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BUFFALO CITY ECONOMIC ENTITY
Annual Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Metropolitan economic entity.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this act except where identified as irregular expenditure in the Annual Financial Statements.

Mr. A. Fani
City Manager

27 | 09 | 12
Date

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Mr. A. Fani **City Manager**	**Date**

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Government
Accounting Officer	Mr. A. Fani
Acting Chief Financial Officer	Ms. P. Adonis
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Standard Bank
Auditors	Auditor General

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The statements and notes set out below comprise the annual financial statements:

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011 Restated
Assets			
Current Assets			
Cash and cash equivalents	4	1,522,347,706	741,246,760
Inventories	5	117,116,161	137,420,107
Receivables from exchange transactions	6	306,666,618	219,625,087
Receivables from non-exchange transactions	7	153,606,851	82,782,286
VAT receivable	8	37,031,328	38,699,745
Operating leases averaged over total period	9	61,573,702	59,991,691
Long term receivables	10	13,098	11,880
		2,198,355,464	**1,279,777,556**
Non-Current Assets			
Long term receivables	10	57,353	70,451
Intangible assets	11	12,777,606	13,361,601
Investment property	12	220,776,439	220,776,439
Non-current investments	13	856,601	819,965
Property, plant and equipment	14	11,150,527,444	11,336,846,956
Investment in associate	15	260	12,088,092
		11,384,995,703	**11,583,963,504**
Total Assets		**13,583,351,167**	**12,863,741,060**
Liabilities			
Current Liabilities			
Bank overdraft (iro of market cash book - Bank balance = R1 230 770)	4	1,064,181	1,034,384
Borrowings	16	41,533,557	45,000,220
Consumer deposits	17	36,919,893	33,454,333
Finance lease obligation	18	463,541	760,066
Provisions	19	124,884,616	116,829,323
Payables from exchange transactions	20	461,237,065	376,790,791
Unspent conditional grants and receipts	21	798,515,763	346,141,548
VAT payable	55	168,364	1,125,493
Taxes payable	61	520,160	247,272
		1,465,307,140	**921,383,430**
Non-Current Liabilities			
Borrowings	16	604,256,175	645,786,508
Finance lease obligation	18	990,241	716,951
Provisions	19	68,089,174	49,055,625
Post-retirement medical obligation	22	341,426,029	280,763,820
		1,014,761,619	**976,322,904**
Total Liabilities		**2,480,068,759**	**1,897,706,334**
Net Assets		**11,103,282,408**	**10,966,034,726**
Net Assets			
Reserves			
Revaluation reserve	23	15,474,689	16,047,826
Accumulated surpluses		11,087,807,719	10,949,986,900
Total Net Assets		**11,103,282,408**	**10,966,034,726**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011 Restated
Revenue			
Estimated effect of the time value of money on payables	20	1,606,421	-
Actuarial adjustment on post retirement medical obligation	22	-	500,202
Public contributions and donations - operating projects	26	1,329,257	1,192,709
Public contributions and donations - PPE	26	1,283,135	9,029,317
Licences and permits	26	15,707,756	15,052,975
Fines	26	5,455,740	7,320,910
Fuel Levy	26	170,477,000	-
Rental of facilities and equipment	26	13,387,803	14,107,440
Property rates	27	522,514,480	453,306,422
Service charges	28	1,754,709,786	1,463,099,072
Government grants & subsidies	29	905,903,245	901,582,926
Other revenue	30	117,759,465	120,366,164
Interest received on investments	35	82,745,155	41,025,107
Total Revenue		**3,592,879,243**	**3,026,583,244**
Expenditure			
Employee related costs	32	(956,507,696)	(858,767,711)
Remuneration of councillors	33	(42,965,666)	(23,277,825)
Depreciation and amortisation	37	(491,029,838)	(508,798,632)
Reversal of impairments	14	-	71,221,655
Finance costs	38	(111,617,160)	(87,286,705)
Debt impairment	34	(64,013,324)	(210,998,044)
Repairs and maintenance	65	(210,584,462)	(193,336,041)
Bulk purchases	42	(915,387,167)	(771,252,980)
Contracted services	40	(6,839,654)	(5,907,804)
Grants and subsidies paid	41	(13,832,552)	(19,909,672)
Reversal of contribution to provision		-	162,569
General Expenses	31	(614,924,111)	(636,636,851)
Fair value adjustment on Sanlam shares revalued	36	-	330,911
Actuarial adjustment on post retirement medical obligation	22	(33,777,164)	-
Gain or loss on disposal of assets and liabilities	14	(1,486,310)	(5,608,765)
Estimated effect of the time value of money on payables	20	-	(212,423)
Estimated effect of the time value of money on expenditure	38	14,608,584	6,135,194
Total Expenditure		**(3,448,356,524)**	**(3,244,143,129)**
Share of deficit of associate accounted for under the equity method	15	(12,087,832)	(20,235,199)
Taxation	61	(249,077)	(62,395)
Surplus / (deficit) for the year	64	**132,185,810**	**(237,857,479)**

Statement of Changes in Net Assets

Figures in Rand

	Notes	Revaluation reserve	Accumulated surpluses	Total Net Assets
Opening balance as previously reported		16,620,963	11,187,980,650	11,204,601,613
Adjustments:				
Prior year adjustments	47	-	1,384,894	1,384,894
Balance at 01 July 2010 as restated		**16,620,963**	**11,189,365,544**	**11,205,986,507**
Changes in net assets:				
(Deficit) for the year		-	(237,857,481)	(237,857,481)
Take on of PPE at deemed cost	14	-	4,428,910	4,428,910
Depreciation transfer to income	23	(573,137)	573,137	-
Adjustments affecting Deficit for 2010 and 2011	47	-	22,420,753	22,420,753
Total changes		(573,137)	(210,434,681)	(211,007,818)
Opening balance as previously reported		16,047,826	10,978,930,858	10,994,978,684
Adjustments:				
Adjustments affecting net assets	47	-	(28,943,958)	(28,943,958)
Balance at 01 July 2011 as restated		**16,047,826**	**10,949,986,900**	**10,966,034,726**
Changes in net assets:				
Take on of PPE at deemed cost	14	-	67,929	67,929
Depreciation transfer to income	23	(573,137)	573,137	-
RDP inventory expenses incorrectly classified as operating expenses i.r.o prior years adjusted to retained income	5	-	4,993,943	4,993,943
Net income (losses) recognised directly in net assets		(573,137)	5,635,009	5,061,872
Surplus for the year		-	132,185,810	132,185,810
Total recognised income and expenses for the year		(573,137)	137,820,819	137,247,682
Total changes		(573,137)	137,820,819	137,247,682
Balance at 30 June 2012		**15,474,689**	**11,087,807,719**	**11,103,282,408**
Note(s)		23		

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services	63	2,380,378,467	1,968,807,129
Government grants, subsidies and public contributions and donations	63	908,515,638	911,804,952
Interest received	35	82,745,155	41,025,107
		3,371,639,260	2,921,637,188
Payments			
Employee costs	32&33	(999,473,362)	(882,045,536)
Suppliers	63	(1,612,566,249)	(1,613,453,276)
Interest paid	38	(111,617,160)	(87,286,705)
		(2,723,656,771)	(2,582,785,517)
Net cash flows from operating activities	43	**647,982,489**	**338,851,671**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(276,374,562)	(394,095,638)
Proceeds from sale of property, plant and equipment	14	1,895,651	1,275,865
Purchase of other intangible assets	11	(3,227,171)	(5,014,457)
Net movement in financial assets	10	11,880	341,686
Movement in non current investments	13	(36,636)	3,590,981
Net cash flows from investing activities		**(277,730,838)**	**(393,901,563)**
Cash flows from financing activities			
Repayment of borrowings	16	(44,996,996)	154,075,603
Finance lease payments	18	(23,235)	(218,930)
Increase in unspent conditional grants	21	452,374,215	78,855,236
Increase in consumer deposits	17	3,465,560	3,079,227
Net cash flows from financing activities		**410,819,544**	**235,791,136**
Net increase in cash and cash equivalents		**781,071,195**	**180,741,244**
Cash and cash equivalents at the beginning of the year		740,212,332	559,471,133
Cash and cash equivalents at the end of the year	4	**1,521,283,527**	**740,212,377**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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 / Held to maturity investments and/or loans and receivables

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note 5.

Fair value estimation

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

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of waste and water network and other assets

The economic entity's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Post retirement benefits

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

The economic entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the medical aid obligation in determining the appropriate discount rate, the economic entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related medical aid obligation liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 22.

Effective interest rate

The economic entity used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

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

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

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

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

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

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

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

1.2 Investment property (continued)

Fair value

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

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

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

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

1.3 Property, plant and equipment (continued)

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

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

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

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

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

Item	**Average useful life (years)**
Land - landfill sites	50
Buildings	30
Plant and machinery	3 to 30
Motor vehicles	4 to 15
Office equipment	3 to 5
Electricity	10 to 60
Community	
• Buildings	30
• Recreation	20 to 30
Other properties	5 to 50
Leased Assets	5
Roads	5 to 100
Wastewater network	5 to 80
Water network	5 to 150

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.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

1.3 Property, plant and equipment (continued)

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

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

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

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

1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:

  >a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit;

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

1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

Accounting Policies

1.5 Intangible assets (continued)

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

Amortisation is provided to write down the intangible assets, on a straight line basis, to nil.

Item	**Useful life**
Computer software, other	3 years

1.6 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.7 Investment in associate

An associate is an entity over which the economic entity is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for the economic entity's share of operating surpluses/ (deficits) less any dividends received.

Where the economic entity or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the economic entity's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the economic entity is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The economic entity uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the economic entity makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the economic entity.

1.8 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

- cash;
- a residual interest of another entity; or

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are combined instruments that are designated at fair value and/or instruments held for trading.

A financial instrument is held for trading if:

- > it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
- > on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; and
- > financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 24 :

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

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in note 25 :

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Presentation

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

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

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

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

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

1.9 Tax

Current tax assets and liabilities

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

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

Accounting Policies

1.9 Tax (continued)

Deferred tax assets and liabilities

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

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

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

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

1.10 Leases

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

Finance leases - lessee

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

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

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 reduction on the remaining balance of the liability.

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

1.11 Inventories (continued)

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

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

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

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

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value 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.

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.12 Impairment of cash-generating assets (continued)

Identification

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

The economic 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 economic entity estimates the recoverable amount of the asset.

Value in use

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

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

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the economic entity; or

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

- the number of production or similar units expected to be obtained from the asset by the economic entity.

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

Where the recoverable amount of an asset or cash-generating unit is lower its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in the the revaluation reserve in respect of assets at revalued amounts.

Identification

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

The economic 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 economic entity estimates the recoverable service amount of that asset.

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

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

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

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

Redesignation

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

1.14 Employee benefits

Employee benefits are all forms of consideration given by a economic entity in exchange for service rendered by employees.

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

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

Termination benefits are employee benefits payable as a result of either:

- a economic entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

1.14 Employee benefits (continued)

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.15 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

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

1.16 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

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

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

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

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

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

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

1.17 Revenue from non-exchange transactions

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

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

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

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

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

1.17 Revenue from non-exchange transactions (continued)

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

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

Taxes such as property rates are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

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

As the economic entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

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

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

Transfers

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

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

Debt forgiveness and assumption of liabilities

The economic entity recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

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

Fines

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

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

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

1.17 Revenue from non-exchange transactions (continued)

Bequests

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

Gifts and donations, including goods in-kind

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

1.18 Investment income

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

1.19 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.12 and 1.13. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

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

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

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

Accounting Policies

1.21 Unauthorised expenditure (continued)

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

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

1.24 Use of estimates

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

1.25 Offsetting

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

Accounting Policies

1.26 Revaluation reserve

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

1.27 Investments

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

1.28 Conditional grants and receipts

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

1.29 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

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

1.30 Value added tax (VAT)

The economic entity accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. Refer to note 8.

1.31 Commitments

Items are classified as commitments when the economic entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the economic entity determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. Refer to note 44.

