

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a economic entity has transferred control of the asset to another economic entity.

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

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

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

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

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

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

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

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

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Figures in Rand	Economic entity		Controlling entity	
	2010	2009	2010	2009
4. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand	2,699,760	1,662,314	2,699,760	1,662,126
Bank balances	54,603,176	105,521,090	54,469,209	105,488,510
Short-term deposits	502,167,591	586,300,871	501,124,875	585,042,396
Current portion of non-current investments	562	2,386,166	-	2,385,344
	559,471,089	695,870,441	558,293,844	694,578,376

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.

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 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
STANDARD BANK - Primary Account - 081-221-495	124,060,031	175,020,838	122,622,759	51,217,667	100,171,241	78,248,742
STANDARD BANK - Collection Account - 081-245-882	-	982,668	1,323,052	-	982,668	1,326,452
STANDARD BANK - Market Account - 081-246-072	1,270,839	2,259,486	443,616	(1,268,510)	(1,170,843)	(1,178,254)
STANDARD BANK - Inter Authority Account - 081-246-250	1,477,965	1,477,656	1,474,866	1,477,695	1,477,656	1,474,866
STANDARD BANK - Prism Account - 081-246-048	-	-	-	3,042,357	4,027,788	1,902,467
FIRST NATIONAL BANK - OPERATING ACCOUNT - 620-987-17899	133,967	34,080	55,979	133,967	32,580	559,798
Total	126,942,802	179,774,728	125,920,272	54,603,176	105,521,090	82,334,071

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	2010	2009	2010	2009
5. Inventories				
Electricity store	9,554,252	14,146,344	9,554,252	14,146,344
Workshop stores	261,007	295,271	261,007	295,271
Consumable stores	33,451,283	29,901,203	33,451,283	29,901,203
Water	23,512,928	16,142,396	23,512,928	16,142,396
Fuel (Diesel, Petrol)	1,583,138	1,285,233	1,583,138	1,285,233
Unsold water	1,601,331	1,443,060	1,601,331	1,443,060
Housing stock	22,380,488	1,748,604	22,380,488	1,748,604
	<u>92,344,427</u>	<u>64,962,111</u>	<u>92,344,427</u>	<u>64,962,111</u>
Inventories (write-downs)	(924,771)	(748,940)	(924,771)	(748,940)
	<u>91,419,656</u>	<u>64,213,171</u>	<u>91,419,656</u>	<u>64,213,171</u>

Carrying value of stock is disclosed at cost.

Inventory pledged as security

No inventory was pledged as security.

6. Trade and other receivables from non-exchange transactions

Accrued income	14,381,285	22,735,033	14,377,939	22,728,781
Other debtors	4,531,348	4,003,069	4,531,348	4,003,069
Prepayments	20,272	-	-	-
Deposits	449,814	20,262	-	-
	<u>19,382,719</u>	<u>26,758,364</u>	<u>18,909,287</u>	<u>26,731,850</u>

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.

Correction of error 2009: refer note 49

R 4 320 248 was adjusted in respect of accrued income.

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.

Fair value of trade and other receivables

Due to the short term nature of trade and other receivables they are disclosed at face value.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than that allowed by Council's policy are not considered to be impaired.

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	2010	2009	2010	2009
7. VAT receivable				
Net VAT receivable	51,059,163	37,532,147	51,059,163	37,532,147

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

8. Operating lease asset (accrual)

Current assets	55,116,068	52,211,305	55,116,068	52,211,305
	55,116,068	52,211,305	55,116,068	52,211,305

Correction of error 2009: refer note 49

Adjustment to the amount of R 828 463 was effected in respect of rental income.

Municipality as lessor: Operating leases minimum future receivables

No later than one year	1,046,685	1,143,115	1,046,685	1,143,115
Later than one year no later than 5 years	5,011,918	4,774,335	5,011,918	4,774,335
Later than 5 years	161,278,182	162,562,450	161,278,182	162,562,450
	167,336,785	168,479,900	167,336,785	168,479,900

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%.

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.

