

Buffalo City Metropolitan Municipality

2012/2013

ANNUAL
REPORT

Volume II



BUFFALO CITY METROPOLITAN ECONOMIC ENTITY
Annual Financial Statements
FOR THE YEAR ENDED 30 JUNE 2013

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 (56 of 2003) and which I have signed on behalf of the Metropolitan Municipality.

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 (20 of 1998) 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

Date

6/12/2013

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

General Information

Legal Form of Entity	Municipality
Nature of Business and Principal Activities	Local Government
Grading of Local Authority	Grade 6 Municipality
Accounting Officer	Mr. A Fani
Chief Financial Officer	Mr. V Pillay
Jurisdiction	The demarcation board has determined that Buffalo City Metropolitan Metropolitan economic entity (BUF) includes the towns of East London, Bisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the corridor of rural areas.
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Absa Bank / Standard Bank
Auditors	Auditor General of South Africa
Members of Audit Committee	Mr. V Pangwa (Chairperson) Mr. S Mkebe (Member) Ms. E Kula-Ameyaw (Member)
Legislation Governing the Municipality	The Constitution of the Republic of South Africa, 1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012 Restated
Assets			
Current Assets			
Cash and cash equivalents	5	1,843,315,512	1,521,968,733
Inventories	6	71,653,231	117,116,161
Receivables from exchange transactions	7	383,984,497	312,473,204
Receivables from non-exchange transactions	8	212,235,175	146,314,713
VAT receivable	9	64,736,157	33,958,513
Current portion of operating leases	10	2,363,400	2,546,106
Current portion of long-term receivables	11	14,440	13,098
		2,578,302,412	2,134,390,528
Non-Current Assets			
Non-current portion of operating leases	10	61,815,348	59,027,596
Long-term receivables	11	42,913	57,353
Intangible assets	12	19,174,829	12,111,593
Investment property	13	308,191,202	320,297,778
Heritage assets	14	40,181,119	40,181,119
Property, plant and equipment	15	10,052,719,773	10,189,381,285
Non-current investment	16	892,235	856,601
Investment in associate	17	260	260
Deferred tax	65	275	275
		10,483,017,954	10,621,913,860
Total Assets		13,061,320,366	12,756,304,388
Liabilities			
Current Liabilities			
Borrowings	18	49,970,261	41,533,557
Consumer deposits	19	45,519,265	36,919,893
Finance lease obligation	20	1,686,593	463,541
Provisions	21	117,411,611	113,922,161
Payables from exchange transactions	22	571,467,624	451,808,291
Unspent conditional and unconditional grants and receipts	23	450,148,613	739,538,361
VAT payable	57	9,762	-
Current tax payable	67	518,489	493,569
		1,236,732,218	1,384,679,373
Non-Current Liabilities			
Borrowings	18	597,206,903	604,256,175
Finance lease obligation	20	3,941,058	990,241
Provisions	21	49,968,510	64,922,445
Post-retirement medical obligation	24	341,562,823	341,426,029
Other financial liabilities	66	102,500	102,500
		992,781,794	1,011,697,390
Total Liabilities		2,229,514,012	2,396,376,763
Net Assets		10,831,806,354	10,359,927,625
Net Assets			
Reserves:			
Revaluation reserve	25	2,428,060,218	2,446,637,596
Accumulated surpluses		8,403,746,134	7,913,290,030
Total Net Assets		10,831,806,352	10,359,927,625

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012 Restated
Revenue			
Public contributions and donations - operating projects	28	-	599,152
Public contributions and donations - PPE	28	-	730,105
Licences and permits	28	15,299,244	15,707,756
Rental of facilities and equipment	28	15,485,474	14,619,601
Fines	28	5,979,206	5,455,740
Fuel levy	28	317,781,000	170,477,000
Property rates	29	580,100,409	522,514,480
Service charges	30	1,964,268,076	1,754,709,786
Government grants & subsidies	31	1,235,137,628	907,186,380
Other revenue	32	203,319,984	138,399,340
Interest received	37	106,184,278	82,656,471
Total revenue	28	4,443,555,299	3,613,055,811
Expenditure			
Impairments	15	(71,393)	(1,798,575)
Loss on disposal of assets	15	(8,166,366)	(7,546,528)
General Expenses	33	(615,305,140)	(569,620,921)
Employee related costs	34	(980,891,329)	(956,365,528)
Remuneration of councillors	35	(43,331,310)	(42,965,666)
Debt impairment	36	(106,769,757)	(58,206,738)
Depreciation and amortisation	39	(699,351,097)	(675,702,073)
Finance costs	40	(67,258,679)	(70,498,923)
Contracted services	42	(7,763,365)	(6,839,654)
Grants and subsidies paid	43	(115,921,661)	(112,387,850)
Bulk purchases	44	(1,040,113,343)	(915,387,163)
Repairs and maintenance	64	(263,701,689)	(219,292,384)
Total expenditure		(3,948,645,126)	(3,636,612,003)
Fair value adjustments	13	(12,106,576)	(12,514,554)
Share of deficit of associate accounted for under the equity method	17	-	(12,087,832)
		(12,106,576)	(24,602,386)
Surplus (deficit) before taxation		482,803,597	(48,158,578)
Taxation	68	24,920	249,376
Surplus (deficit) for the year	63	482,778,677	(48,407,954)

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

Figures in Rand

	Notes	Revaluation Reserve	Accumulated Surpluses	Total Net Assets
Opening balance as previously reported		16,047,826	11,180,335,322	11,196,383,148
Adjustments:				
Prior year adjustments	25&49	2,432,884,091	(3,205,897,095)	(773,013,004)
Balance at 01 July 2011 as restated		2,448,931,917	7,974,438,227	10,423,370,144
Changes in net assets:				
Take on of PPE at deemed cost		-	67,930	67,930
Depreciation transfer to income	25	(573,137)	573,137	-
Adjustments to the Municipal Property Asset Register - Investment properties		-	(1,313,188)	(1,313,188)
Adjustments to the Municipal Property Asset Register - Other properties		-	(12,068,119)	(12,068,119)
Realisation	25	(1,721,185)	-	(1,721,185)
Surplus for the year	49	-	(48,407,957)	(48,407,957)
Balance at 01 July 2012 as restated	49	2,446,637,596	7,913,290,030	10,359,927,626
Changes in net assets:				
Depreciation transfer to income		(573,137)	573,137	-
Adjustments to Plant & Equipment	15	-	181,896	181,896
Adjustments to Furniture & Fittings	15	-	4,155,192	4,155,192
Adjustments to Office Equipment	15	-	2,513,590	2,513,590
Adjustments to Recreational Facilities	15	-	253,615	253,615
Surplus for the year	63	-	482,778,674	482,778,674
Revaluation reserve realised	25	(18,004,240)	-	(18,004,240)
Balance at 30 June 2013		2,428,060,218	8,403,746,134	10,831,806,352
Note(s)		25		