Notes to the Annual Financial Statements

2. Changes in accounting policy

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

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measurement withdrawn.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- IAS 19 Employee Benefits withdrawn.
- Formulated a policy within Accounting Policies of the AFS for Financial Instruments based on GRAP 104.
- Formulated a policy within Accounting Policies of the AFS for Impairments based on GRAP 21 and GRAP 26.
- Formulated a policy within Accounting Policies of the AFS for Employee Benefits based on GRAP 25.
- Formulated a policy within Accounting Policies of the AFS for Non - exchange Transactions based on GRAP 23.
- Formulated a policy within Accounting Policies of the AFS for Related Parties based on GRAP 20.

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April 2011	No material impact
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011	No material impact
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April 2011	No material impact
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April 2011	No material impact
• IGRAP 6: Loyalty Programmes	01 April 2011	No material impact
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April 2011	No material impact
• IGRAP 9: Distributions of Non-cash Assets to Owners	01 April 2011	No material impact
• IGRAP 10: Assets Received from Customers	01 April 2011	No material impact
• IGRAP 13: Operating Leases – Incentives	01 April 2011	No material impact
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011	No material impact
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011	No material impact

3.2 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	No material impact
• GRAP 25: Employee benefits	01 April 2013	To be determined
• GRAP 104: Financial Instruments	01 April 2013	No material impact

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	Unknown
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	Financial system changes
• GRAP 103: Heritage Assets	01 April 2012	No material impact
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	No material impact
• GRAP 26: Impairment of cash-generating assets	01 April 2012	No material impact
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013	No material impact

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

• GRAP 105: Transfers of functions between entities under common control	01 July 2012	Unlikely to have an impact
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Unlikely to have an impact
• GRAP 107: Mergers	01 April 2014	Unlikely to have an impact
• GRAP 20: Related parties	01 April 2013	No material impact

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

4. Cash and cash equivalents

Cash and cash equivalents consist of:

		2012	2011
Cash on hand		1,666,515	1,415,962
Bank balances		56,469,953	43,883,734
Short-term deposits		1,464,211,075	695,946,782
Other cash and cash equivalents		163	282
Bank overdraft		(1,064,181)	(1,034,384)
		1,521,283,525	**740,212,376**
Current assets		1,522,347,706	741,246,760
Current liabilities		(1,064,181)	(1,034,384)
		1,521,283,525	**740,212,376**
Allocation of external investments (short-term deposits)			
Unspent conditional grants		798,515,763	346,141,548
Borrowing current repayments		24,224,397	1,948,536
Cash flow committed to operating and capital projects		111,897,042	42,876,769
BCMET		1,798,913	2,011,123
Own funding (operating account commitments)		527,774,960	302,968,806
Total short-term deposits		**1,464,211,075**	**695,946,782**
Prior period errors	**47**		
Bank balances previously reported		-	42,842,045
BCMET adjusted		-	7,305
Restated		**-**	**42,849,350**
Prior period errors	**47**		
Short-term deposits previously reported		-	693,935,659
BCMET adjusted		-	2,011,123
Restated		**-**	**695,946,782**
Short term deposits per institution			
Absa (interest rate range 5% - 5.86% : 2011 5% - 6%)		374,200,819	173,533,317
Nedbank (interest rate range 5% : 2011 5% - 6%)		362,621,306	150,319,944
RMB (interest rate range 5% - 5.80% : 2011 5% - 6%)		362,957,317	191,174,132
Standard (interest rate range 5% - 5.88% : 2011 5% - 6%)		177,642,582	48,611,932
Stanlib (interest rate range 5.56% - 5.67% : 2011 5,6% - 7%)		186,789,051	132,307,457
		1,464,211,075	**695,946,782**

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash.

No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

4. Cash and cash equivalents (continued)

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. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
Standard Bank - Primary Account - 081-221-495	117,205,269	105,075,417	124,060,031	48,486,521	35,563,034	51,217,667
Standard Bank - Market Account - 081-246-072	1,230,770	1,875,348	1,270,839	(1,064,181)	(1,034,384)	(1,268,510)
Standard Bank - Inter Authority Account - 081-246-250	1,476,139	1,477,381	1,477,695	1,476,138	1,477,381	1,477,695
Standard Bank - Prism Account - 081-246-048	-	-	-	5,105,086	5,583,785	3,042,357
Standard Bank - BCMET - 081-098-359	111,882	7,304	1,836,020	111,882	7,304	-
FNB Bank - Money Market Account - 62-098-719-358	1,130,642	1,087,253	1,042,716	1,130,642	1,087,253	1,042,716
FNB Bank - Operating Account - 620-987-17899	159,540	164,834	133,967	159,540	164,834	133,967
Corporate credit card -881-271-291-380-1000	163	282	562	163	283	562
Credit card	-	144	-	144	144	-
Total	**121,314,405**	**109,687,963**	**129,821,830**	**55,405,935**	**42,849,634**	**55,646,454**

Total cash book balance as at 30 June 2012 = R55 405 935 Add Back bank overdraft of R1 064 181 = R56 470 116.

5. Inventories

	2012	2011 Restated
Electricity store (Electrical maintenance parts)	14,067,505	13,359,942
Workshop store (Mechanical maintenance parts)	366,322	273,535
General stores (Chiselhurst,Mdantsane,KWT)	31,634,062	42,476,991
Water store (Water maintenance parts)	25,403,125	25,607,572
Fuel (Diesel, Petrol)	1,651,100	1,665,217
Unsold water (Treated water in pipelines & reservoirs)	2,297,627	2,248,008
Housing stock (RDP Houses)	41,823,101	52,622,502
	117,242,842	138,253,767
Inventories (write-downs)	(126,681)	(833,660)
	117,116,161	**137,420,107**

Carrying value of stock is disclosed at the lower of cost and net realisable value.

		2012	2011 Restated
Prior period errors	47		
Housing stock previously reported		-	57,616,450
Adjusted		-	(4,993,948)
Restated		**-**	**52,622,502**

Inventory pledged as security

No inventory was pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

6. Receivables from exchange transactions

Gross balances		
Electricity	164,575,388	139,979,839
Water	233,338,178	206,324,587
Sewerage	116,942,793	104,226,939
Refuse	139,417,302	120,366,826
Housing rental	2,126,090	1,787,303
	656,399,751	**572,685,494**
Less: Allowance for debt impairment		
Electricity	(33,605,538)	(29,497,133)
Water	(143,190,770)	(150,192,769)
Sewerage	(76,331,740)	(76,836,655)
Refuse	(95,065,173)	(95,046,910)
Housing rental	(1,539,912)	(1,486,940)
	(349,733,133)	**(353,060,407)**
Net balance		
Electricity	130,969,850	110,482,706
Water	90,147,408	56,131,818
Sewerage	40,611,053	27,390,284
Refuse	44,352,129	25,319,916
Housing rental	586,178	300,363
	306,666,618	**219,625,087**
Electricity		
Current (0 -30 days)	119,976,018	106,168,253
31 - 60 days	6,546,082	5,759,741
61 - 90 days	3,282,855	2,888,653
91 - 120 days	3,028,520	2,727,449
121 - 365 days	14,316,844	7,827,991
> 365 days	17,425,069	14,607,752
	164,575,388	**139,979,839**
Water		
Current (0 -30 days)	43,303,486	34,163,595
31 - 60 days	14,223,543	10,367,866
61 - 90 days	12,229,566	8,813,104
91 - 120 days	8,020,442	7,049,696
121 - 365 days	45,149,001	41,917,612
> 365 days	110,412,140	104,012,714
	233,338,178	**206,324,587**
Sewerage		
Current (0 -30 days)	15,639,625	16,151,628
31 - 60 days	7,041,355	5,763,142
61 - 90 days	6,554,367	4,469,396
91 - 120 days	4,038,096	3,249,900
121 - 365 days	21,985,759	17,825,006
> 365 days	61,683,591	56,767,867
	116,942,793	**104,226,939**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

6. Receivables from exchange transactions (continued)

Refuse		
Current (0 -30 days)	13,252,182	11,417,703
31 - 60 days	7,373,244	5,890,441
61 - 90 days	7,029,977	4,469,824
91 - 120 days	4,735,207	3,276,519
121 - 365 days	25,137,766	19,235,621
> 365 days	81,888,926	76,076,718
	139,417,302	**120,366,826**

Housing rental		
Current (0 -30 days)	82,406	82,873
31 - 60 days	81,462	46,223
61 - 90 days	89,523	50,253
91 - 120 days	61,849	37,665
121 - 365 days	400,988	245,780
> 365 days	1,409,862	1,324,509
	2,126,090	**1,787,303**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

6. Receivables from exchange transactions (continued)

Summary of debtors by customer classification:
(This refers to the total debtor classification including exchange and non- exchange transactions as per the billing system i.e. this includes rates and other billing receivables)

Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	115,536,686	110,526,721
31 - 60 days	38,592,466	29,573,810
61 - 90 days	35,646,055	24,453,756
91 - 120 days	23,360,860	18,757,969
121 - 365 days	137,345,258	114,899,732
> 365 days	381,306,256	348,593,145
	731,787,581	646,805,133
Less: Allowance for debt impairment	(480,153,008)	(483,709,444)
	251,634,573	**163,095,689**

Industrial/ commercial (including rates and other receivables (billing))		
Current (0 -30 days)	114,915,186	103,808,701
31 - 60 days	11,131,834	8,561,426
61 - 90 days	6,206,593	4,652,230
91 - 120 days	4,931,523	4,044,789
121 - 365 days	25,840,401	13,934,019
> 365 days	40,547,113	23,539,068
	203,572,650	158,540,233
Less: Allowance for debt impairment	(54,549,696)	(48,219,977)
	149,022,954	**110,320,256**

National and provincial government (including rates and other receivables (billing))		
Current (0 -30 days)	12,511,991	11,939,521
31 - 60 days	1,089,261	2,289,947
61 - 90 days	193,753	771,919
91 - 120 days	601,906	661,589
121 - 365 days	1,621,884	1,693,047
> 365 days	1,212,030	556,168
	17,230,825	**17,912,191**

Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	242,963,863	226,274,943
31 - 60 days	50,813,561	40,425,183
61 - 90 days	42,046,401	29,877,905
91 - 120 days	28,894,289	23,464,347
121 - 365 days	164,807,543	130,526,798
> 365 days	423,065,399	372,688,381
	952,591,056	823,257,557
Less: Allowance for debt impairment	(534,702,705)	(531,929,422)
	417,888,351	**291,328,135**

Figures in Rand	2012	2011 Restated

6. Receivables from exchange transactions (continued)

Ageing of allowance for debt impairment (including rates & other receivables (billing))

Current (0 -30 days)	(6,059,395)	-
31 - 60 days	(37,854,030)	(35,266,816)
61 - 90 days	(31,322,854)	(26,065,400)
91 - 120 days	(21,525,067)	(20,470,231)
121 - 365 days	(122,774,896)	(113,871,214)
> 365 days	(315,166,463)	(336,255,760)
	(534,702,705)	**(531,929,421)**

Consumer debtors pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any of the accounts receivable.

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 external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the economic entity did not apply any methods to evaluate the credit quality.

Consumer debtors impaired

As at 30 June 2012, consumer debtors of R 349,733,133 (2011: R 353,060,407) were impaired and provided for.

Amounts totaling R(50,331,640),(2011: R 22,705,198) were written off as uncollectable against the debt impairment allowance account. This represents 0.0140 % (2011: 0.0075 %) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(353,060,407)	(226,489,673)
Contribution during the year	(47,004,367)	(149,255,431)
Amounts written off as uncollectable	50,331,640	22,705,198
Other	-	(20,501)
	(349,733,134)	**(353,060,407)**

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Refer to note 7 regarding impairment of non-exchange transactions.