9. Consumer debtors

Gross balances

Rates	149,281,040	117,240,072	149,281,040	117,240,072
Electricity	127,739,703	87,712,989	127,739,703	87,712,989
Water	181,668,441	154,053,324	181,668,441	154,053,324
Sewerage	90,261,814	80,960,180	90,261,814	80,960,180
Refuse	108,291,103	95,662,096	108,291,103	95,662,096
Housing rental	1,649,954	890,169	1,649,954	890,169
Sundries	76,542,544	69,741,448	76,542,544	69,741,448
	735,434,599	606,260,278	735,434,599	606,260,278

Less: Allowance for debt impairment

Rates	(106,185,900)	(105,320,830)	(106,185,900)	(105,320,830)
Electricity	(60,431,435)	(49,405,977)	(60,431,435)	(49,405,977)
Water	(85,944,184)	(86,773,409)	(85,944,184)	(86,773,409)
Sewerage	(42,701,296)	(45,602,332)	(42,701,296)	(45,602,332)
Refuse	(51,230,640)	(53,883,461)	(51,230,640)	(53,883,461)
Housing rental	(780,564)	(501,404)	(780,564)	(501,404)
	(347,274,019)	(341,487,413)	(347,274,019)	(341,487,413)

Net balance

Rates	43,095,140	11,919,242	43,095,140	11,919,242
Electricity	67,308,268	38,307,012	67,308,268	38,307,012
Water	95,724,257	67,279,915	95,724,257	67,279,915
Sewerage	47,560,518	35,357,848	47,560,518	35,357,848
Refuse	57,060,463	41,778,635	57,060,463	41,778,635

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Figures in Rand	Economic entity		Controlling entity	
	2010	2009	2010	2009
9. Consumer debtors (continued)				
Housing rental	869,390	388,765	869,390	388,765
Sundries	76,542,544	69,741,448	76,542,544	69,741,448
	388,160,580	264,772,865	388,160,580	264,772,865
Rates				
Current (0 -30 days)	31,203,231	23,090,848	31,203,231	23,090,848
31 - 60 days	9,337,327	6,657,845	9,337,327	6,657,845
61 - 90 days	6,301,127	4,373,331	6,301,127	4,373,331
91 - 120 days	4,512,062	7,065,240	4,512,062	7,065,240
121 - 365 days	37,381,350	25,999,931	37,381,350	25,999,931
> 365 days	60,545,942	50,052,877	60,545,942	50,052,877
	149,281,039	117,240,072	149,281,039	117,240,072
Electricity				
Current (0 -30 days)	94,050,207	64,794,252	94,050,207	64,794,252
31 - 60 days	5,260,521	3,575,073	5,260,521	3,575,073
61 - 90 days	3,505,986	2,334,294	3,505,986	2,334,294
91 - 120 days	3,292,757	1,429,150	3,292,757	1,429,150
121 - 365 days	11,066,320	5,298,207	11,066,320	5,298,207
> 365 days	10,563,913	10,282,012	10,563,913	10,282,012
	127,739,704	87,712,988	127,739,704	87,712,988
Water				
Current (0 -30 days)	34,531,383	29,225,782	34,531,383	29,225,782
31 - 60 days	10,832,480	8,535,057	10,832,480	8,535,057
61 - 90 days	5,473,560	6,720,897	5,473,560	6,720,897
91 - 120 days	5,839,549	8,122,721	5,839,549	8,122,721
121 - 365 days	42,606,229	29,238,833	42,606,229	29,238,833
> 365 days	82,386,239	72,210,034	82,386,239	72,210,034
	181,669,440	154,053,324	181,669,440	154,053,324
Sewerage				
Current (0 -30 days)	14,070,805	11,579,392	14,070,805	11,579,392
31 - 60 days	4,068,926	4,655,729	4,068,926	4,655,729
61 - 90 days	2,668,651	2,802,044	2,668,651	2,802,044
91 - 120 days	2,183,596	3,838,422	2,183,596	3,838,422
121 - 365 days	18,741,925	17,101,812	18,741,925	17,101,812
> 365 days	48,527,911	40,982,779	48,527,911	40,982,779
	90,261,814	80,960,178	90,261,814	80,960,178
Refuse				
Current (0 -30 days)	12,152,202	9,900,940	12,152,202	9,900,940
31 - 60 days	4,486,223	4,891,685	4,486,223	4,891,685
61 - 90 days	3,414,844	3,294,561	3,414,844	3,294,561
91 - 120 days	2,883,833	4,008,821	2,883,833	4,008,821
121 - 365 days	23,026,753	17,979,325	23,026,753	17,979,325
> 365 days	62,327,248	55,586,765	62,327,248	55,586,765
	108,291,103	95,662,097	108,291,103	95,662,097
Housing rental				
Current (0 -30 days)	63,357	61,093	63,357	61,093
31 - 60 days	50,225	39,891	50,225	39,891
61 - 90 days	34,353	30,903	34,353	30,903