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services	62	2,832,825,320	2,408,347,445
Government grants, subsidies and public contributions and donations	62	1,235,137,628	908,515,638
Interest received	37	106,184,278	82,656,471
		<u>4,174,147,226</u>	<u>3,399,519,554</u>
Payments			
Employee costs	34&35	(1,024,222,637)	(999,331,197)
Suppliers	62	(1,911,240,575)	(1,732,592,289)
Finance costs	40	(67,258,679)	(70,498,923)
		<u>(3,002,721,891)</u>	<u>(2,802,422,409)</u>
Net cash flows from operating activities	45	<u>1,171,425,337</u>	<u>597,097,145</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(583,237,151)	(214,236,267)
Proceeds from sale of property, plant and equipment	15	18,658,385	2,610,317
Purchase of other intangible assets	12	(10,248,181)	(3,227,171)
Purchase of heritage assets	14	-	(432,579)
Net movement on financial assets	11	13,098	11,880
Net movement on non-current investments	16	(35,634)	(36,641)
Net cash flows from investing activities		<u>(574,849,483)</u>	<u>(215,310,461)</u>
Cash flows from financing activities			
Net movement on borrowings	18	1,387,432	(44,996,996)
Net movement on finance leases	20	4,173,869	(23,235)
Net movement on unspent conditional grants	23	(289,389,748)	441,524,387
Net movement on consumer deposits	19	8,599,372	3,465,560
Net cash flows from financing activities		<u>(275,229,075)</u>	<u>399,969,716</u>
Net increase in cash and cash equivalents		321,346,779	781,756,400
Cash and cash equivalents at the beginning of the year		1,521,968,733	740,212,334
Cash and cash equivalents at the end of the year	5	<u>1,843,315,512</u>	<u>1,521,968,734</u>

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance - refer to note 4	Actual outcome as % of final budget	Actual outcome as % of original budget
2013											
Financial Performance											
Property rates	585,374,446	-	585,374,446	-	-	585,374,446	580,100,409	-	(5,274,037)	99 %	99 %
Service charges	1,967,956,117	-	1,967,956,117	-	-	1,967,956,117	1,964,268,076	-	(3,688,041)	100 %	100 %
Investment revenue	78,314,288	-	78,314,288	-	-	78,314,288	106,184,278	-	27,869,990	136 %	136 %
Transfers recognised - operational	804,866,030	(8,096,541)	796,769,489	-	-	796,769,489	719,567,238	-	(77,202,251)	90 %	89 %
Other own revenue	530,126,413	-	530,126,413	-	-	530,126,413	557,864,908	-	27,738,495	105 %	105 %
Total revenue (excluding capital transfers and contributions)	3,966,637,294	(8,096,541)	3,958,540,753	-	-	3,958,540,753	3,927,984,909	-	(30,555,844)	99 %	99 %
Employee costs	(1,053,329,100)	(26,349,160)	(1,079,678,260)	-	-	(1,079,678,260)	(980,891,329)	-	98,786,931	91 %	93 %
Remuneration of councillors	(45,218,700)	(535,003)	(45,753,703)	-	-	(45,753,703)	(43,331,310)	-	2,422,393	95 %	96 %
Debt impairment	(215,000,000)	-	(215,000,000)	-	-	(215,000,000)	(106,769,757)	-	108,230,243	50 %	50 %
Depreciation and asset impairment	(376,527,919)	-	(376,527,919)	-	-	(376,527,919)	(699,422,490)	-	(322,894,571)	186 %	186 %
Finance charges	(89,112,465)	22,463,270	(66,649,195)	-	-	(66,649,195)	(67,258,679)	-	(609,484)	101 %	75 %
Materials and bulk purchases	(1,049,156,775)	-	(1,049,156,775)	-	-	(1,049,156,775)	(1,040,113,343)	-	9,043,432	99 %	99 %
Transfers and grants	(30,464,322)	(1,682,802)	(32,147,124)	-	-	(32,147,124)	(115,921,661)	-	(83,774,537)	361 %	381 %
Other expenditure	(1,133,412,451)	(33,340,664)	(1,166,753,115)	-	-	(1,166,753,115)	(907,043,136)	-	259,709,979	78 %	80 %
Total expenditure	(3,992,221,732)	(39,444,359)	(4,031,666,091)	-	-	(4,031,666,091)	(3,960,751,705)	-	70,914,386	98 %	99 %
Surplus/(Deficit)	(25,584,438)	(47,540,900)	(73,125,338)	-	-	(73,125,338)	(32,766,796)	-	40,358,542	45 %	128 %

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 of MFMA)	Final adjustments and budget (i.t.o. s31 of MFMA)	Shifting funds s31 of MFMA	ofVirement (i.t.o. council the approved policy)	Final budget outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	629,018,248	205,049,909	834,068,157	-	-	834,068,157		(318,497,767)	62 %	82 %
Contributions recognised - capital and contributed assets	-	2,450,976	2,450,976	-	-	2,450,976		(2,450,976)	-	-
Surplus (Deficit) after capital transfers and contributions	603,433,810	159,959,985	763,393,795	-	-	763,393,795		(280,590,201)	63 %	80 %
Taxation	-	-	-	-	-	24,920		24,920	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	603,433,810	159,959,985	763,393,795	-	-	763,393,795		(280,615,121)	63 %	80 %
Capital expenditure and funds sources										
Total capital expenditure	749,097,271	229,006,218	978,103,489	-	-	978,103,489		(384,618,159)	61 %	79 %
Sources of capital funds										
Transfers recognised - capital	609,847,828	224,220,329	834,068,157	-	-	834,068,157		(318,497,770)	62 %	85 %
Public contributions and donations	19,170,420	(16,719,444)	2,450,976	-	-	2,450,976		(2,450,976)	-	-
Borrowing	-	-	-	-	-	-		18,146,281	-	-
Internally generated funds	120,079,023	21,505,333	141,584,356	-	-	141,584,356		(81,815,694)	42 %	50 %
Total sources of capital funds	749,097,271	229,006,218	978,103,489	-	-	978,103,489		(384,618,159)	61 %	79 %

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 of MFMA)	Final adjustments and budget (i.t.o. s31 of MFMA)	Shifting funds s31 of MFMA	ofVirement (i.t.o. council the approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	942,998,729	161,315,088	1,104,313,817	-	-	1,104,313,817	1,171,425,337		67,111,520	106 %	124 %
Net cash from (used) investing	(749,097,271)	(229,006,218)	(978,103,489)	-	-	(978,103,489)	(574,849,483)		403,254,006	59 %	77 %
Net cash from (used) financing	(41,532,778)	(2,448,186)	(43,980,964)	-	-	(43,980,964)	(275,229,075)		(231,248,111)	626 %	663 %
Net increase/(decrease) in cash and cash equivalents	152,368,680	(70,139,316)	82,229,364	-	-	82,229,364	321,346,779		239,117,415	391 %	211 %
Cash and cash equivalents at the beginning of the year	696,148,584	-	696,148,584	-	-	696,148,584	1,521,968,733		825,820,149	219 %	219 %
Cash and cash equivalents at year end	848,517,264	(70,139,316)	778,377,948	-	-	778,377,948	1,843,315,512		(1,064,937,564)	237 %	217 %

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

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 judgments 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, investments and/or loans and receivables

The metropolitan 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 has been made to write down stock 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 6.

