,108)
Maluti-a-Phofung Local Municipality (Insurance)	1,091,126	1,729,157
Equitable share received:		
Maluti-a-Phofung Local Municipality	68,499,000	61,788,998
Sitting fees paid to directors:		
Mokhesi N	46,929	45,000
Netshivhodza MG	67,787	65,000
Other expenses paid by Maluti-a-Phofung Local Municipality		
Mayihlome Tyres - Repairs and maintenance	2,719,860	953,996
Mayihlome Tyres - Capital expenditure	4,144	1,823
Tshedza Guest Lodge - accommodation	44,550	4,990

32. Prior period errors

The interloan account between the entity and Maluti-a-Phofung Local Municipality was corrected due to errors that occurred prior to the 2007 financial year by R4,643,899.

Additions to office equipment were understated in the 2009 financial year by R407,000 due to an incomplete fixed asset register.

Water purchases of R11,042,178 were procured during the 2009 financial year that was not recorded by the entity.

Water inventory was overstated by R173,327 during the 2010 financial year end.

Asset to the value of R49,820 were not derecognised from the asset register during the 2010 financial year.

Revenue to the amount of R2,938,221 was not recognised during the 2009 financial year.

Revenue to the amount of R3,753,544 was incorrectly recognised during the 2011 financial year and not in the 2010 financial year.

Fair vaue adjustments were not made to the 2010 comparative figures, these adjustments amounted to R1,461,045.

Revenue amounting to R2,398,748 relating to the 2009 financial year was recorded in the 2010 financial year.

	2011 R	2010 R
Statement of financial position		
Decrease in Inventory	-	(173,327)
Increase in trade and other receivables from exchange transactions	-	3,360,110
Increase in VAT receivable	-	3,865,468
Decrease in accumulated depreciation	-	31,221
Increase in property, plant and equipment	-	357,180

Notes to the Annual Financial Statements

	2011 R	2010 R
32. Prior period errors (continued)		
Increase in trade and other payables from exchange transactions	-	(13,748,022)
Decrease in opening accumulated loss	-	8,931,284
Statement of financial performance		
Increase in revenue for Water, sewerage and industrial influence	-	(1,354,795)
Increase in interest paid	-	569,082
Increase in Depreciation	-	18,599
Decrease in Bulk purchases (Water)	-	173,327
Decrease in General expenses	-	(2,030,128)

33. Risk management

Financial risk management

The entity’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Liquidity risk

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

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

Interest rate risk

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

Credit risk

Credit risk is managed on a group basis.

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

34. Going concern

We draw attention to the fact that at 30 June 2011, the entity had an accumulated loss of R(38,691,653) (2010 - R29,752,081) and that the entity's liabilities exceed its assets by R(38,691,353)(2010 - R29,752,081).

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

35. Events after the reporting date

At the time of preparing and submitting the annual financial statements there were no subsequent events to disclose.

Notes to the Annual Financial Statements

	2011 R	2010 R

36. Fruitless and wasteful expenditure

Opening balance	319,888	208,516
Fruitless and wasteful expenditure for the year (interest and penalties)	83,731	111,372
	403,619	**319,888**

Fruitless and wasteful expenditure (interest and penalties) relates to interest and penalties that was charged for late payments to defined contribution plan suppliers amounting to R3161 and late payment of output VAT amounting to R80570

The fruitless and wasteful expenditure is to be laid before the board of directors for condonement.

37. Irregular expenditure

Opening balance	3,459,534	-
Add: Irregular Expenditure - current year (SCM Policy not followed)	2,321,037	2,710,207
Add: Irregular Expenditure - Inflated prices paid for leased assets	1,396,960	749,327
Add: Irregular Expenditure - Lease contract not cancelled on time	493,375	-
	7,670,906	**3,459,534**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
The Supply Chain Management policy and the Municipal Regulations were not followed.	Management is still in the process of condoning the expenditure.	22,994,308
The Supply Chain Management policy and the Municipal Regulations were not followed.	Management is still in the process of condoning the expenditure.	2,321,037
Fruitless and wasteful expenditure (inflated prices for leases) relates to the difference in cost between a leased asset and a asset purchased for cash.	Management is still in the process of condoning the expenditure.	1,396,960
Lease contracts were not cancelled in time and expenses are paid for old machines use on a month to month basis.	Management is still in the process of condoning the expenditure.	493,375
		27,205,680

38. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	135,417	140,326
Amount paid - current year	(123,198)	(140,326)
Balance unpaid (included in payables)	**12,219**	**-**

Audit fees

Current year subscription / fee	1,998,712	1,125,552
Amount paid - current year	(1,998,712)	(1,125,552)
	-	**-**

PAYE and UIF

Opening balance	-	330,736
Current year subscription / fee	14,301,088	3,859,861
Amount paid - current year	(13,849,689)	(330,736)
Amount paid - previous years	-	(3,859,861)
	451,399	**-**

	2011 R	2010 R

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

Pension and medical aid deductions

	2011 R	2010 R
Opening balance	-	846,003
Current year subscription / fee	7,532,358	11,663,202
Amount paid - current year	(7,532,358)	(11,663,202)
Amount paid - previous years	-	(846,003)
	-	**-**

VAT

	2011 R	2010 R
VAT payable	537,629	1,347,102

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

39. Deviation from supply chain management regulations

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

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

Deviation detail the following deviations were identified from the deviation report:	2011 R	2010 R
Emergency - 22 transactions	1,055,494	-
Sole Provider - 11 transactions	161,065	-
Other - 73 transactions	800,368	-
	2,016,927	**-**

40. Operating lease

At the reporting date the entity had outstanding commitments under operating leases which fell due as follows:	2011 R	2010 R
Within one year	160,272	160,272
In the second to fifth year inclusive	160,272	320,544
	320,544	**480,816**

Operating leases consists of the following:
A contract was entered into by the company on 12 June 2008 for the rental of 63 C-Track vehicle monitoring systems. The period of the contract is 60 months with no escalation charges during this period. The monthly rental is R13,356 excluding VAT.

Notes to the Annual Financial Statements

41. Retirement benefit information

	2011 R	2010 R
Defined contribution plan		
Sanlam pension fund (Coris Capital)	3,637,162	3,570,763
SAMWU provident fund	67,134	61,416
Sanlam provident fund (Coris Capital)	1,270,304	1,360,378
GEPF pension fund	19,021	17,009
Bonitas	2,115,269	2,211,028
Keyhealth	103,915	94,827
Discovery	303,404	42,502
Group insurance	16,149	8,864
	7,532,358	**7,366,787**

These contributions have been expensed.