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	2010	2009	2010	2009
9. Consumer debtors (continued)				
91 - 120 days	27,561	26,363	27,561	26,363
121 - 365 days	193,280	157,508	193,280	157,508
> 365 days	1,281,179	574,412	1,281,179	574,412
	1,649,955	890,170	1,649,955	890,170
Sundries				
Current (0 -30 days)	5,439,942	6,004,187	5,439,943	6,004,187
31 - 60 days	3,054,276	2,891,661	3,054,276	2,891,661
61 - 90 days	1,957,596	2,271,439	1,957,596	2,271,439
91 - 120 days	1,706,204	2,774,361	1,706,204	2,774,361
121 - 365 days	17,060,596	14,771,553	17,060,596	14,771,553
> 365 days	47,323,930	41,028,247	47,323,930	41,028,247
	76,542,544	69,741,448	76,542,545	69,741,448
Summary of debtors by customer classification				
Consumers				
Current (0 -30 days)	90,635,371	73,890,054	90,635,371	73,890,054
31 - 60 days	26,528,549	24,901,223	26,528,549	24,901,223
61 - 90 days	17,235,052	17,166,415	17,235,052	17,166,415
91 - 120 days	14,968,502	24,780,012	14,968,502	24,780,012
121 - 365 days	134,239,604	91,878,883	134,239,604	91,878,883
> 365 days	288,287,111	244,003,727	288,287,111	244,003,727
	571,894,189	476,620,314	571,894,189	476,620,314
Less: Allowance for debt impairment	(275,138,818)	(273,833,416)	(275,138,818)	(273,833,416)
	296,755,371	202,786,898	296,755,371	202,786,898
Industrial/ commercial				
Current (0 -30 days)	90,541,092	63,806,799	90,541,092	63,806,799
31 - 60 days	9,243,364	5,282,897	9,243,364	5,282,897
61 - 90 days	5,674,463	3,756,155	5,674,463	3,756,155
91 - 120 days	5,062,932	2,432,998	5,062,932	2,432,998
121 - 365 days	14,861,052	16,455,531	14,861,052	16,455,531
> 365 days	24,196,138	25,896,626	24,196,138	25,896,626
	149,579,041	117,631,006	149,579,041	117,631,006
Less: Allowance for debt impairment	(72,135,201)	(67,653,997)	(72,135,201)	(67,653,997)
	77,443,840	49,977,009	77,443,840	49,977,009
National and provincial government				
Current (0 -30 days)	10,334,665	6,959,741	10,334,665	6,959,741
31 - 60 days	1,318,065	1,062,821	1,318,065	1,062,821
61 - 90 days	446,602	904,900	446,602	904,900
91 - 120 days	414,127	554,068	414,127	554,068
121 - 365 days	974,797	2,212,755	974,797	2,212,755
> 365 days	473,114	816,772	473,114	816,772
	13,961,370	12,511,057	13,961,370	12,511,057
Total				
Current (0 -30 days)	191,511,129	144,656,492	191,511,129	144,656,492
31 - 60 days	37,089,977	31,246,941	37,089,977	31,246,941
61 - 90 days	23,356,117	21,827,470	23,356,117	21,827,470
91 - 120 days	20,445,561	27,265,079	20,445,561	27,265,079
121 - 365 days	150,075,452	110,547,170	150,075,452	110,547,170