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 metropolitan 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 metropolitan 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 metropolitan 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 21 - Provisions.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The metropolitan 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.

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 metropolitan 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 metropolitan 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 24.

Effective interest rate

The metropolitan 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 - or under construction) 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.

Investment property excludes owner-occupied property.

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 metropolitan 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 through a non-exchange transaction, 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.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

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 measures 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.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, 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.

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Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, buildings, other properties, community properties and roads 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
Finance Leased Assets	5
Roads	5 to 100
Wastewater network	5 to 80
Water network	5 to 150

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Accounting Policies

1.3 Property, plant and equipment (continued)

Heritage Assets

Indefinite

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.

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

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

1.4 Site restoration and dismantling cost

The metropolitan 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 which a metropolitan 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, 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 metropolitan 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.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Accounting Policies

1.4 Site restoration and dismantling cost (continued)

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 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. If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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 metropolitan economic entity or from other rights and obligations.

An intangible asset is recognised when:

- ▶ it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the metropolitan 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 through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

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

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

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

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Accounting Policies

1.5 Intangible assets (continued)

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

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:

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

1.6 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Assets are resources controlled by an metropolitan economic entity as a result of past events and from which future economic benefits or service potential are expected to flow to the metropolitan economic entity.

A class of heritage assets means a grouping of heritage assets of a similar nature or function in a metropolitan economic entity's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

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

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.

Recognition

The metropolitan economic entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the metropolitan economic entity, and the cost or fair value of the asset can be measured reliably.

If an metropolitan economic entity holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, 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 heritage asset.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Accounting Policies

1.6 Heritage assets (continued)

Impairment

The metropolitan economic entity assess at each reporting date whether there is an indication that a heritage asset may be impaired. If any such indication exists, the metropolitan economic entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The metropolitan economic entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 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.

1.8 Investment in associate

An associate is an entity over which the Metropolitan 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 municipality's share of operating surpluses/ (deficits) less any dividends received.

Where the Metropolitan economic entity or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the municipality'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 Metropolitan economic entity is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The Metropolitan economic entity uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the Metropolitan 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 Metropolitan economic entity.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Accounting Policies

1.9 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
- 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.

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Accounting Policies

1.9 Financial instruments (continued)

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.

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Accounting Policies

1.9 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 26 :

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
Vat receivable	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 investments	Financial asset measured at amortised cost

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 27 :

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
BCMET	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value
Other 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.

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Accounting Policies

1.9 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:

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Accounting Policies

1.9 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.

1.10 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.

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Accounting Policies

1.10 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.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- ▶ a transaction or event which is recognised, in the same or a different period, to net assets; or
- ▶ a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.11 Leases

A lease is either a written or implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under specific conditions, in return for specific periodic rental or lease payments.

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.

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1.11 Leases (continued)

Operating leases - lessor

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

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

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

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

Income for leases is disclosed under revenue in 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.

1.12 Inventories

Inventories are initially measured at cost, except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- ▶ distribution at no charge or for a nominal charge; or
- ▶ consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

Current replacement cost is the cost the metropolitan 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 metropolitan 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.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the metropolitan 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.

The 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.

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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 and/or 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.

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

The useful life is either:

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

Identification

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

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

Value in use

The 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 metropolitan 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 metropolitan economic entity applies the appropriate discount rate to those future cash flows.

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1.13 Impairment of cash-generating assets (continued)

Cash-generating units

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

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Accounting Policies

1.13 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.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the metropolitan 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.

The 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 and/or 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.

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

The useful life is either:

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

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

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

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-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 non-cash-generating unit is lower than its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in 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 metropolitan 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 metropolitan economic entity estimates the recoverable service amount of the asset.

Value in use

The value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

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

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 metropolitan 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.

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

Reversal of an impairment loss

The metropolitan 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 metropolitan 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 occurs when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Employee benefits are all forms of consideration given by a metropolitan 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 metropolitan 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 metropolitan economic entity's own creditors (even in liquidation) and cannot be paid to the reporting metropolitan 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 metropolitan economic entity to reimburse it for employee benefits already paid.

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

- a metropolitan 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.

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.

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

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Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity 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 metropolitan 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 metropolitan economic entity measures 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 Metropolitan economic entity recognises the expected cost of bonus, incentive and performance related payments when the metropolitan 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 metropolitan economic entity provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a metropolitan economic entity pays fixed contributions into a separate municipal 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 metropolitan economic entity during a reporting period, the metropolitan 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 metropolitan 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.

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1.15 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 metropolitan economic entity recognises 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 metropolitan economic entity) that are held by a metropolitan economic entity (a fund) that is legally separate from the reporting metropolitan 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 metropolitan economic entity's own creditors (even in liquidation), and cannot be returned to the reporting metropolitan 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 metropolitan economic entity; or
- the assets are returned to the reporting metropolitan 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 Metropolitan economic entity recognises 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 Metropolitan 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 metropolitan economic entity's informal practices. Informal practices give rise to a constructive obligation where the metropolitan economic entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the metropolitan 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 metropolitan 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.

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Accounting Policies

1.15 Employee benefits (continued)

The metropolitan 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 metropolitan economic entity 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 Metropolitan 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 metropolitan 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 metropolitan 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 metropolitan 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 metropolitan 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. Within surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The metropolitan economic entity offsets an asset relating to one plan against a liability relating to another plan when the metropolitan 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.

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Accounting Policies

1.15 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.

1.16 Provisions and contingencies

Provisions are recognised when:

- the metropolitan 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 metropolitan 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.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Accounting Policies

1.16 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 an 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 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 metropolitan economic entity

No obligation arises as a consequence of the sale or transfer of an operation until the metropolitan 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.

Contingencies are disclosed in note 47 and note 61.

1.17 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 Metropolitan 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 metropolitan economic entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the metropolitan 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 metropolitan economic entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.17 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 metropolitan 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 metropolitan 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 metropolitan 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.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a metropolitan 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 arises when the metropolitan 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 metropolitan economic entity either receives value from another metropolitan economic entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.18 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 metropolitan 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 metropolitan 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 metropolitan economic entity.

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

Taxes

The metropolitan economic entity recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Transfers

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

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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 metropolitan economic entity.

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

Bequests

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

1.19 Investment income

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

1.20 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 metropolitan 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 or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.13 and 1.14. 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 metropolitan economic entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

1.21 Comparative figures

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

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.23 Fruitless and wasteful expenditure

Fruitless and wasteful 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.

1.24 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year 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.

1.25 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 metropolitan 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.

1.26 Offsetting

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

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.27 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.

1.28 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.

1.29 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the metropolitan 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.

1.30 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The budget for the Metropolitan economic entity includes all the entities approved budgets under its control.

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in note 4 to the annual financial statements.

1.31 Value added tax (VAT)

The Metropolitan 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 9.