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated
7. Receivables from non-exchange transactions			
Property rates		196,165,077	163,748,374
Other receivables (billing)		100,026,228	86,823,691
Prepaid expenses		-	714,038
Accrued income		37,230,008	5,967,552
Other debtors		5,155,110	4,397,646
Impairment property rates		(184,969,572)	(178,869,015)
		153,606,851	**82,782,286**
Property rates age analysis			
Current (0-30days)		38,550,126	35,854,916
31-60 days		11,733,179	9,601,229
61-90 days		9,814,389	6,910,197
91-120 days		6,708,721	5,332,890
121-365 days		39,993,394	29,901,827
> 365 days		89,365,267	76,147,315
		196,165,076	**163,748,374**
Other receivables (billing)			
Current (0-30days)		12,160,024	22,435,978
31-60 days		3,814,694	2,996,542
61-90 days		3,045,724	2,276,478
91-120 days		2,301,454	1,790,227
121-365 days		17,823,791	13,572,961
> 365 days		60,880,542	43,751,505
		100,026,229	**86,823,691**
Prior period errors	**47**		
Other receivables (billing) previously reported		-	99,574,143
Adjusted for interest overstated		-	(12,750,452)
Restated		**-**	**86,823,691**

Trade and other receivables pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivable.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

Trade receivables

None of the financial assets that are fully performing have been re-negotiated in the last year.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

7. Receivables from non-exchange transactions (continued)

Trade and other receivables impaired

As at 30 June 2012, trade and other receivables from non-exchange transactions of R 184,969,572 (2011: R 178,869,015) were impaired and provided for.

Amounts totaling R(10,932,684) (2011: R(3,657,943)) were written off as uncollectable against the debt impairment allowance account.This represents 0.0030 % (2011: 0.0012 %) of the total operating income for the year.

Reconciliation of allowance for impairment of non-exchange transactions

Opening balance	(178,869,015)	(120,784,346)
Allowance for impairment	(17,033,241)	(61,742,612)
Amounts written off as uncollectable	10,932,684	3,657,943
	(184,969,572)	**(178,869,015)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

8. VAT receivable

VAT	37,031,328	38,699,745

VAT is payable on the receipt basis. VAT is only declared to SARS on receipt of payment from consumers.

9. Operating leases averaged over total period

Operating lease rentals	61,573,702	59,991,691

Operating lease rentals		
Current assets	2,546,106	1,582,012
Non-current assets	59,027,596	58,409,679
	61,573,702	**59,991,691**

Economic entity as lessor: Operating leases minimum future receivables		
No later than one year	1,636,966	1,118,062
Later than one year no later than 5 years	7,009,992	5,047,272
Later than 5 years	159,816,056	160,041,529
	168,463,014	**166,206,863**

These leases are in respect of municipal properties that are leased to third parties. These leases are payable by lessees, either monthly or annually. Leases payable monthly and annually by lessees escalate at annual fixed rates that vary between 0% and 12.5% annually.

No contingent rent was recognised as revenue because rental increases are escalated at a fixed percentage. Increases are not based on indices or bases that result in a fluctuating interest rate.

The operating lease accrual arises from the differences between the actual rental and average rental at balance sheet date. During 2011/12 financial year the net amount of R1 582 012 has been accrued.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

10. Long term receivables

	2012	2011
Financial assets at amortised cost		
Sporting bodies and other loans	70,451	82,331
Non-current assets		
Financial assets at amortised cost	57,353	70,451
Current assets		
Financial assets at amortised cost	13,098	11,880
	70,451	**82,331**

Sporting bodies: Loans were granted to sporting bodies before the implementation of the MFMA. No new loans have been issued and the remaining loans are redeemable until 2016. The above amounts relate to two loans that were issued to Beacon Bay Country Club on 30 June 1995 and 30 June 1996 payable over 21.5 and 20.5 years with the last payment due on 31 December 2016 respectively.

No security is held for any of the long term receivables.

No long term receivables defaulted and no terms of any of the long term receivables were re-negotiated.

The credit quality of long term receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

No portion of the long term receivables was pledged as security for any financial liabilities.

11. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	20,826,638	(16,120,460)	4,706,178	18,827,224	(12,309,296)	6,517,928
Intangible assets under development	8,071,428	-	8,071,428	6,843,670	-	6,843,670
Total	**28,898,066**	**(16,120,460)**	**12,777,606**	**25,670,894**	**(12,309,296)**	**13,361,598**

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Work in progress completed tranferred	Amortisation	Total
Computer software	6,517,928	-	1,999,413	(3,811,163)	4,706,178
Intangible assets under development	6,843,670	3,227,171	(1,999,413)	-	8,071,428
	13,361,598	**3,227,171**	**-**	**(3,811,163)**	**12,777,606**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

11. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Additions	WIP Capitalised	Amortisation	Total
Computer software	9,673,367	170,200	397,800	(3,723,425)	6,517,928
Intangible assets under development	2,397,213	4,844,257	(397,800)	-	6,843,670
	12,070,580	**5,014,457**	**-**	**(3,723,425)**	**13,361,598**

Prior period errors			
Amortisation as stated in 2011		-	2,234,631
Adjusted	37&47	-	1,488,794
Restated		**-**	**3,723,425**

Pledged as security

No Intangible Assets were pledged as security.

Intangible assets under development refers to computer software.

12. Investment property

	2012			2011		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	220,776,439	-	220,776,439	220,776,439	-	220,776,439

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	220,776,439	220,776,439

Reconciliation of investment property - 2011

	Opening balance	Transfers	Total
Investment property	201,198,657	19,577,782	220,776,439

Pledged as security

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R 12,445,133 (2011: R12,929,741), including repairs and maintenance expenses on investment properties.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

12. Investment property (continued)

At reporting date there are no cumulative fair value changes in the surplus and deficit for investment properties.

There are no restrictions on investment properties.

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

The values were determined in-house by the Municipal valuer who is a Registered Professional Valuer with the South African Council for the Property Valuers Profession, Registration No. 2417/0. The Municipal Valuer was assisted by appointed consultants.

Rental income from investment properties in respect of monthly and annual leases amounted to R7,804,438 (2011: R9,271,610).

13. Non- current investments

These investments are classified as financial assets at amortised cost.

No security is held for any of the non-current investments.

No non-current investments defaulted and no terms of any of the non-current investments were re-negotiated.

No portion of the non-current investments was pledged as security for any financial liabilities.

The credit quality of non-current investments that are neither past nor due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Fixed term deposits of R 856 601 (2011: R 819 965) are invested with Nedbank at interest rates of 2% - 5.32% (2011: 2.2% - 5.27%)

Fixed deposits long term	856,601	819,965
	856,601	**819,965**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3,140,863,591	-	3,140,863,591	3,141,740,575	-	3,141,740,575
Buildings	1,296,810,248	(127,827,781)	1,168,982,467	1,289,882,448	(84,831,701)	1,205,050,747
Plant and equipment	79,573,281	(32,112,968)	47,460,313	58,322,785	(24,135,816)	34,186,969
Furniture and fittings	33,936,438	(12,508,145)	21,428,293	33,692,891	(10,534,333)	23,158,558
Motor vehicles	244,820,791	(107,891,331)	136,929,460	226,838,716	(96,134,717)	130,703,999
Office equipment	36,972,408	(21,882,362)	15,090,046	30,174,678	(15,318,295)	14,856,383
IT equipment	96,739	(96,726)	13	96,739	(96,726)	13
Electricity	3,093,967,346	(1,741,918,285)	1,352,049,061	2,976,435,313	(1,575,915,224)	1,400,520,089
Other properties	447,047,242	(30,174,783)	416,872,459	411,707,831	(18,617,317)	393,090,514
Work in progress (WIP)	433,501,952	-	433,501,952	624,802,216	-	624,802,216
Recreational facilities	45,305,152	(1,636,249)	43,668,903	18,372,937	(1,059,931)	17,313,006
Leases	3,584,867	(1,160,733)	2,424,134	2,835,077	(605,589)	2,229,488
Roads	3,709,749,306	(1,880,028,390)	1,829,720,916	3,622,500,917	(1,740,344,546)	1,882,156,371
Wastewater network	3,299,029,616	(2,262,537,786)	1,036,491,830	3,153,850,453	(2,163,983,571)	989,866,882
Water network	3,773,558,443	(2,508,111,054)	1,265,447,389	3,711,148,167	(2,441,302,156)	1,269,846,011
Heritage	3,853,336	-	3,853,336	3,420,757	-	3,420,757
Community buildings	257,031,428	(21,288,147)	235,743,281	217,928,484	(14,024,106)	203,904,378
Total	**19,899,702,184**	**(8,749,174,740)**	**11,150,527,444**	**19,523,750,984**	**(8,186,904,028)**	**11,336,846,956**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Non-cash additions	Disposals	WIP capitalised	Depreciation	Total
Land	3,141,740,575	441,882	-	(1,318,866)	-	-	3,140,863,591
Buildings	1,205,050,747	347,839	-	-	6,579,961	(42,996,080)	1,168,982,467
Plant and equipment	34,186,969	12,433,148	-	(48,489)	8,902,707	(8,014,022)	47,460,313
Furniture and fittings	23,158,558	101,220	-	(2,950)	145,855	(1,974,390)	21,428,293
Motor vehicles	130,703,999	19,613,430	-	(649,812)	-	(12,738,157)	136,929,460
Office equipment	14,856,383	6,864,306	-	(10,716)	-	(6,619,927)	15,090,046
Electricity	1,400,520,089	5,264,320	-	(1,324,763)	43,136,802	(95,547,387)	1,352,049,061
Other properties	393,090,514	1,735,195	27,088,841	-	786,305	(5,828,397)	416,872,459
Work in progress (WIP)	624,802,216	204,625,802	-	-	(395,926,066)	-	433,501,952
Recreational facilities	17,313,006	1,487,737	67,929	-	25,376,549	(576,318)	43,668,903
Leases	2,229,488	-	749,791	-	-	(555,145)	2,424,134
Roads	1,882,156,371	12,965,908	-	(9,954)	74,326,695	(139,718,104)	1,829,720,916
Wastewater network	989,866,882	3,876,961	-	(16,411)	141,342,205	(98,577,807)	1,036,491,830
Water network	1,269,846,011	2,042,918	-	-	60,367,359	(66,808,899)	1,265,447,389
Heritage	3,420,757	432,579	-	-	-	-	3,853,336
Community buildings	203,904,378	4,141,317	-	-	34,961,628	(7,264,042)	235,743,281
IT equipment	13	-	-	-	-	-	13
	11,336,846,956	**276,374,562**	**27,906,561**	**(3,381,961)**	**-**	**(487,218,675)**	**11,150,527,444**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Asset additions	Non-cash additions	Disposals	Transfers	Work in progress capitalised	Depreciation	Impairment reversal	Total
Land	3,138,465,575	1,300,000	1,975,000	-	-	-	-	-	3,141,740,575
Buildings	1,230,859,258	2,623,983	549,000	-	-	13,460,149	(42,441,643)	-	1,205,050,747
Plant and equipment	29,695,355	12,060,275	-	(221,748)	-	-	(7,346,913)	-	34,186,969
Furniture and fittings	23,678,860	1,505,911	26,692	(18,095)	-	-	(2,034,810)	-	23,158,558
Motor vehicles	123,770,498	23,685,752	-	(3,537,530)	-	-	(13,214,721)	-	130,703,999
Office equipment	14,822,563	5,627,597	-	(157,501)	-	-	(5,436,276)	-	14,856,383
Electricity	1,402,690,591	16,749,758	-	(2,268,535)	-	-	(87,873,380)	71,221,655	1,400,520,089
Other properties	375,947,991	581,622	-	-	22,293,392	-	(5,732,491)	-	393,090,514
Work in progress (WIP)	463,326,952	263,359,136	-	-	-	(101,883,872)	-	-	624,802,216
Recreational facilities	37,467,106	-	335,095	-	(19,912,877)	-	(576,318)	-	17,313,006
Leases	1,758,693	-	862,874	-	-	-	(392,079)	-	2,229,488
Roads	1,996,912,003	51,603,805	7,000,000	(607,054)	-	-	(172,752,383)	-	1,882,156,371
Wastewater network	992,583,911	2,009,943	-	(74,167)	-	86,738,033	(91,390,838)	-	989,866,882
Water network	1,326,250,435	12,359,478	-	-	-	-	(68,763,902)	-	1,269,846,011
Heritage	3,420,757	-	-	-	-	-	-	-	3,420,757
Community buildings	206,469,768	628,378	2,240,000	-	-	1,685,690	(7,119,458)	-	203,904,378
IT equipment	13	-	-	-	-	-	-	-	13
	11,368,120,329	**394,095,638**	**12,988,661**	**(6,884,630)**	**2,380,515**	**-**	**(505,075,212)**	**71,221,655**	**11,336,846,956**

14. Property, plant and equipment (continued)

Proceeds on disposal of PPE	**2012**	**2011**
Carrying value of PPE	3,381,961	6,884,630
Net gain/(loss) on disposal of assets	(1,486,310)	(5,608,765)
Total	**1,895,651**	**1,275,865**

Prior period errors: Other properties			
Opening balance as stated in 2011		-	381,800,761
Adjusted		-	(5,859,152)
		-	**375,941,609**
Prior period errors: Electricity			
Opening balance as stated in 2011		-	1,403,288,995
Adjusted		-	(598,398)
		-	**1,402,690,597**
Prior period errors: Wastewater network			
Opening balance as stated in 2011		-	992,643,911
Adjusted		-	(60,000)
		-	**992,583,911**
Prior period errors: Roads			
Opening balance as stated in 2011		-	1,994,917,658
Adjusted		-	(5,655)
		-	**1,994,912,003**
Total adjustments	47	-	6,523,205

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment (continued)

There are currently 5938 assets that have carrying values of and between R0.00 and R1.00, which are still in use.