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	2010	2009	2010	2009
9. Consumer debtors (continued)				
> 365 days	312,956,363	270,717,125	312,956,363	270,717,125
	735,434,599	606,260,277	735,434,599	606,260,277
Less: Allowance for debt impairment	(347,274,019)	(341,487,413)	(347,274,019)	(341,487,413)
	388,160,580	264,772,864	388,160,580	264,772,864
Less: Allowance for debt impairment				
31 - 60 days	(23,680,510)	(23,116,008)	(23,680,510)	(23,116,008)
61 - 90 days	(14,911,974)	(16,147,628)	(14,911,974)	(16,147,628)
91 - 120 days	(13,053,697)	(20,170,288)	(13,053,697)	(20,170,288)
121 - 365 days	(95,817,350)	(81,781,104)	(95,817,350)	(81,781,104)
> 365 days	(199,810,488)	(200,272,385)	(199,810,488)	(200,272,385)
	(347,274,019)	(341,487,413)	(347,274,019)	(341,487,413)
Reconciliation of allowance account for debt impairment				
Balance at beginning of the year	341,487,413	241,971,477	341,487,413	241,971,477
Contributions to allowance account	24,317,321	131,551,928	24,317,321	131,551,928
Bad debts written off against allowance account	(19,427,016)	(32,035,992)	(19,427,016)	(32,035,992)
Other	896,301	-	896,301	-
	347,274,019	341,487,413	347,274,019	341,487,413
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 counter party default rates. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.				
Consumer debtors impaired				
As at 30 June 2010, consumer debtors of R 347 274 019 (2009: R 341 487 413) were impaired and provided for.				
Amounts totalling R 19 427 016 (2009: R 32 035 992) were written off as uncollectable against the debt impairment allowance account. This represents 0.71% (2009: 1.55%) of the total operating income for the year.				
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 is past due or impaired.				
10. Long term receivables				
Loans and receivables				
Sporting bodies and other loans	93,106	110,912	93,106	110,912
Non-current assets				
Sporting bodies and other loans	82,330	93,106	82,330	93,106
Current assets				
Sporting bodies and other loans	10,776	17,806	10,776	17,806

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	2010	2009	2010	2009

10. Long term receivables (continued)

	93,106	110,912	93,106	110,912
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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 up to 2016.

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.

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

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.

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.

11. Current tax receivable

Balance at beginning of the year	122,107	57,640	-	-
Amount paid during the year	-	64,467	-	-
Balance at end of the year	(122,107)	(122,107)	-	-
	-	-	-	-

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	2010	2009	2010	2009

12. Intangible assets

Economic entity	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	20,640,286	(8,569,721)	12,070,565	17,724,625	(6,634,709)	11,089,916

Controlling entity	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	20,640,284	(8,569,721)	12,070,563	17,724,625	(6,634,709)	11,089,916

Reconciliation of intangible assets - Economic entity - 2010

	Opening balance	Additions	Amortisation	Total
Computer software, other	11,089,916	2,915,659	(1,935,012)	12,070,563

Reconciliation of intangible assets - Economic entity - 2009

	Opening balance	Additions	Transfers	Other changes, movements	Amortisation	Total
Computer software, other	7,501,700	2,402,910	(238,654)	3,732,911	(2,308,951)	11,089,916

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	2010	2009	2010	2009

13. Investment property

Group	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	201,198,657	-	201,198,657	201,198,657	-	201,198,657

Company	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	201,198,657	-	201,198,657	201,198,657	-	201,198,657

Reconciliation of investment property - Economic entity - 2010

	Opening Balance	Total
Investment property	201,198,657	201,198,657

Reconciliation of investment property - Economic entity - 2009

	Opening Balance	Other changes, movements	Total
Investment property	-	201,198,657	201,198,657

No Investment Properties were pledged as security.

The total direct operating expenses (including repairs and maintenance) for all municipal properties was R 88 459 380 for the year ended 30 June 2010, which includes investment properties.

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.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available.

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 value of investment property, comprising of land and buildings was determined using the extent of each property and structure. The extent was multiplied by the rate per square meter for the type of property and structure. The rate per square meter for each property and structure type was sourced from the Davis Langdon Property and Construction Handbook 2009. Land values were calculated in terms of the rate per square meter for different geographic areas within the municipality. In order to undertake this process, the land sizes for each property in the register were verified against the Deeds office, AS400 and Cadastre. In cases where no land sizes were provided in the register, the land size was sourced from the Deed, Cadastre and AS400 in that order. The calculation of rate per square meter for the different geographic areas within the municipality was then applied to any property with a valid land size.

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.

Rental income from investment properties for the 2009/10 financial year in respect of monthly and annual leases amounted to R1 143 116 (2008/09, R1 163 077).

14. Non current investments

These investments are classified financial assets as Loans and Receivables except for listed shares in Sanlam which are classified as Fair value through profit and loss.