1.32 Commitments

Items are classified as commitments when the Metropolitan 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 Metropolitan 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 46.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following new standards as issued by the Accounting Standard Board:

- GRAP 23 Revenue from non-exchange transactions.
- GRAP 24 Presentation of budget information in the financial statement
- GRAP 21 Impairment of non-exchange transactions
- GRAP 26 Impairment of exchange transactions
- GRAP 103 Heritage assets
- GRAP 104 Financial instruments

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

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2. Changes in accounting policy (continued)

Change in accounting policy and review of asset classification in line with the revised Immovable Asset Management Policy

During the year, the Metropolitan Economic Entity changed its accounting policy in respect of the subsequent measurement of Roads, Community properties, Other properties and Land from the cost model to the revaluation model. The Metropolitan Economic Entity is of the opinion that the new subsequent measurement for these asset sub categories will result in fairer presentation of the financial position and operating results. Within the revaluation process there were multiple reclassifications between the various sub-categories in order to accurately revalue and classify the assets. In addition, the Metropolitan Economic Entity also adopted GRAP 103 (Heritage Assets) which necessitated the reclassification of certain items of PPE to Heritage Assets in accordance with the GRAP 103. The change in accounting policy has been accounted for retrospectively and the comparative amounts have been restated, the revaluation was performed as at 1 July 2012. The effect of this change in accounting policy is as follows:

Statement of Financial Performance	Roads	Community	Land	Investment property	Heritage assets	Total
Buildings	26,447	13,525,465	59,000	-	1,291,920	14,902,832
Other properties	-	(22,576,453)	-	-	-	(22,576,453)
Recreational facilities	-	(9,672,026)	-	-	33,280	(9,638,746)
Roads	(179,328,411)	-	-	-	-	(179,328,411)
Community buildings	45,600	(28,119,160)	15,312	-	243,413	(27,814,835)
(Increase) / Decrease in depreciation	(179,256,364)	(46,842,174)	74,312	-	1,568,613	(224,455,613)
(Increase) / Decrease in revaluation deficit	-	-	(1,212,982,040)	-	-	-
Increase / (Decrease) in profit on sale of assets	(2,389,719)	(5,701,032)	309,348	-	-	(7,781,403)
Increase / (Decrease) in revaluation reserve realised on disposal / impairment	1,721,185	942,683	-	-	-	2,663,868
Increase / (Decrease) in profit for the year	(179,924,898)	(51,600,523)	(1,212,598,380)	-	1,568,613	(229,573,148)

Statement of Financial Position	Roads	Community	Land	Investment property	Heritage assets	Total
Land	220,275,327	148,524,803	1,206,918,330	-	18,341,383	1,594,059,843
Buildings	714,060	371,366,684	1,593,000	-	34,881,840	408,555,584
Other properties	-	(260,898,977)	-	-	-	(260,898,977)
Work in progress	(15,537,544)	(52,670,071)	(442,882)	-	-	(68,650,497)
Recreational facilities	-	(111,222,067)	-	-	898,560	(110,323,507)
Roads	(2,237,912,094)	-	-	-	-	(2,237,912,094)
Community buildings	1,231,200	(298,417,103)	429,746	-	6,572,160	(290,183,997)
(Increase) / Decrease in PPE	(2,031,229,051)	(203,316,731)	1,208,498,194	-	60,693,943	(965,353,645)
(Increase) / Decrease in investment properties	3,322,921	71,333,916	4,100,186	-	249,600	79,006,623
(Increase) / Decrease in heritage assets	-	-	-	-	(36,327,783)	(36,327,783)

Statement of Changes in Net Assets	Roads	Community	Land	Investment property	Heritage assets	Total
Increase / (Decrease) in accumulated surplus / deficit	-	-	-	-	(26,184,374)	(26,184,374)
Increase / (Decrease) in revaluation reserve	2,207,831,028	183,583,339	-	-	-	2,391,414,367

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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 metropolitan 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:
▶ GRAP 23: Revenue from Non-exchange Transactions	01 July 2012	The major impact will be the accounting treatment of conditional grants and fines.
▶ GRAP 24: Presentation of Budget Information in the Financial Statements	01 July 2012	Major change in presenting the Budget information compared to actuals in the Financial Statements.
▶ GRAP 103: Heritage Assets	01 July 2012	This standard requires a more detailed approach to identifying and presenting the heritage assets in the Annual Financial Statements.
▶ GRAP 21: Impairment of non-cash-generating assets	01 July 2012	No major impact as the municipality has already accepted a policy based on GRAP 21.
▶ GRAP 26: Impairment of cash-generating assets	01 July 2012	No major impact as the municipality has already accepted a policy based on GRAP 26.
▶ GRAP 104: Financial Instruments	01 July 2012	No major impact as the municipality has already accepted a policy based on GRAP 104.

3.2 Standards and interpretations issued, but not yet effective

The metropolitan economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the metropolitan economic entity's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
▶ GRAP 25: Employee benefits	01 July 2013	No major impact expected
▶ GRAP 20: Related parties	01 July 2013	No major impact expected
▶ IGRAP 11: Consolidation – Special purpose entities	01 July 2014	No major impact expected
▶ IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 July 2014	No major impact expected
▶ GRAP 1 (as revised 2012): Presentation of Financial Statements	01 July 2013	No major impact expected
▶ GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 July 2013	No major impact expected
▶ GRAP 7 (as revised 2012): Investments in Associates	01 July 2013	No major impact expected
▶ GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 July 2013	No major impact expected
▶ GRAP 12 (as revised 2012): Inventories	01 July 2013	No major impact expected
▶ GRAP 13 (as revised 2012): Leases	01 July 2013	No major impact expected
▶ GRAP 16 (as revised 2012): Investment Property	01 July 2013	No major impact expected

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

▶ GRAP 17 (as revised 2012): Property, Plant and Equipment	01 July 2013	No major impact expected
▶ GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 July 2013	No major impact expected
▶ GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 July 2013	No major impact expected
▶ IGRAP16: Intangible assets website costs	01 July 2013	No major impact expected
▶ IGRAP1 (as revised 2012): Applying the probability test on initial recognition of revenue	01 July 2013	No major impact expected

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the metropolitan economic entity's accounting periods beginning on or after 01 July 2013 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 July 2013	Not applicable
▶ GRAP 105: Transfers of functions between entities under common control	01 July 2013	Not applicable
▶ GRAP 106: Transfers of functions between entities not under common control	01 July 2013	Not applicable
▶ GRAP 107: Mergers	01 July 2013	Not applicable

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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4. Explanation of significant variances on budget comparison to actuals

Reasons for material variances shown on the **Statement of Comparison of Budget and Actual Amounts** are detailed below:

REVENUE

Investment revenue

The institution budgeted to incur expenditure from conditional grant funding from an earlier point in the financial year. This did not occur resulting in conditional grant funding being available for investment resulting in additional unbudgeted interest income.