As at 30 June 2012 there are no temporarily idle assets.

As at 30 June 2012 the total cost of all fully depreciated assets amount to R 415 795 160 (2011: R 139 415 200).

As at 30 June 2012 there are no assets retired from active use and held for disposal.

Pledged as security

No assets were pledged as security.

Borrowing costs capitalised

No borrowing costs were capitalised during the year.

Assets subject to finance lease (Net carrying amount)

Leases	2,424,134	2,229,487

14. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 01 July 2009. Revaluations were performed by the economic entity's Valuations Department together with appointed consultants.

Land and buildings are re-valued every 4 years.

The fair values were determined directly by reference to observable prices and an active market or recent market transactions on arms length terms.

As land and buildings were identified and revalued during 2009, no historical cost is available and therefore no disclosure could be made of what the carrying value under the cost model would have amounted to. No historical cost information is available as prior to the identification and revaluation of these assets in 2009, assets were not componentised but were recorded as globular assets.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the economic entity. The economic entity has taken all reasonable steps to ensure the completeness of the fixed asset register by using the best international and local methodology and practice for asset verification, within the limits of the available organisational, human and financial capacity. However it should be noted that as per international precedents, owing to the nature and large scale of the assets as well as the technical and onerous challenges involved in the process, it is impossible to certify that the fixed asset register is 100% complete.

15. Investment in associate

Name of entity	Listed / Unlisted	% holding 2012	% holding 2011	Carrying amount 2012	Carrying amount 2011	Fair value 2011
East London Industrial Development Zone (Pty)Ltd (IDZ)	Unlisted	26.00 %	26.00 %	-	12,088,092	12,088,092
BCMM share in IDZ - 26,000 shares @ 0,01c		26.00 %	26.00 %	260	-	-
				260	12,088,092	12,088,092

The carrying amount of the associate is shown net of impairment losses.

Movements in carrying value

	Note	2012	2011
Opening balance		12,088,092	32,370,887
Share of surplus/ (deficit)	43	(12,087,832)	(20,282,795)
		260	**12,088,092**

Investment in associate at 30 June 2012 amounted to R 260 (2011: R 12,088,092).

Fair value

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

Principal activities, country of incorporation and voting power

Legal name	Principal activity	Country	Proportion of voting power
East London Industrial Development Zone (Pty)Ltd	Development of East London's industrial development zone.	SA	26%

Figures in Rand	2012	2011 Restated

15. Investment in associate (continued)

Summary of controlled entity's interest in associate

Total equity	(29,526,840)	(15,636,674)
Total liabilities	442,683,592	448,196,303
Total assets	413,156,752	432,559,629
Deficit	(13,890,166)	(25,900,138)
Revenue	6,476,798	8,927,730

Associate with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2011 to 31 March 2012 and the quarter ending 30 June 2012.

Unrecognised share of losses of associates

The economic entity has discontinued recognising its share of the deficits of East London Industrial Development Zone (Proprietary) Limited, as the investment is held at R nil and the economic entity has no obligation for any deficits of the associate. The total unrecognised deficits for the current period amount to R41,61,932 - (2011 : R20,235,199). The accumulated unrecognised deficits to date amount to R nil (2011: R9,928,176).

16. Borrowings

Held at amortised cost		
Annuity loans	645,789,732	690,786,728
	645,789,732	**690,786,728**

The entity did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the borrowings were re-negotiated.

Non-current liabilities		
At amortised cost	604,256,175	645,786,508
Current liabilities		
At amortised cost	41,533,557	45,000,220
	645,789,732	**690,786,728**

17. Consumer deposits

Electricity	19,452,348	16,695,945
Water	17,467,545	16,758,388
	36,919,893	**33,454,333**

The amounts reflected represent a cost value as it is impracticable to determine fair value.
Management however believes that the cost value approximates the fair value.

Guarantees held in lieu of Electricity and Water Deposits amounted to R12 087 359 (2011: R11 257 675).

The consumer deposits are reflected at nominal value as thy are utilised as part of the settlement of final consumer accounts.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

18. Finance lease obligation

Minimum lease payments due		
- within one year	798,306	1,002,799
- in second to fifth year inclusive	1,518,725	1,020,719
	2,317,031	2,023,518
less: future finance charges	(863,249)	(546,501)
Present value of minimum lease payments	**1,453,782**	**1,477,017**
Present value of minimum lease payments due		
- within one year	463,541	760,066
- in second to fifth year inclusive	990,241	716,951
	1,453,782	**1,477,017**
Non-current liabilities	990,241	716,951
Current liabilities	463,541	760,066
	1,453,782	**1,477,017**

The average lease term was 3-5 years and the average effective borrowing rate was 8.50% (2011: 7.65%).

Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements.

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

The entity did not default on any of the interest or capital repayments of the finance leases.

No terms and conditions of the finance leases were re-negotiated.

After the initial period the leases shall automatically be renewed on a monthly basis unless cancelled by either party.

All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased asset.

There are no restrictions imposed on the lease arrangements.

19. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Landfill sites	165,884,949	27,088,841	192,973,790

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Onerous contract	-	162,569	(162,569)	-
Landfill sites	143,591,556	22,293,392	-	165,884,948
Salaries and skills	8,924,573	-	(8,924,573)	-
	152,516,129	**22,455,961**	**(9,087,142)**	**165,884,948**

		2012	2011 Restated
Non-current liabilities		68,089,174	49,055,625
Current liabilities		124,884,616	116,829,323
		192,973,790	**165,884,948**
Onerous contract			
As previously stated		-	162,569
Restated	47	-	(162,569)
		-	**-**

With regards to the Provision for Landfill sites: It is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoil, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:
- Interest rate used is BCMM's borrowing rate at 7.65% (2011: 7.65%).

- The valuation for the landfill site provision was done by Munitech (Pty) Ltd, a company which specialises in infrastructure - maintenance and operations and municipal services, which includes solid waste collection and disposal. The company registration number is 1988/761/07 and the SAACE membership number is 439.

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

20. Payables from exchange transactions

		2012	2011 Restated
Accrued leave pay		54,590,844	47,651,207
BCMET		1,910,795	2,018,427
Deposits received		7,815,776	6,058,509
Estimated effect of the time value of money		(2,256,915)	(650,494)
Other creditors		63,559,727	34,164,453
Payments received in advance		61,552,913	61,988,639
Retention monies		24,415,539	25,946,551
Trade payables		249,648,387	199,613,499
		461,237,065	**376,790,791**
Prior period errors	**47**		
Retention monies previously reported		-	26,632,133
Adjusted		-	(685,582)
Restated		**-**	**25,946,551**
Prior period errors	**47**		
Other creditors previously reported		-	34,863,765
Adjusted: stale cheque's overstated		-	(699,312)
Restated		**-**	**34,164,453**
Prior period errors	**47**		
BCMET previously reported		-	0
Adjusted		-	2,018,427
Restated		**-**	**2,018,427**
Estimated effect of the time value of money			
Time value of money on payables		2,256,915	(650,494)
Reversal of prior year time value of money		(650,494)	438,071
Estimated effect as per the Statement of Financial Performance		**1,606,421**	**(212,423)**
Adjustment			
Deposits previously reported		-	5,956,009
Adjusted from non-current liabilities		-	102,500
Adjusted deposits received		**-**	**6,058,509**

Accrued leave pay represents the total value of all leave due to staff as at 30 June.

BCMET - This amount represents funds allocated to Buffalo City Metropolitan economic entity (BCMM) to promote the planning and provision of adequate urban transport facilities through the preparation and implementation of urban transport plans and to provide for matters connected therewith. The Provincial Urban Transport Board was created under the auspices of the Urban Transport Act to facilitate the goals outlined in the Act. Funds were allocated to achieve those goals and the allocation of funds for projects are conditional on the approval by the Board. In terms of the Act, the funds (which are represented by a bank and an investment account - refer to note 4) are under the administration of the "Core City". Both of these accounts are under the control of employees of BCMM and the strategic guidance of the Urban Transport Board.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	735,263,957	179,419,659
Provincial grants	45,955,939	149,238,925
Other conditional grants	17,295,867	17,482,964
	798,515,763	**346,141,548**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

21. Unspent conditional grants and receipts (continued)

Movements on unspent grants

Grant description	Unspent balance 30 June 2011	Receipts	Interest	Transfer operating expenditure	Transfer capital expenditure	Other transfers	Unspent balance 30 June 2012
Transitional grant	113,769	-	-	-	-	-	113,769
Finance management grant	8,004	1,450,000	-	(1,459,000)	-	-	(996)
Land Affairs	65,416,449	-	3,631,785	(50,350)	-	-	68,997,884
Urban settlement development grant	-	423,446,000	-	(4,579,293)	(151,552,358)	-	267,314,349
Municipal Infrastructure Grant	47,305,857	-	-	-	(2,987,486)	-	44,318,371
Public transport infrastructure and systems grant	-	180,000,000	-	-	(1,283,135)	101,301,251	280,018,116
Project Consolidated - billing system - MSIG	89,799	-	-	-	-	-	89,799
Energy Efficient Technology	5,738,975	-	-	-	(150,000)	-	5,588,975
European Commission - MURP	1,063,359	-	56,884	(317,656)	-	-	802,587
Land Affairs - East Bank	57,771,281	-	2,963,970	-	-	-	60,735,251
Equitable Share Grant	-	-	-	-	-	-	-
DWA - Provincial	-	18,344,981	-	(18,927,832)	-	1,187,278	604,427
Municipal Support Programme	291,926	-	-	(2,020)	-	-	289,906
Disaster Relief Fund	3,553	-	751	(89,951)	(108,509)	194,156	-
Local Economic Development Fund	4,122,426	276,841	-	(409,228)	-	(677,758)	3,312,281
Premiers Fund	500,000	-	-	-	(432,579)	-	67,421
Mdants Urban Renewal Project (Mnt Ruth Node)	7,498,278	-	384,701	-	-	-	7,882,979
Health Management Systems	176,266	-	-	-	-	-	176,266
Aids Training and Info Centre	6,723,565	5,413,967	-	-	-	(1,088,931)	11,048,601
Dept of Sports Recr. Arts & Culture	11,656,254	-	-	-	(1,219,208)	-	10,437,046
Transport	105,345,493	-	-	-	-	(105,345,493)	-
Ward Committee Training	375,372	-	-	-	-	-	375,372
ADM funding	1,979,270	-	-	-	-	-	1,979,270
BCMET funding	222,603	281,496	-	(281,496)	-	-	222,603
Public funding	4,538,678	686,415	-	-	-	-	5,225,093
SETA fund	397,648	4,387,065	-	(1,078,698)	-	(3,235,123)	470,892
Dept of Economic Affairs and Tourism	152,936	-	-	(25,810)	-	-	127,126
Vuna Award	1,048,758	-	-	-	-	-	1,048,758