EXPENDITURE

Debt impairment

The debt impairment figure is calculated using the approved methodology on the debt book as at 30 June 2013. This figure allows the Metropolitan economic entity to make a realistic provision taking into account the ageing of the outstanding debtors at year end. The budget for debt impairment is based on the 12 months average collection rate. The debtors provision methodology was amended in order to obtain a more realistic figure.

Depreciation & asset impairment

The asset register is currently being revised for certain infrastructure asset categories which has led to an increase in the cost of these assets and the resulting depreciation on them, which was not budgeted for. This is also due to a large amount of infrastructure projects that were still under construction (WIP) when the budgeted figures were calculated. This resulted in depreciation being charged when these assets were capitalised which was not budgeted for. In addition, the budgeted figures are also based on the capital budget, which is still budgeted for on a global basis and not componentised per asset category. This results in the budgeted figures differing from actuals due to different useful lives used for budgeting purposes and actual asset capitalisation i.e. specific useful lives are assigned to asset categories once these assets are capitalised.

Transfers and grants

This variance arose as a result of less payments being made for grant-in-aid that was originally predicted. Furthermore, a grant was budgeted for the Buffalo City Development Agency as it was expected that this entity would be operational, however this did not materialise. Poor relief was also expensed against transfers and grants whereas the amount was budgeted under general expenses.

Other expenditure

This is due to under spending on operating projects and contracted services. The allocated budget for Enterprise Project Management Office was intended for staffing of the EPMO however the recruitment of staff took longer than expected resulting in the slow utilisation of the budget. For contracted services - this is due to BCMM adopting an in-house approach to perform the refuse removal service. This service was expected to be outsourced when preparing the budget.

Transfers recognised - Capital

This is due to underspending on conditional grant funded projects.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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4. Explanation of significant variances on budget comparison to actuals (continued)

CAPITAL EXPENDITURE AND FUNDS SOURCES

Total capital expenditure

Although the capital expenditure budget reflects an unspent amount of R384 618 159, a large portion of this can be attributed to litigation including two substantial projects. National Treasury has approved that a grant amount of R173 071 548 in respect of this underspent amount can be retained for use in the 2013/14 financial year.

CASH FLOWS

Net cash from (used) investing

This is due to under spending on capital projects as purchase of Property Plant and Equipment is less than what has been projected.

Net cash from (used) financing

This is due to the increase in the utilisation of grant funding.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

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5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	72,639	68,640
Bank balances	145,945,220	57,689,018
Short-term deposits	1,697,297,653	1,464,211,075
	1,843,315,512	1,521,968,733
Current assets	1,843,315,512	1,521,968,733
	1,843,315,512	1,521,968,733
Allocation of external investments (short-term deposits)		
Unspent conditional and unconditional grants and receipts	450,148,613	787,665,935
Housing collateral for employees housing loans with lending institutions	231,150	271,950
Borrowing current repayments	25,528,353	24,224,397
Cash flow committed to operating and capital budgets	81,627,983	111,897,042
BCMET	1,645,346	1,798,913
Own funding (operating account commitments)	1,138,116,208	538,352,838
Total short-term deposits	1,697,297,653	1,464,211,075
Short-term deposits per institution		
ABSA (interest range: 2013 4.5%-5% : 2012 5%-5.86%)	424,335,564	374,200,819
Nedbank (interest range: 2013 4.5%-5%: 2012 5%)	424,309,733	362,621,306
RMB (interest range: 2013 4.5%-5%: 2012 5% - 5.8%)	422,974,683	362,957,317
Standard bank (interest range: 2013 4.5%-5%: 2012 5% - 5.88%)	246,880,571	177,642,582
Stanlib (interest range: 2013 5.23%-5.7%: 2012 5.56% - 5.67%)	178,797,102	186,789,051
	1,697,297,653	1,464,211,075

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.

A cession by the Municipality in respect of the Department of Labour for COID amounts to R7 539 288 (2012: R6 997 418).

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

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5. Cash and cash equivalents (continued)

The municipality had the following bank accounts:

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
STANDARD BANK - Primary Account - 081-221-495	-	117,205,269	105,075,417	-	48,486,521	35,563,034
STANDARD BANK - Market Account - 081-246-072	-	1,230,770	1,875,348	-	1,218,902	409,473
STANDARD BANK - Inter Authority Account - 081-246-250	-	1,476,139	1,477,381	-	1,476,138	1,477,381
STANDARD BANK - Prism Account - 081-246-048	-	-	-	-	5,105,086	5,583,785
STANDARD BANK - BCMET Account - 081-098-359	-	111,882	7,304	-	111,882	7,304
ABSA BANK - Primary Account - 408-009-0281	148,477,033	-	-	138,627,064	-	-
ABSA BANK - Prism Account - 408-009-0574	-	-	-	2,930,618	-	-
ABSA BANK - Market Account - 408-009-0639	2,465,727	-	-	2,764,475	-	-
ABSA BANK - Unpaid Account - 408-009-0697	53,575	-	-	-	-	-
FIRST NATIONAL BANK - Operating Account - 620-987-17899	452,309	159,540	164,834	452,309	159,540	164,834
FIRST NATIONAL BANK - Money Market Account - 620-987-19358	1,170,039	1,130,642	1,087,253	1,170,039	1,130,642	1,087,253
Corporate Credit Card - 881-271-290-380-1000	571	163	282	571	163	282
Credit Card	144	144	144	144	144	144
Total	152,619,398	121,314,549	109,687,963	145,945,220	57,689,018	44,293,490

Cash book balances

Bank balances 145,945,220 57,689,018

Prior period error

Balance previously reported	49	-	55,405,935
Outstanding cheques recognised as market creditors	22	-	685,208
Reversing market cash on hand		-	1,597,875

Restated

- **57,689,018**

As from 1 February 2013 BCMM changed the Council's bank accounts from Standard Bank to ABSA Bank.

The net cash book balance has been restated by R2 283 083 in the prior year to correctly disclose this balance which was incorrectly allocated (as per abovementioned details) in the prior year.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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6. Inventories		
Electricity store (Electrical maintenance parts)	8,461,153	14,067,505
Workshop store (Mechanical maintenance parts)	302,265	366,322
General stores (Chiselhurst, Mdantsane, KWT)	29,838,932	31,634,062
Water store (Water maintenance parts)	20,913,219	25,403,125
Fuel (Diesel, Petrol)	2,147,473	1,651,100
Unsold water (Treated water in pipelines & reservoirs)	2,755,898	2,297,627
Housing stock (RDP Houses)	12,288,185	41,823,101
	<u>76,707,125</u>	<u>117,242,842</u>
Inventories (write-downs)	(5,053,894)	(126,681)
	<u>71,653,231</u>	<u>117,116,161</u>

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

Certain houses constructed pre 1994 under the old Ciskei Municipality have not been legally transferred to the beneficiaries occupying the houses. These properties are not categorised as RDP inventory because the properties are occupied by rightful beneficiaries. The Municipality has taken the initiative to collect all information and data to enable the transfer of these properties.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

Inventory pledged as security

No inventory was pledged as security.

7. Receivables from exchange transactions

Gross balances

Electricity	179,922,270	164,575,388
Water	272,677,143	233,338,178
Sewerage	138,386,707	116,942,793
Refuse	166,289,611	139,417,302
Housing rental	2,655,609	2,126,090
	<u>759,931,340</u>	<u>656,399,751</u>

Less: Allowance for debt impairment

Electricity	(34,095,753)	(31,203,958)
Water	(153,995,448)	(139,785,764)
Sewerage	(82,214,605)	(76,331,740)
Refuse	(103,895,569)	(95,065,173)
Housing rental	(1,745,468)	(1,539,912)
	<u>(375,946,843)</u>	<u>(343,926,547)</u>

Net balance

Electricity	145,826,517	133,371,430
Water	118,681,695	93,552,414
Sewerage	56,172,102	40,611,053
Refuse	62,394,042	44,352,129
Housing rental	910,141	586,178
	<u>383,984,497</u>	<u>312,473,204</u>

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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7. Receivables from exchange transactions (continued)

Electricity

Current (0 -30 days)	129,634,898	119,976,018
31 - 60 days	9,131,346	6,546,082
61 - 90 days	3,993,865	3,282,855
91 - 120 days	2,713,203	3,028,520
121 - 365 days	12,719,750	14,316,844
> 365 days	21,729,208	17,425,069
	179,922,270	164,575,388

Water

Current (0 -30 days)	45,569,128	43,303,486
31 - 60 days	15,485,030	14,223,543
61 - 90 days	11,522,850	12,229,566
91 - 120 days	12,358,324	8,020,442
121 - 365 days	59,571,476	45,149,001
> 365 days	128,170,335	110,412,140
	272,677,143	233,338,178

Sewerage

Current (0 -30 days)	17,156,112	15,639,625
31 - 60 days	7,540,485	7,041,355
61 - 90 days	6,357,435	6,554,367
91 - 120 days	6,908,407	4,038,096
121 - 365 days	28,903,566	21,985,759
> 365 days	71,520,702	61,683,591
	138,386,707	116,942,793

Refuse

Current (0 -30 days)	13,088,301	13,252,182
31 - 60 days	7,091,785	7,373,244
61 - 90 days	6,214,883	7,029,977
91 - 120 days	7,053,807	4,735,207
121 - 365 days	36,527,159	25,137,766
> 365 days	96,313,676	81,888,926
	166,289,611	139,417,302

Housing rental

Current (0 -30 days)	81,822	82,406
31 - 60 days	80,632	81,462
61 - 90 days	90,733	89,523
91 - 120 days	92,672	61,849
121 - 365 days	572,538	400,988
> 365 days	1,737,212	1,409,862
	2,655,609	2,126,090

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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7. 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)

Domestic Debtors (including rates & other receivables (billing))

Current (0 -30 days)	104,165,166	115,536,686
31 - 60 days	41,452,212	38,592,466
61 - 90 days	34,503,781	35,646,055
91 - 120 days	36,915,306	23,360,860
121 - 365 days	180,385,821	137,345,258
> 365 days	448,282,560	381,306,256
	845,704,846	731,787,581
Less: Allowance for debt impairment	(517,679,422)	(474,617,731)
	328,025,424	257,169,850

Industrial/ commercial (including rates and other receivables (billing))

Current (0 -30 days)	138,520,545	114,915,186
31 - 60 days	13,182,174	11,131,834
61 - 90 days	6,679,649	6,206,593
91 - 120 days	4,634,651	4,931,523
121 - 365 days	23,193,900	25,840,401
> 365 days	40,440,547	40,547,113
	226,651,466	203,572,650
Less: Allowance for debt impairment	(47,436,659)	(54,278,387)
	179,214,807	149,294,263

National and provincial government (including rates and other receivables (billing))

Current (0 -30 days)	12,871,484	12,511,991
31 - 60 days	1,317,899	1,089,261
61 - 90 days	197,480	193,753
91 - 120 days	135,216	601,906
121 - 365 days	1,117,195	1,621,884
> 365 days	909,032	1,212,030
	16,548,306	17,230,825

Total Debtors (including rates & other receivables (billing))

Current (0 -30 days)	255,557,195	242,963,863
31 - 60 days	55,952,284	50,813,561
61 - 90 days	41,380,910	42,046,401
91 - 120 days	41,685,173	28,894,289
121 - 365 days	204,696,916	164,807,543
> 365 days	489,632,140	423,065,399
	1,088,904,618	952,591,056
Less: Allowance for debt impairment	(565,116,082)	(528,896,119)
	523,788,536	423,694,937

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

Current (0 -30 days)	(270,122)	(252,809)
31 - 60 days	(40,446,357)	(37,854,030)
61 - 90 days	(33,467,910)	(31,322,854)
91 - 120 days	(22,999,150)	(21,525,067)
121 - 365 days	(131,182,790)	(122,774,896)
> 365 days	(336,749,752)	(315,166,463)
	(565,116,081)	(528,896,119)

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
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7. Receivables from exchange transactions (continued)

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 Metropolitan economic entity did not apply any methods to evaluate the credit quality.

Consumer debtors impaired

As at 30 June 2013, consumer debtors of R 375,946,843 (2012: R 343,926,547) were impaired and provided for.

Amounts totaling R 61,842,336 (2012: R 50,331,640) were written off as uncollectable against the debt impairment allowance account. This represents 0.014 % (2012: 0.014 %) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(343,926,548)	(353,060,407)
Contributions during the year	(93,838,491)	(41,197,781)
Amounts written off as uncollectable	61,842,336	50,331,640
	(375,922,703)	(343,926,548)

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 36). 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 8 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2013, 5 048 debtors had active outstanding arrangements to the value of value of R17 710 816. The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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Figures in Rand	2013	2012 Restated
8. Receivables from non-exchange transactions		
Property rates	218,657,712	193,151,975
Other receivables (billing)	110,315,565	95,745,443
Accrued income	59,875,676	37,230,007
Other debtors	12,555,461	5,156,860
Impairment property rates	(189,169,239)	(184,969,572)
	212,235,175	146,314,713
Property rates age analysis		
Current (0-30days)	40,707,209	38,550,126
31-60 days	13,132,137	11,733,179
61-90 days	10,068,020	9,814,389
91-120 days	9,102,428	6,708,721
121-365 days	41,922,724	39,993,394
> 365 days	103,725,193	86,352,167
	218,657,711	193,151,976
Other receivables (billing)		
Current (0-30days)	9,319,725	12,160,024
31-60 days	3,490,869	3,814,694
61-90 days	3,133,125	3,045,724
91-120 days	3,456,332	2,301,454
121-365 days	24,479,702	17,823,791
> 365 days	66,435,813	56,599,756
	110,315,566	95,745,443
Prior period errors - Other receivables (billing)		
Previously reported	49	-
Adjusted		100,026,228
		(4,280,785)
Restated		- 95,745,443
Prior period errors - Property rates		
Previously reported	49	-
Adjusted		196,165,077
		(3,013,101)
Restated		- 193,151,976
Prior period error - Other debtors		
Balance previously reported	49	-
Adjusted for telephone expenditure overstated - BCDA		5,155,110
		1,750
Restated		- 5,156,860
Summary of prior period errors		
Previously reported	49	-
Adjusted for other receivables (billing)		153,606,850
Adjusted for property rates		(4,280,785)
Adjusted for other debtors		(3,013,101)
		1,750
Restated		- 146,314,714
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.		