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

21. Unspent conditional grants and receipts (continued)

Salaida (Gavle)	522,463	235,655	32,834	(279,437)	-	-	511,515
Glasgow Partnership	15,781	74,077	-	-	-	-	89,858
PADF Contributions	877,963	-	-	-	-	-	877,963
Eastern Cape Development Agency	67,359	-	-	-	-	-	67,359
Umsobomvu Youth fund	645,890	-	33,138	-	-	-	679,028
Compost Waste Management	60,640	-	-	-	-	-	60,640
Leiden	1,609,207	-	74,210	(421,468)	(730,105)	-	531,844
Human Settlement Development Grant	5,184,494	30,463,115	848,928	(27,857,649)	(4,100,081)	-	4,538,807
Housing & Infrastructure Dev. Award	330,312	-	16,850	-	-	-	347,162
Electricity Demand: Side Mngt Grant	1,724	4,000,000	-	-	(3,926,791)	-	74,933
INEP	955,061	26,895,000	-	-	(20,641,201)	-	7,208,860
DWA - National	953,329	1,714,006	-	(1,711,503)	-	(955,826)	6
Upgrade Water Supply	29,954	-	1,528	-	-	-	31,482
MD Upgrade Water and Sewerage	140,002	-	7,142	-	-	-	147,144
Water Supply to Areas West of IDZ	327,858	-	-	-	-	-	327,858
Bequests	125,392	-	3,895	-	-	-	129,287
Sundry Grants	3,973,109	-	12,839	-	-	-	3,985,948
Grants Ex ADM	425,607	-	758	-	-	-	426,365
Sundry Housing Grants	7,354,884	-	94,247	(215,573)	-	-	7,233,558
	346,141,548	**697,668,618**	**8,164,460**	**(57,706,964)**	**(187,131,453)**	**(8,620,446)**	**798,515,763**

All conditions for the funding were complied with and no funds were withheld.

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

22. Post- retirement medical obligation

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

Carrying value		
Balance at beginning of year	280,763,820	261,331,883
Interest cost	26,493,119	22,491,081
Current service cost	13,851,056	10,173,937
Actual employer benefit payments	(13,459,130)	(12,732,879)
Actuarial (gain) / loss recognised in the year	33,777,164	(500,202)
Net liability	**341,426,029**	**280,763,820**

The economic entity employees contribute to 6 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med, FedHealth and Hosmed. Pensioners continue on the option they belonged to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared on 30 July 2012 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

The economic entity opted not to recognise the actuarial loss applying the "Corridor" method.

The best estimates for the employer benefit payments in the 2012/13 financial period is expected to be R14 442 048 (The actual employer benefit payments in the 2011/12 financial period was R13 459 130).

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.59 %	8.81 %
Medical aid inflation rate	7.30 %	7.06 %
Net effective discount rate	1.20 %	1.63 %
Post retirement subsidy	60.00 %	60.00 %

Retirement age		
Males	63	63
Females	63	63
Number of eligible members	2,561	2,556
Number of pensioners	520	524
1% change in the assumed medical inflation:		
Projected liability increase/(decrease) - 2012	54,628,165	(44,385,384)
Projected liability increase/(decrease) - 2011	42,114,610	(36,499,296)
Projected liability increase/(decrease) - 2010	43,165,000	(35,058,000)

Mortality during employment - SA 85-90 Ultimate table adjusted for female lives.

Mortality post retirement - PA901 Ultimate table rated down one year.

23. Revaluation reserve

Opening balance	16,047,826	16,620,963
Depreciation transfer to income	(573,137)	(573,137)
	15,474,689	**16,047,826**

24. Financial assets by category

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

24. Financial assets by category (continued)

2012

	Financial assets amortised	Total
Other financial assets	70,451	70,451
Trade and other receivables from exchange transactions	306,666,618	306,666,618
Other receivables from non-exchange transactions	153,606,850	153,606,850
Cash and cash equivalents	1,522,347,869	1,522,347,869
Non-current investments	856,861	856,861
	1,983,548,649	**1,983,548,649**

2011

	Financial assets amortised	Total
Other financial assets	82,331	82,331
Trade and other receivables from exchange transactions	219,625,086	219,625,086
Other receivables from non-exchange transactions	82,068,248	82,068,248
Cash and cash equivalents	741,246,761	741,246,761
Non-current investments	12,908,057	12,908,057
	1,055,930,483	**1,055,930,483**

Adjustment of financial assets previously reported.		
Previously reported	-	1,065,628,124
Adjusting cash and cash equivalents for bank overdraft	-	1,034,384
Adjustment for interest overstated	-	(12,750,452)
BCMET - short-term deposits and bank balances adjusted	-	2,018,427
	-	**1,055,930,483**

25. Financial liabilities by category

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

2012

	Financial liabilities at amortised cost	Measured at fair value	Total
Other financial liabilities	645,789,732	-	645,789,732
Trade and other payables	337,623,653	-	337,623,653
Bank overdraft	1,064,181	-	1,064,181
Consumer deposits	-	36,919,893	36,919,893
Other deposits	-	7,815,776	7,815,776
	984,477,566	**44,735,669**	**1,029,213,235**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

25. Financial liabilities by category (continued)

2011

	Financial liabilities at amortised cost	Measured at fair value	Total
Other financial liabilities	690,786,728	-	690,786,728
Trade and other payables	259,724,503	-	259,724,503
Bank overdraft	1,034,384	-	1,034,384
Consumer deposits	-	33,454,333	33,454,333
Other deposits	-	6,058,509	6,058,509
	951,545,615	**39,512,842**	**991,058,457**

Adjustment to balance of financial liabilities previously reported		
Previously reported	-	951,896,127
Adjustment for bank overdraft previously included under cash and cash equivalents	-	1,034,384
Deposits not previously included as financial instruments	-	39,512,842
Retion monies adjusted	-	(685,583)
Adjustment of other creditors	-	(699,313)
Restated	**-**	**991,058,457**

26. Revenue

Property rates	522,514,480	453,306,422
Service charges	1,754,709,786	1,463,099,072
Rental of facilities & equipment	13,387,803	14,107,440
Public contributions and donations - operating projects	1,329,257	1,192,709
Fines	5,455,740	7,320,910
Licences and permits	15,707,756	15,052,975
Government grants & subsidies	905,903,245	901,582,926
Public contributions and donations - PPE	1,283,135	9,029,317
Fuel Levy (Amount transfered by National Treasury iro BCMM's Metro allocation)	170,477,000	-
	3,390,768,202	**2,864,691,771**

The amounts included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,754,709,786	1,463,099,072
Rental of facilities & equipment	13,387,803	14,107,440
Licences and permits	15,707,756	15,052,975
	1,783,805,345	**1,492,259,487**

The amounts included in revenue arising from non-exchange transactions are as follows:		
Taxation revenue		
Property rates	522,514,480	453,306,422
Public contributions and donations - Operating projects	1,329,257	1,192,709
Fines	5,455,740	7,320,910
Transfer revenue		
Government grants and subsidies	905,903,245	901,582,926
Public contributions and donations - PPE	1,283,135	9,029,317
Fuel Levy	170,477,000	-
	1,606,962,857	**1,372,432,284**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

27. Property rates

Rates received

Residential	269,341,269	228,762,109
Commercial	243,352,437	214,427,174
Municipal	967,510	17,989
Public Benefit Organisation	4,580	-
Educational	5,586,571	5,928,365
Agricultural	3,117,285	1,240,196
Public Service Infrastructure	318,116	294,466
Vacant land	21,978,245	19,752,986
Less: Income forgone	(22,151,533)	(17,116,863)
	522,514,480	**453,306,422**

Valuations

Residential	41,152,218,219	41,134,476,461
Commercial	14,639,490,800	15,241,656,800
Public Benefit Organisation	2,800,000	-
Municipal	1,904,813,166	-
Rural Communal Land and Special	1,407,397,700	1,585,704,086
Educational	1,219,509,000	1,509,009,000
Agricultural	1,905,430,990	1,904,328,990
Public Service Infrastructure	277,782,000	280,159,400
Vacant land	1,119,340,202	1,439,978,926
	63,628,782,077	**63,095,313,663**

In terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) valuations on land and buildings are performed every 4 years and a supplementary valuation at least once a year. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2012 . Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

Tariffs levied c/R

Agricultural	0,1636	0.1477
Business	1,6362	1.4768
Educational	0,4581	0.4135
Public Service Infrastructure	0,1636	0.1477
Residential	0,6545	0.5907
Vacant Land	1,9635	1.7721

Buffalo City Metropolitan economic entity grants rebates, in terms of the economic entity's rates policy to the following category of owners:

A 40% rebate to senior citizens if they meet certain requirements.

A rebate/discount of up to 75%, where the economic entity does not supply some or all of the following services:

Constructed public roads	15.0 %	15.0 %
Water supply	22.5 %	22.5 %
Refuse removal service	7.5 %	7.5 %
Electricity supply	15.0 %	15.0 %
Sewerage service	15.0 %	15.0 %

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

27. Property rates (continued)

	75.00 %	**75.00 %**

Properties that were not rated before 2009 qualify for a compulsory phase in period of three years in terms of Section 21 of the MPRA. Discount for 2012 was 25% (2011: 50%).
Impermissible rates (Section 17 of the MPRA):
Section 17 (1)(a) - First 30% of the market value of public service infrastructure.
Section 17 (1)(h) - R15 000 on market value of residential properties.
Section 17 (1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

28. Service charges

Sale of electricity	1,137,197,632	924,506,800
Sale of water	239,551,504	200,157,656
Sewerage and sanitation charges	197,957,711	176,708,703
Refuse removal	175,340,728	157,219,214
Other service charges	4,662,211	4,506,699
	1,754,709,786	**1,463,099,072**

29. Government grants and subsidies

Government grants operating projects	26,062,309	35,014,109
Government grants housing	31,195,503	103,225,478
Government grant - PPE	184,968,213	223,635,089
Government grants and subsidies - unconditional	663,677,221	539,708,250
	905,903,246	**901,582,926**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Unspent conditional grants and receipts

Conditions still to be met - remaining liabilities (see note 21).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated
30. Other revenue		
Administration fees	26,055	29,273
Admission fees	1,803,192	1,889,307
Application: Town planning	33,388	53,216
Cemetery fees	5,800,317	5,077,847
Cold storage fees	487,416	471,611
Commission	15,412,627	14,765,849
Coupons and clip tickets	1,657,828	2,302,324
Dog tax and penalties	620,211	619,226
Fire brigade	180,558	298,159
Fire levy charges	40,780,779	36,458,206
Grazing fees	52,622	57,635
Hire charges	400,385	711,707
Insurance	2,713,626	1,119,950
Levy on gates	90,757	77,287
Library	24,130	29,190
Meter test fees	34,492	37,409
Parking meters	192,648	335,069
Photocopies	103,523	106,347
Plan approval fees	4,459,391	4,565,703
Private works	1,261,309	1,478,669
Sale of plants and animals	39,671	12,597
Scrap	2,772,408	3,645,531
Service connections and reconnections	7,077,038	14,027,178
Street frontage administration fees	270,807	292,784
Sub division fees	545,545	705,326
Sundry income	1,540,964	2,415,706
Tender receipts	523,609	556,351
Towing fees	51,824	178,495
Vehicle registrations	28,802,345	28,048,212
	117,759,465	**120,366,164**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