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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8. Receivables from non-exchange transactions (continued)

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 and other receivables impaired

As at 30 June 2013, trade and other receivables from non-exchange transactions of R 189,193,380 (2012: R 184,969,572) were impaired and provided for.

Amounts totaling R8,731,599 (2012: R10,932,684) were written off as uncollectable against the debt impairment allowance account. This represents 0.002 % (2012: 0.003 %) of the total operating income for the year.

Reconciliation of allowance for impairment of non-exchange transactions

Opening balance	(184,969,572)	(178,869,015)
Contributed during the year	(12,931,266)	(17,033,241)
Amounts written off as uncollectable	8,731,599	10,932,684
Other income	(24,141)	-
	(189,193,380)	(184,969,572)

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 36). 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.

9. VAT receivable

VAT	64,736,157	33,958,513
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VAT is payable on the receipt basis. VAT is only declared to SARS on receipt of payment from consumers.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012 Restated
10. Operating leases averaged over total period		
Operating lease rentals	64,178,748	61,573,702
Operating lease rentals		
Current assets	2,363,400	2,546,106
Non-current assets	61,815,348	59,027,596
	64,178,748	61,573,702
Municipality as lessor: Operating leases minimum future receivables		
No later than one year	2,235,772	1,636,966
Later than one year no later than 5 years	7,499,728	7,009,992
Later than 5 years	157,969,982	159,816,056
	167,705,482	168,463,014

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 the 2012/13 financial year the net amount of R2 605 046 (2012: R2 546 106) has been accrued.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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11. Long-term receivables		
Financial assets at amortised cost		
Sporting bodies and other loans	57,353	70,451
Non-current assets		
Financial assets at amortised cost	42,913	57,353
Current assets		
Financial assets at amortised cost	14,440	13,098
	57,353	70,451

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.

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

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.

12. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	20,826,639	(19,971,419)	855,220	20,826,639	(16,786,474)	4,040,165
Intangible assets under development	18,319,609	-	18,319,609	8,071,428	-	8,071,428
Total	39,146,248	(19,971,419)	19,174,829	28,898,067	(16,786,474)	12,111,593

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	4,040,164	-	(3,184,946)	855,218
Intangible assets under development	8,071,428	10,248,181	-	18,319,609
	12,111,592	10,248,181	(3,184,946)	19,174,827

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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12. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	WIP Capitalised	Amortisation	Total
Computer software	6,517,926	-	1,999,413	(4,477,176)	4,040,165
Intangible assets under development	6,843,670	3,227,171	(1,999,413)	-	8,071,428
	13,361,596	3,227,171	-	(4,477,176)	12,111,593

Pledged as security

No Intangible Assets were pledged as security.

Intangible assets under development refers to computer software which are not yet available for use and are not amortised.

13. Investment property

	2013			2012		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	308,191,202	-	308,191,202	320,297,778	-	320,297,778

Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Investment property	320,297,778	(12,106,576)	308,191,202

Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	332,812,331	(12,514,553)	320,297,778

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 metropolitan economic entity.

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R12,682,400 (2012: R12,445,133), 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.

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.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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13. Investment property (continued)

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 5000/5.

The value of investment property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions.

The preferred valuation methodology applied was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties.

In the case of properties which were deemed to be classified as investment properties, for which no comparable market related sales nor rentals exist, such as golf courses, land was valued by multiplying the extent, as confirmed through the deeds office and cadastre, with comparable market related sales based on similar zoning, and not use. In the case of buildings associated with such properties, for which no comparable sales, past or present, could be established, the replacement cost of the buildings were deemed to reflect a fair value of the property.

Rental income from investment properties in respect of monthly and annual leases amounted to R9,051,892 (2012: R7,804,438).

Prior year error

Previously reported 30 June 2011		-	220,776,439
Adjusted	25	-	112,035,892
Restated		-	332,812,331

Adjustments for 2012

Adjusted opening balance as at 1 July 2011		-	332,812,331
Adjusted		-	(12,514,553)
Adjusted balance as at 30 June 2012		-	320,297,778

14. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Heritage sites	40,181,119	-	40,181,119	40,181,119	-	40,181,119

Reconciliation of heritage assets - 2013

	Opening balance	Total
Heritage sites	40,181,119	40,181,119

Reconciliation of heritage assets - 2012

	Opening balance	Additions	Total
Heritage sites	39,748,540	432,579	40,181,119

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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14. Heritage assets (continued)		
Prior year errors	49	
Balance previously reported		- 3,853,336
Prior period adjustment		- (3,420,757)
Reclassification between asset categories		- 39,748,540
Restated		- 40,181,119

15. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	464,574,105	-	464,574,105	449,132,223	-	449,132,223
Buildings	6,238,142	(817,660)	5,420,482	6,238,142	(611,636)	5,626,506
Plant and equipment	81,748,523	(45,114,725)	36,633,798	79,573,281	(33,909,777)	45,663,504
Furniture and fittings	39,504,184	(14,603,267)	24,900,917	33,936,438	(12,508,145)	21,428,293
Motor vehicles	268,830,816	(119,540,418)	149,290,398	244,667,868	(107,317,975)	137,349,893
Office equipment	42,905,395	(29,551,134)	13,354,261	36,972,408	(22,167,337)	14,805,071
IT equipment	96,726	(96,726)	-	96,739	(96,726)	13
Electricity	3,013,920,258	(1,755,608,137)	1,258,312,121	2,980,758,131	(1,663,232,155)	1,317,525,976
Other properties	1,023,017,538	(399,698,734)	623,318,804	1,034,489,242	(371,054,655)	663,434,587
Work in progress (WIP)	805,069,886	-	805,069,886	448,544,381	-	448,544,381
Recreational facilities	280,037,379	(148,686,252)	131,351,127	278,777,816	(137,957,116)	140,820,700
Finance Leased Assets	8,589,038	(2,122,000)	6,467,038	3,584,866	(1,160,733)	2,424,133
Roads	7,848,956,203	(3,776,238,679)	4,072,717,524	7,764,461,969	(3,478,625,907)	4,285,836,062
Wastewater network	3,300,214,464	(2,376,599,632)	923,614,832	3,299,029,616	(2,269,923,610)	1,029,106,006
Water network	3,406,360,896	(2,322,382,161)	1,083,978,735	3,403,132,407	(2,263,957,297)	1,139,175,110
Community buildings	950,582,505	(496,866,760)	453,715,745	950,145,635	(461,636,808)	488,508,827
Total	21,540,646,058	(11,487,926,285)	10,052,719,773	21,013,541,162	(10,824,159,877)	10,189,381,285