31. General expenses

Accounting fees	132,709	1,995
Advertising	2,198,249	1,714,326
Assessment rates & municipal charges	2,195,640	1,977,090
Assets expensed	1,857,599	1,723,261
Auditors remuneration	7,480,260	5,309,522
BCMET	283,029	204,840
Bank charges	5,783,080	5,458,443
Chemicals	15,271,994	11,152,546
Cities network	292,308	265,734
Cleaning	4,056,593	4,067,997
Commission paid	11,133,109	10,291,127
Community development and training	7,218	223,851
Computer expenses	4,838,557	4,133,314
Conferences and seminars	2,062,661	1,689,928
Consulting and professional fees	29,598,390	32,607,115
Consumables	6,838,765	6,732,638
DWAF	4,227,598	4,038,968
Disconnections	3,768,702	5,052,807
Entertainment	2,032,754	1,839,660
Essential user cost	11,862,533	10,471,708
Fuel and oil	31,455,269	25,437,674
Hire (labour and plant)	1,540,921	1,179,090
IT expenses	3,954,888	2,707,588
Insurance	15,535,982	12,375,322
Lease rentals on operating lease	40,584,527	33,684,581
Levies	13,225,798	7,462,521
Magazines, books and periodicals	2,443,226	2,305,180
Marketing	244,400	147,774
Motor vehicle expenses	3,985,988	3,512,980
Poor relief	97,732,344	114,703,417
Operating and housing projects ex grants	105,905,454	112,280,654
Other expenses	57,247,425	74,629,268
Postage and courier	4,695,788	4,873,432
Printing and stationery	8,132,810	8,313,888
Promotions	342,366	520,945
Royalties and license fees	8,366,907	7,729,135
Security (Guarding of municipal property)	386,217	19,886,460
Software expenses	935,107	559,507
Subscriptions and membership fees	9,501,136	4,535,466
Telecommunication costs (telephones, faxes and cell phones)	20,490,877	17,721,435
Title deed search fees	6,966	21,577
Training	3,133,866	3,201,590
Travel - local	6,233,208	4,874,020
Travel - overseas	1,114,021	1,450,294
Uniforms	6,832,462	6,103,000
Utilities (electricity, refuse and water departmental charges)	54,974,414	57,463,185
	614,924,115	**636,636,853**

Refer to note 38 in respect of time value for money on expenditure regarding the 2011 financial period reallocated.

Prior period errors note 47

Operating and housing projects ex grants	-	107,286,706
Adjusted	-	4,993,948
Restated	**-**	**112,280,654**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

32. Employee related costs

Basic emoluments	603,098,500	539,257,822
Medical aid contributions	40,410,121	37,665,306
UIF	6,005,373	5,462,492
Leave pay contribution	25,319,589	20,715,702
Pension fund contribution	110,355,566	101,281,869
Travel, motor car, accommodation, subsistence and other allowances	1,694	-
Overtime payments	51,176,031	43,661,717
Long-service awards	12,194,233	10,888,485
13th Cheque's	50,148,188	44,539,274
Car allowance	18,717,538	17,522,377
Housing benefits and allowances	3,770,310	3,625,972
Short term benefit contributions	-	105,272
Group life	5,333,247	5,239,333
Other allowances	29,977,306	28,589,069
Transitional allowances	-	213,021
	956,507,696	**858,767,711**

Included in staff costs for the 2011/12 financial year is an amount of R25 269 190 that was paid by BCMM on behalf of the Department of Health (DOH) for the period January 2012 to June 2012. This was in respect of Primary Health staff that were transferred from BCMM to DOH on 01 January 2012. A claim has been submitted by BCMM to DOH in the amount of R24 522 793. The difference of R746 397, in respect of Health Administration cannot be claimed as only two thirds of the Health Administration cost is claimable.

Remuneration of municipal manager

Annual Remuneration	803,225	839,787
Other	535,483	559,858
	1,338,708	**1,399,645**

Remuneration based on the position being filled for the full period.

Remuneration of chief finance officer

Annual Remuneration	702,740	671,836
Other	468,493	447,890
	1,171,233	**1,119,726**

Remuneration based on the position being filled for the full period. The CFO position was vacant during the 2010/11 and 2011/12 financial years.

Remuneration of other directors

Annual Remuneration	4,333,565	4,702,851
Housing subsidy	36,000	36,000
Travel allowance	884,000	1,044,000
Allowance	984,285	965,788
UIF	9,234	10,482
Pension contributions	845,045	917,056
Medical aid	79,493	102,681
Group life	50,986	59,227
	7,222,608	**7,838,085**

The Chief Operating Officer and the Director: Executive Support resigned on 30 November 2011 and 31 March 2012 respectively and their posts remained vacant for the rest of the financial year.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

32. Employee related costs (continued)

Guarantees by the economic entity in respect of building society and commercial bank housing loans for officials amount to R 271 950 (2011: R 502 766).

A guarantee by the economic entity in respect of the Department of Labour for COID amount to R 4 251 742 (2011: R 4 251 742).

Remuneration of Finance and Administration Manager (BCDA)

Annual Remuneration	-	232,513
Leave payout	-	70,738
Other	-	717
13th Cheque	-	38,752
Cellphone allowance	-	4,800
UIF	-	873
	-	**348,393**

Remuneration of the Marketing Manager (BCDA)

Annual Remuneration	-	194,462
Leave payout	-	37,632
Travel allowance	-	35,000
13th Cheque	-	43,707
Cellphone allowance	-	5,600
UIF	-	830
	-	**317,231**

33. Remuneration of councillors

Executive Mayor	607,480	403,700
Deputy Mayor (2011: appointed on 21 June 2011)	485,984	38,212
Speaker	485,984	276,185
Chief Whip (2011: appointed on 21 June 2011)	455,610	35,834
Mayoral Committee Members (Allowance = R 455 610: 9 Councillors)	4,100,490	2,729,190
Councillors (Allowance = R 212 618: 87 Councillors)	24,842,828	11,046,039
Councillors pension contribution	1,767,177	1,182,709
Councillors housing subsidy	2,261,594	1,248,928
Councillors medical aid	795,151	874,671
Travel allowance	7,075,811	5,312,404
UIF	87,557	129,953
	42,965,666	**23,277,825**

In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R 2 486 553 (2011: R 1 666 746).

The Executive Mayor and Deputy Mayor each have the use of a Council owned vehicle for official duties. Operating costs of the two vehicles amounts to R 333 666 (2011: R 360 280). An amount of R 304 444 was incurred for hired vehicles.

The Executive Mayor and Deputy Mayor each have a full-time bodyguard and an official driver. Cost of the two bodyguards and the two drivers amounts to R1 427 729 (2011: R1 105 221).

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

34. Debt impairment

Contributions to debt impairment allowance account		64,013,324	210,998,044

35. Interest received on investments

Interest revenue			
Unlisted financial assets		51,472,891	26,263,426
Bank		7,352,380	6,309,671
Interest charged on trade and other receivables		23,911,632	8,400,372
Interest on sporting body loans		8,252	51,638
		82,745,155	**41,025,107**
Prior period errors			
Interest received - investments previously reported		-	53,775,559
Adjusted	47	-	(12,750,452)
Restated		**-**	**41,025,107**

36. Fair value adjustments and discounting of receivables and payables

30 days is considered to be an acceptable credit period before discounting is performed. As the economic entity's debtors days are considered to be 30 days, there is no need to discount short-term receivables.

Although the average payment days of the economic entity are 56.4 days (2011: 42,8 days), 30 days have been deducted in order to calculate the discounting of short-term payables.

The fair value adjustment on Sanlam shares was revalued to R 330 911 during 2011.

37. Depreciation and amortisation

Property, plant and equipment	14	487,218,675	505,075,207
Intangible assets	11	3,811,163	3,723,425
		491,029,838	**508,798,632**
Prior period errors			
Previously reported		-	502,649,311
Adjustment intangible assets	47	-	1,488,794
Adjustment PPE	47	-	4,660,527
Restated		**-**	**508,798,632**

38. Interest paid

Non-current borrowings		70,491,430	58,641,142
Estimated effect of the time value of money on expenditure		14,608,584	6,135,194
Late payment of tax and audit fees		24,027	19,288
Other interest paid *		26,493,119	22,491,081
		111,617,160	**87,286,705**

* Refer to note 22 (Retirement benefits).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

39. Auditor General remuneration

Fees	151,388	-
Expenses	7,328,872	5,309,522
	7,480,260	**5,309,522**

Scope of work for 2011 was extended, relating to the interim audit, compliance and predetermined objectives.

40. Contracted services

Specialist Services	-	7,000
Other Contractors	6,839,654	5,900,804
	6,839,654	**5,907,804**

41. Grants and subsidies paid

Grants-in-Aid		
Mayoral Social Responsibility	420,901	152,331
Grants : Rates	-	2,086,319
Buffalo City Development Agency	259,132	72,369
Publicity Association Grant	1,115,717	5,083,560
Sponsored Sporting Events	12,036,802	11,611,382
Grants & Subsidies	-	903,711
	13,832,552	**19,909,672**

42. Bulk purchases

Electricity	787,947,115	634,092,182
Water	127,440,048	137,160,796
	915,387,163	**771,252,978**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

43. Net cash flows from operating activities

Surplus / (Deficit)		132,185,810	(237,857,481)
Non-cash movements			
Depreciation and amortisation	37	491,029,838	508,798,632
(Gains)/Losses on the sale of property, plant and equipment	14	1,486,310	5,608,765
Share of deficit of associate	15	12,087,832	20,235,199
Fair value adjustment on Sanlam shares revalued	36	-	(330,911)
Impairment reversals	14	-	(71,221,655)
Debt impairment	34	64,013,324	210,998,044
Increase in operating leases	9	(1,582,011)	(3,588,506)
increase in post retirement medical aid benefit obligation	22	60,662,209	19,431,937
Increase in provisions relating to landfill sites	19	27,088,842	13,368,819
Movement in tax receivable and payable	61	-	26,985
Taxation	61	-	35,411
Adjustment of prior year transactions	47	-	14,768,879
Revaluation of property, plant and equipment	14	67,929	4,763,998
Adjustment of prior year correction on RDP housing from operating expenditure to accumulated surplus	47	4,993,945	-
Non-cash property, plant and equipment additions	14	(27,906,561)	(12,988,661)
Non-cash property, plant and equipment transfers	12&14	-	(21,958,294)
Increase in inventory	5	20,303,946	(40,629,113)
Decrease in receivables from non-exchange transactions	7	(70,824,565)	28,439,406
Increase in receivables from exchange transactions	6	(151,054,855)	(147,501,789)
Increase in payables from exchange transactions	20	84,446,281	36,025,027
Decrease in VAT receivables	8	711,327	12,426,979
Taxes and transfers payable (non exchange)		272,888	-
		647,982,489	**338,851,671**

44. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment		
Community	58,047,524	77,271,475
Infrastructure	288,585,412	145,995,914
Other	113,907,598	4,631,752
	460,540,534	**227,899,141**

This committed expenditure relates to Infrastructure, Community and Other Property, Plant and Equipment.
Above amounts exclude VAT.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	6,357,433	2,169,934
- in second to fifth year inclusive	24,085,494	59,425
	30,442,927	**2,229,359**

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

Figures in Rand	2012	2011 Restated

45. Contingencies

Contingent assets

The estimated amount of recoverable traffic fines for 2012 is R1 495 800 (2011: R2 438 300) at year end.

BCMM purchased property in the amount of R 762 440 from Roger Rodney Smith who has now instituted a claim against Council for the sale to be reversed. If successful, BCMM will be refunded the amount.

Summons in the amount of R 492 050 have been issued to parties to recover costs incurred relating to a forensic investigation undertaken in respect of services rendered for waste sites.

A claim of approximately R50 000 has been instituted by Council against ASBF Marking, Imigudu Joint Venture and Others due to contractor disputes whereby the contractor defaulted from their obligations in terms of the contract.

46. Related parties

Associate	Refer to note 15

Buffalo City Development Agency (BCDA) (a Section 21 company registration no 2004/016829/08):

The BCDA was incorporated on 18 June 2004 as a Municipal entity of BCMM and is 100% controlled by BCMM. BCMM Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2005.

The economic entity has issued grants of R1 287 851 (VAT exclusive) to the development agency during the current financial year (2011: R962 413 restated - VAT exclusive).

BCDA has paid no consumer accounts during the current financial year (2011: R11 132).

There are no share based payments.

There are no post-employment benefits for key personnel.

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

The investment in BCDA was impaired to nil.

BCDA was not operational in terms of its mandate since 1 January 2011.

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

47. Prior period adjustments

During the year the following adjustments were made to transactions whereby amounts were erroneously stated in previous financial periods:

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

Statement of Financial Position - 2010 and prior			
Reversing payments of retension monies incorrectly allocated in prior financial years resulting in retension monies being overstated	20	-	685,582
Overdue stale creditors cheque's from 2007 to 2010 written back which were not presented and unable to trace back to creditors	20	-	699,312
		-	-
		-	-
		-	-
Total changes to Surplus/ (Deficit) for 2010		**-**	**1,384,894**
Statement of Financial Position 2011			
Consumer debtors overstated	7	-	(12,750,452)
Depreciation adjustment due to review of various assets	37	-	(4,660,527)
Adjustment on PPE due to review of various assets	14	-	(6,523,205)
Adjustment on Intangible assets due to review of computer software	11	-	(1,488,794)
BCMET - recording as creditor	20	-	(2,018,427)
BCMET - recording bank and investment account	4	-	2,018,427
Correcting the value of RDP houses not transferred and unoccupied and not completed as at 30 June 2011	5	-	(4,993,947)
Reversal of provision incorrectly recognised	19	-	162,569
Decrease in deferred tax	61	-	(47,513)
Total changes to the Statement of Financial Position 2011		**-**	**(30,301,869)**
Accumulated Surplus 2011			
Adjustment on PPE	14	-	6,523,205
Statement of Financial Performance 2011			
Interest on outstanding consumer debtors overstated - incorrect interest rate charged	35	-	12,750,452
Depreciation understated due to review of various assets	37	-	4,660,528
Adjustment on Intangible assets	11	-	1,488,794
Reversal of provision raised for future expenses (onerous contract)		-	(162,569)
Increase on tax due to reversal of deferred tax		-	47,513
Correcting the value of RDP houses not transferred and unoccupied and not completed as at 30 June 2011	31	-	4,993,945
Increase in tax due to reversal of provision	61	-	26,984
Total changes to the Statement of Financial Performance 2011		**-**	**23,805,647**
Summary: Adjustments affecting Net Assets			
Changes to Accumulated surplus/(deficit) reported before prior year		-	6,523,205
Changes to operating income and expenditure accounts in the immediate prior year		-	23,805,647
Changes to operating income and expenditure accounts in prior year 2		-	(1,384,894)
Total changes affecting Net Assets		**-**	**28,943,958**

48. Risk management

Capital risk management

48. Risk management (continued)

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

The capital structure of the economic entity consists of debt, which includes the borrowings, cash and cash equivalents and equity.

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

Financial risk management

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

The economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the economic entity's financial performance. Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Liquidity risk

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

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

Interest rate risk

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

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

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	9.00 %	497,304,797	-	-	-	-
Cash in current banking institutions	4.00 %	58,136,468	-	-	-	-
Call investment deposits	5.09 %	1,464,211,238	-	-	-	-
Trade and other payables - extended credit terms	10.50 %	(337,623,653)	-	-	-	-
Long term borrowings	10.18 %	(41,533,557)	(86,934,939)	(136,609,426)	(179,715,437)	(200,996,373)

These amounts best represent maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value 30 June 2012	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)

Figures in Rand				2012	2011 Restated

48. Risk management (continued)

Trade and other receivables - normal credit terms	9.00 %	497,304,797	456,242,933	460,467,405	452,095,270
Trade and other payables	10.50 %	(313,208,114)	(283,446,257)	(286,034,807)	(280,904,138)
Cash and cash equivalents					
Cash in current banking institutions	4.00 %	58,136,468	55,900,450	56,443,173	55,368,065
Call investment deposits	5.09 %	1,464,211,238	1,393,292,642	1,406,678,104	1,380,159,523

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the interest rate could occur. The method used to prepare the sensitivity analysis was based on the discounted value of the respective cash flow for 1 year using the respective current interest rate in order to determine the effect of applicable market risk of a 1% increase or decrease in the interest rate.

Credit risk

Credit risk consists mainly of cash deposits refer note 4 and trade debtors (refer notes 6&7). The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

49. Going concern

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

The ability of the economic entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for the ongoing operations for the economic entity.

During the year under review the Buffalo City Development Agency did not operate.

50. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

51. Unauthorised expenditure

	2012	2011
An amount of R8.116 million has been identified as unauthorised expenditure.	-	8,116,451

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

52. Fruitless and wasteful expenditure

Delayed claim on Reeston Phases 1 and 2 Housing Project.	-	323,654
Acts of negligence, damage to municipal properties and theft of goods.	828,514	647,986
Payment to Eastern Engineering Contractors (Pty) Ltd but goods were never received.	-	132,201
Interest charged on overdue accounts due to late payment and sheriff fees.	126,814	344,447
Personnel expenditure.	-	536,671
Payments made in respect of Council Litigations.	60,555	-
Cellphone charges with no contract services rendered.	1,694	-
AGSA late payment.	217	-
	1,017,794	**1,984,959**

Payment of interest on delayed claims to the amount of R 323 654 granted to Grinaker LTA in terms of court order 926/2009 regarding costs and other expenditure due to claims not being submitted timeously. No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

Staff members involved in acts of negligence, damage to vehicles, theft of goods and overpayment of overtime, resulted in the economic entity incurring losses totalling R 828 514 (2011: R 647 986).

Development of open spaces - Bisho, Dimbaza and Breidbach. R 132 201 was paid to Eastern Engineering Contractors (Pty) Ltd but goods were never received. No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

Payments made in respect of Council Litigations amounted to R 60 555.

BCDA - penalties and interest charged on late/incorrect submission of VAT returns and other taxes accrued but not yet paid amounted to R23 810 (2011: R326 241).

BCDA - cellphone charges with no contract/services rendered amounting to R1 694.

BCDA - AGSA interest relating to late payment amounting to R217.

BCDA - personnel expenditure made in vain as BCDA was not effective during 2011 and employees could have been paid for the four week notice period instead of six months. This amounted to R536 671 during 2011.

53. Irregular expenditure

Opening balance	227,215,436	60,979,058
Irregular Expenditure - current year	557,308,094	167,117,032
Less: Amounts condoned	-	(880,654)
	784,523,530	**227,215,436**

Figures in Rand	2012	2011 Restated

53. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	557,308,094	167,117,032
Prior years	227,215,436	60,098,404
	784,523,530	**227,215,436**

Details of irregular expenditure - current year

Quotations	103,585,743	
Stock purchases	177,354	
Expired contracts	287,915,879	
Irregular expenditure - missing documentation	146,080,669	
Expired leases	4,373,022	
Payments iro councillors	15,175,427	
	557,308,094	

The mayor is currently occupying a house owned by the economic entity rent free. The fair market related rental of this property is R96 000.

Details of irregular expenditure recoverable (not condoned)

Tender award - Irregularities - Neo Solutions	2,278,189
Tender award - Irregularities - Waste Rite	20,231,888
	22,510,077

Details of irregular expenditure not recoverable (not condoned)

Quotations	103,585,743	-
Stock purchases	177,354	19,754,104
Expired contracts	287,915,879	147,407,834
Irregular expenditure - missing documentation	146,080,669	-
Expired leases	4,373,022	28,788
Payments iro councillors	15,175,427	-
	557,308,094	**167,190,726**

54. In-kind donations and assistance

FELZOO donated assistance to BCMM	193,378	81,527

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	9,500,000	4,534,166
Amount paid - current year	(9,500,000)	(4,534,166)
	-	-

Figures in Rand	2012	2011 Restated

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

Contributions to SA Cities Network

Current year subscription / fee	292,308	265,734
Amount paid - current year	(292,308)	(265,734)
	-	-

Audit fees

Current year fee	7,328,872	5,309,522
Amount paid - current year	(7,328,872)	(5,309,522)
	-	-

PAYE and UIF

Current year subscription / fee	118,010,925	106,124,490
Amount paid - current year	(118,010,925)	(106,124,490)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	221,671,814	208,918,976
Amount paid - current year	(221,671,814)	(208,918,976)
	-	-

VAT

VAT receivable	37,031,328	38,699,745
VAT payable	(168,364)	(1,125,493)
	36,862,964	**37,574,252**

All VAT returns have been submitted by the due date throughout the year. VAT is only declared to SARS on receipt of payment.

Councillors' and officials arrear consumer accounts

Arrear Councillors accounts totalling R2 913 were outstanding for more than 90 days at 30 June 2012 (2011: R8 684) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

During the year officials accounts totalling R461 723 were outstanding for more than 90 days.

Material losses

Electricity losses for the current year amounted to 12.61% i.e. R97 544 542 (2011: 12.37% i.e.R76 277 387). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 6.5% i.e. R50 285 375 (2011: 9.45% i.e. R58 267 364). Non-technical losses, being theft, faults, billing errors etc., account for 6.11% i.e. R47 259 167 (2011: 2.92% i.e. R18 010 023). Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 47.28% i.e. R77 802 349 (2011: 45.39% i.e. R92 323 787) . 37.58% i.e. R61 807 907 (2011: 34.34% i.e. R69 852 177) of these losses can be accounted for it terms of the National Guidelines for non-revenue water. 9.72% i.e. R15 994 442 (2011: 11.04% i.e. R22 471 610) of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

56. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	187,584,824
Finance leases raised	749,790	862,874
Used to finance property, plant and equipment	(749,790)	(188,447,698)
	-	-

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

57. Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 44 of the SCM Policy of 2009 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 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 Council and includes a note to the annual financial statements.

During the financial year under review goods/services totalling R21 666 617 (2011: R8 900 518) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

58. Retirement benefit information

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

- Cape Joint Pension Fund
- Cape Retirement Fund
- Eastern Cape Local Authorities Provident Fund
- Government Employees Pension Fund
- SAMWU National Provident Fund
- SALA Pension Fund
- East London Municipal A Band Provident Fund
- Old Mutual Orion Provident Fund
- Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede
- Municipal Employees Pension Fund
- Municipal Councillors Pension Fund

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2011 conducted by S. Neethling from Metropolitan Life Limited. The fund was 98.1 funded at valuation date.

The Cape Retirement Fund's last actuarial valuation was at 30 June 2011 conducted by S Neethling from Metropolitan life Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2011 conducted by E. Du Toit from Alexander Forbes Financial Services who certified that the structure of the assets and the matching of the assets with the liabilities is adequate.

The Government Employees Pension Fund's last valuation was at 31 March 2010 conducted by A Nel . The funding level at this date was 100%.

SAMWU National Provident Fund's last actuarial valuation was at 30 June 2005 conducted by E. Potgieter from Fifth Quadrant Actuaries & Consultants (Pty) Ltd. The report stated that the fund was in a sound financial position.

The SALA Pension Fund's last valuation was at 30 June 2010 conducted by J.F.Rosslee of Genesis Actuarial Solutions. The fund was 96% funded as at valuation date.The valuator was satisfied with the investment policy of the fund and the nature is in his opinion, suitable for the nature of the liabilities of the fund at the date of valuation.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

58. Retirement benefit information (continued)

The Municipal Employees Pension Fund's last interim valuation was at 29 February 2009 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The funding level 102.2% at this date.

The Municipal Councillors Pension Fund's last valuation was at 30 June 2009 prepared by A. F. Botha from Jacques Malan Consultants and Actuaries. The report stated that the fund was in a sound financial position.

It is Council's policy to fund 60% of Pensioner's medical aid expenses.The current costs amount to approximately R 13.5 million.

An amount of R 151.9 million (2011: R 143.6 million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee's retirement funding. These contributions have been expensed.

The East London Municipal A Band and Old Mutual Orion Provident Funds as well as the Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede are fixed/ defined contribution funds. It is therefore not necessary to perform actuarial valuations for these funds.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

59. Contingent liabilities

Litigation Issues

A claim of approximately R0.1 million has been instituted against Council due to alleged defamation. Legal advice has been sought and Council will defend the claim.

Claims of approximately R1.5 million have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.

A claim of approximately R4.1 million (estimate based on 1998) has been instituted against Council by Transnet due to outstanding rental since 1998 when the last lease between Transnet and BCMM expired (Date of incident March 1998 and summons received by BCMM November 2007).

A claim of approximately R1.6 million has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCMM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCMM of the contractor tendering or being awarded the contract (Date of incident August 2008 and summons received by BCMM November 2010).

A claim of approximately R1.4 million has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council (Date of incident August 2009 and summons received by BCMM June 2011).

A claim of approximately R9.8 million has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance (Summons received by BCMM November 2007).

A claim of approximately R2.9 million has been instituted against Council by N.M. Rieger & Others in respect of monies allegedly due to them in terms of an agreement with Council (Date of incident June 2000 and summons received by BCMM July 2011).

A total claim of approximately R13.5 million has been instituted against Council by Dormell Properties t/a Alliance Communications demanding payment for services rendered – matter related to Forensic Investigation on Dr Zitha's appointments (Date of incident April 2010 and summons received by BCMM June 2011).

A total claim of approximately R3.9 million has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident August 2011 and summons received by BCMM September 2011).

A total claim of approximately R7.8 million has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident June 2010 and summons received by BCMM January 2012).

A total claim of approximately R2.9 million has been instituted against Council by Nurcha Development & Tusk Construction for alleged breach of contract (Cession agreement signed by the Contractor New Boss CC) (Date of incident June 2011 and summons received by BCMM January 2012).

A total claim of approximately R4.4 million has been instituted against Council by City Square Trading for services allegedly rendered by the Plaintiff in respects of appointments done by Dr Zitha, which were subjected to forensic investigations (Date of incident April 2010 and summons received by BCMM January 2012).

A total claim of approximately R2.2 million has been instituted against Council by Faye Heuer claiming for damages against Council due to an accident allegedly caused by potholes (Date of incident February 2009 and summons received by BCMM February 2012).

A total claim of approximately R36.9 million has been instituted against Council by Mkwanazi Construction (Pty) Ltd

59. Contingent liabilities (continued)
claiming for damages arising from alleged delays and disruptions in the construction project (Date of incident October 2011 and summons received by BCMM April 2012).

BCDA is involved in a dispute with a supplier (Kwezi V3 now Worley Parsons) claiming an amount contract amount to the value of R45 104. This relates to additional services and disbursements that had not been included in the initial contract amount and no agreement was entered into for these additional costs.

Total Contingent Liabilities for Litigation Issues: R93.0 million

Labour Issues

The maximum amount payable in respect of Directors bonuses amounts to R5 890 058 (2011: R3 784 405).

Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims of approximately R4.8 million.

The unions have disputed the interpretation of the TASK Job Evaluation agreement and have indicated that the current salary scales being used should have increased by 8.48% with effect from 01/07/2010. This could result in Council having to pay an amount of approximately R35 million.

Employees who have appealed against TASK evaluation results may receive a higher TASK level and back pay if their TASK levels are upgraded through the appeal process. It is also possible that positions within the economic entity could be re-graded and employees could also in some cases be upgraded and receive backpay. This could result in Council having to pay an amount of approximately R10 million. 6.5% of the positions have not yet been graded and the financial implications of this are unquantifiable. The appeals arise from the evaluation of all posts in 2006.

The Senior Professional Nurses allege that their Occupational Specific Dispensation allowances have been incorrectly calculated and that they should be receiving higher amounts. This could result in Council having to pay an amount of approximately R4.8 million. The Occupational Specific Dispensation Allowances (OSDA) paid to primary health care employees will be recalculated according to information requested from Province and this will determine whether the amounts paid to employees need to be adjusted. The amount is therefore unquantifiable at this stage. (This was for the period 2010 to June 2012) PAID IN AUGUST 2012

Certain former R293 employees received a lesser total package when they were transferred to the economic entity in April 2000. This could result in Council having to pay an amount of approximately R5 million.

Total Contingent Liabilities in respect of Labour Issues: R65.5 million

Insurance Issues

Claims of approximately R6.6 million have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advice has been sought and Council will defend claims where so advised.

Claims of approximately R0.3 million have been instituted against Council due to various damage claims.

A claim of approximately R4.2 million has been instituted against Council by Mercedes-Benz SA in respect of a voltage fluctuation which allegedly fell outside the time periods and parameters as agreed upon in the electricity supply agreement between BCMM and MBSA resulting in damage to body shop machinery (Date of incident September 2009 and claim received by BCMM November 2009).

A claim of approximately R1.9 million has been instituted against Council by M. Ntswanthlana in respect of personal injury caused by a billboard (Date of incident August 2005 and claim received by BCMM September 2006).

A total claim of approximately R2.5 million has been instituted against Council by M. Gwentsha, K. Poni, N. Magxwalisa, T. Nzuzo and D. Sam in respect of an alleged shooting incident (Date of incident January 2009 and claim received by BCMM March 2009).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

59. Contingent liabilities (continued)
Total Contingent Liabilities in respect of Insurance Issues: R15.5 million

Other Issues

Claims of approximately R0.2 million have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.

Total Contingent Liabilities: R174.2 million

60. Reconciliation between budget and statement of financial performance

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

	2012	2011 Restated
Net surplus / (deficit) per the statement of financial performance	132,185,810	(237,857,479)
Adjusted for:		
Deficit / (surplus) from equity accounted investments	12,087,832	20,235,199
Loss or (gain) on sale of assets	1,486,310	5,608,074
Actuarial Loss / (gain)	33,777,164	(500,202)
Fair value adjustments	-	(330,911)
Discounted payables	(469,698)	212,422
Impairment reversal	-	(71,221,655)
Stock - RDP house	15,793,349	(29,864,624)
Donated & Public PPE - Revenue	-	(7,823,046)
Government Grants PPE - Revenue	-	(224,910,557)
Offset depreciation	310,740,544	318,833,827
Other variances between budget and actual's	100,219,036	227,722,242
Net surplus per approved budget	**605,820,347**	**103,290**

No budget was prepared for BCDA for the 2012 financial year.

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

61. Taxation

Major components of the tax expense

Current			
Local income tax - current period		249,077	26,984
Deferred			
Other deferred tax		-	35,411
		249,077	**62,395**
Prior period error	47		
Balance as previously reported		-	47,513
Adjusted		-	(47,513)
Restated		**-**	**-**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00 %	28.00 %
Standard tax on accounting profit (R864 717*28%)/(2011: R77 086*28%)	242,120	21,584
Tax effect on interest and penalties	6,957	5,401
Current income tax	**249,077**	**26,985**

62. Tax refunded

Balance at beginning of the year	247,272	220,288
Current tax for the year recognised in surplus or deficit	249,077	-
Prior year tax payable due to restatement of balances	-	26,984
SARS interest and penalties payable	23,810	-
	520,159	**247,272**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

63. Cash flows from operating activities

	Note	2012	2011 Restated
Receipts: Sale of goods and services			
Total revenue as per Statement of Financial Performance		3,592,879,243	3,026,583,244
Less: Interest received	35	(82,745,155)	(41,025,107)
Less: Public contributions and donations	26	(1,329,257)	(1,192,709)
Less: Government grants and subsidies received	26	(905,903,245)	(901,582,926)
Less: Public contributions- PPE	26	(1,283,135)	(9,029,317)
Gain/(Loss) on sale of assets	14	1,486,310	5,608,765
Decrease in revenue from non-exchange transactions	7	(70,824,565)	28,439,406
Fair value adjustment on revalued Sanlam shares	36	-	(330,911)
Increase in receivables from exchange transactions	6	(151,054,855)	(147,501,789)
Decrease in VAT receivables	8	711,327	12,426,979
Increase in operating leases	9	(1,582,011)	(3,588,506)
Deferred tax		(249,077)	-
Taxes and transfers		272,888	-
Net revenue from sale of goods and services as per the cash flow statement		**2,380,378,468**	**1,968,807,129**

	Note	2012	2011 Restated
Payments: Suppliers			
Total expenditure per the Statement of Financial Performance		(3,448,356,524)	(3,244,143,129)
Employee costs	32&33	999,473,362	882,045,536
Interest paid	38	111,617,160	87,286,705
Depreciation and amortisation	37	491,029,838	508,798,632
Reversal of impairments	14	-	(71,221,655)
Debt impairment	34	64,013,324	210,998,044
Non-cash property, plant and equipment transfers	12&14	-	(21,958,294)
Adjustment of Prior year correction on RDP housing from operating expenditure to accumulatrd surplus	47	4,993,948	-
Increase in post retirement medical aid benefit obligation	22	60,662,209	19,431,932
Increase in provisions relating to landfill sites	19	27,088,842	13,368,819
Adjustment of prior year transactions	47	-	14,768,879
Revaluation of property plant and equipment	14	67,929	4,763,998
Increase in payables from exchange transaction	43	84,446,281	36,025,027
Non-cash asset additions	14	(27,906,561)	(12,988,657)
Increase in inventory	43	20,303,946	(40,629,113)
Net payments to suppliers as per cash flow statement		**(1,612,566,246)**	**(1,613,453,276)**

	Note	2012	2011 Restated
Government grants, subsidies and public contributions and donations			
Government grants & subsidies	29	905,903,246	901,582,926
Public contributions and donations	26	1,329,257	1,192,709
Public contributions PPE	26	1,283,135	9,029,317
Total as per cash flow statement		**908,515,638**	**911,804,952**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

64. Surplus / (Deficit) for the year

Reconciliation of actual operating results to net income/ (deficit)		
Net income/ (deficit) for the period	132,185,814	(237,857,481)
Offset depreciation	473,029,283	494,060,213
Items not provided for in the operating budget	(31,136,301)	(19,090,080)
Actual operating results	**574,078,796**	**237,112,652**

Items not provided for in the operating budget		
(Loss) / gain on disposal of assets and liabilities	(1,486,310)	(5,608,765)
Fair value adjustment on Sanlam shares revalued	-	330,911
Actuarial adjustments	(33,777,164)	500,202
Income from equity accounted investments	(12,087,832)	(20,235,199)
Estimated effect of the time value of money on payables	1,606,421	(212,423)
Estimated effect of the time value of money on expenditure	14,608,584	6,135,194
Other income and expenditure not budgeted for	**(31,136,301)**	**(19,090,080)**

When items of property, plant and equipment are financed from government grants these grants are recorded as revenue in the Statement of Financial Performance. (Revenue from non- exchange transactions). Depreciation expenses that will occur over the useful lives of Government funded items of property, plant and equipment will be offset by the accumulated revenue portion of the items of property, plant and equipment within accumulated surplus.

Other income and expenditures set out in the table above, are those items falling outside the scope of the operational revenue and expenditure but affects the surplus/(deficit) for the year.

65. Repairs and maintenance

Repairs and maintenance summary		
Repairs and maintenance - Buildings	12,445,133	12,929,741
Repairs and maintenance - Vehicles	11,011,960	9,507,019
Repairs and maintenance - Equipment	6,204,702	6,778,452
Repairs and maintenance - Minor improvements	2,700,551	2,331,492
Repairs and maintenance - Office machines	4,069,482	3,562,205
Repairs and maintenance - Roads	22,048,981	32,335,826
Repairs and maintenance - Furniture	121,624	137,572
Repairs and maintenance - Electricity	12,691,835	12,869,896
Repairs and maintenance - Deferred maintenance	55,779,001	31,517,272
Repairs and maintenance - Sewerage	8,242,751	7,837,270
Repairs and maintenance - Water network	19,314,642	11,828,854
Repairs and maintenance - Mechanical repairs	1,656,041	1,669,585
Repairs and maintenance - Stormwater	5,064,405	6,012,173
Repairs and maintenance - Radio equipment	162,762	140,019
Repairs and maintenance - Maintenance contracts	43,249,967	47,490,482
Repairs and maintenance - Grounds	667,907	854,880
Repairs and maintenance - General	954,443	671,123
Repairs and maintenance - Extinguishers	127,658	157,486
Repairs and maintenance - Health and Public safety	1,051,305	1,343,622
Repairs and maintenance - Community services	3,018,962	3,361,072
	210,584,112	**193,336,041**