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Non-cash additions	Disposals	Transfers	Adjustments	WIP capitalised	Depreciation	Impairment loss	Total
Land	449,132,223	15,441,882	-	-	-	-	-	-	-	464,574,105
Buildings	5,626,506	-	-	-	-	-	-	(206,024)	-	5,420,482
Plant and equipment	45,663,503	2,019,745	-	(7,067)	-	181,897	-	(11,224,280)	-	36,633,798
Furniture and fittings	21,428,294	1,461,311	-	(10)	-	4,155,191	-	(2,143,869)	-	24,900,917
Motor vehicles	137,349,892	25,645,938	-	(874,854)	-	-	-	(12,830,578)	-	149,290,398
Office equipment	14,805,072	3,447,848	-	(1,187)	-	2,513,590	-	(7,411,062)	-	13,354,261
Electricity	1,317,525,979	33,162,129	-	-	-	-	-	(92,375,987)	-	1,258,312,121
Other properties	663,434,587	-	-	(26)	(11,464,486)	-	-	(28,651,271)	-	623,318,804
Work in progress (WIP)	448,544,382	416,157,702	2,571,797	-	-	-	(62,203,996)	-	-	805,069,886
Recreational facilities	140,820,700	623,149	253,616	(215,882)	-	-	758,080	(10,888,536)	-	131,351,127
Finance Leased Assets	2,424,134	-	5,004,172	-	-	-	-	(961,268)	-	6,467,038
Roads	4,285,836,062	80,427,239	-	(25,725,712)	-	-	61,445,916	(329,265,981)	-	4,072,717,524
Wastewater network	1,029,106,006	1,184,848	-	-	-	-	-	(106,676,022)	-	923,614,832
Water network	1,139,175,104	3,228,489	-	-	-	-	-	(58,424,858)	-	1,083,978,735
Community buildings	488,508,827	436,871	-	-	-	-	-	(35,106,418)	(123,535)	453,715,745
IT equipment	13	-	-	(13)	-	-	-	-	-	-
	10,189,381,284	583,237,151	7,829,585	(26,824,751)	(11,464,486)	6,850,678	-	(696,166,154)	(123,535)	10,052,719,773

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15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Non-cash additions	Disposals	WIP capitalised	Depreciation	Impairment loss	Total
Land	449,135,223	-	-	(3,000)	-	-	-	449,132,223
Buildings	5,832,531	-	-	-	-	(206,025)	-	5,626,506
Plant and equipment	34,186,969	12,433,148	-	(48,489)	8,902,707	(9,810,831)	-	45,663,504
Furniture and fittings	23,158,558	101,220	-	(2,950)	145,855	(1,974,390)	-	21,428,293
Motor vehicles	130,703,998	19,460,508	-	(649,812)	-	(12,164,801)	-	137,349,893
Office equipment	14,856,383	6,864,306	-	(10,716)	-	(6,904,902)	-	14,805,071
Electricity	1,366,090,288	5,264,320	-	(1,324,763)	43,136,802	(95,640,666)	-	1,317,525,981
Other properties	665,661,436	1,779,687	25,496,118	-	-	(29,502,654)	-	663,434,587
Work in progress (WIP)	624,802,216	121,145,787	-	-	(297,403,622)	-	-	448,544,381
Recreational facilities	149,373,486	2,275,871	-	(51,217)	-	(10,777,440)	-	140,820,700
Finance Leased Assets	2,229,488	-	749,791	-	-	(555,146)	-	2,424,133
Roads	4,521,192,834	34,504,364	-	(2,399,672)	29,304,968	(294,967,857)	(1,798,575)	4,285,836,062
Wastewater network	989,866,882	3,876,961	-	(16,411)	141,342,205	(105,963,631)	-	1,029,106,006
Water network	1,144,726,616	2,042,918	-	-	60,367,359	(67,961,789)	-	1,139,175,104
Community buildings	510,262,501	4,487,177	-	(5,649,815)	14,203,726	(34,794,763)	-	488,508,826
IT equipment	13	-	-	-	-	-	-	13
	10,632,079,422	214,236,267	26,245,909	(10,156,845)	-	(671,224,895)	(1,798,575)	10,189,381,283

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15. Property, plant and equipment (continued)

Proceeds on disposal of PPE

	2013	2012
Carrying value of PPE	26,824,751	10,156,845
Net gain/(loss) on disposal of assets	(8,166,366)	(7,546,528)
Total	18,658,385	2,610,317

Water network

Balance previously reported
Prior period adjustments

1,264,294,499
(125,119,389)

Restated balance

1,139,175,110

49

Roads

Balance previously reported
Prior period adjustments
Reclassification between asset categories

2,043,540,191
4,383,777
- 2,237,912,095

Restated balance

4,285,836,063

49

Land

Balance previously reported
Prior period adjustments
Reclassification between asset categories

- 3,131,787,499
- (2,313,722,612)
- (368,932,664)

Restated balance

- 449,132,223

49

Buildings

Balance previously reported
Prior period adjustment
Reclassification between asset categories

- 1,145,917,099
- (844,950,428)
- (295,340,165)

Restated balance

- 5,626,506

49

Other properties

49

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15. Property, plant and equipment (continued)

Balance previously reported	-	416,664,790
Prior period Landfill site opening balance adjustment	-	(12,536,461)
Prior period Landfill site movement adjustment	-	(1,592,723)
Reclassification between asset categories	-	260,898,978
Restated balance	-	663,434,584

21
21

Work in progress

Balance previously reported	-	424,832,747
Prior period adjustments	-	(36,230,591)
Reclassification between asset categories	-	59,942,225
	-	448,544,381

49

Recreational facilities

Balance previously reported	-	61,956,194
Prior period adjustments	-	(32,841,173)
Reclassification between asset categories	-	111,705,679
	-	140,820,700

49

Community buildings

Balance previously reported	-	236,221,253
Prior period adjustments	-	(30,311,285)
Reclassification between asset categories	-	282,598,858
	-	488,508,826

49

Non-cash movements 2013

Recreational facilities adjustment (also adjusted to equity)	-	(253,616)
Recreational facilities disposal (also adjusted to operating account)	-	37,693
	-	(215,923)

45

Prior year adjustments

Property, plant and equipment adjustment to loss on disposal of assets	-	3,733,952
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BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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15. Property, plant and equipment (continued)

Property, plant and equipment adjustment to opening balance

Adjustment of prior year transactions

-	50,142,699
-	53,876,651

Electricity

Balance previously reported

Prior year opening balance adjustment

Prior period adjustment

49	- 1,351,116,031
49	- (34,429,802)
	- 839,751
	- 1,317,525,980

Restated

There are currently 8 468 assets that have carrying values between R0.00 and R1.00, which are still in use.

As at 30 June 2013 there are 6 buses that are temporary idle with a carrying value of R 10 738 939.

As at 30 June 2013 the total cost of all fully depreciated assets amount to R 939 183 915 (2012 restated: R 472 948 560).

As at 30 June 2013 there are no assets retired from active use and held for disposal.

Pledged as security

No assets were pledged as security except for those assets subject to finance lease as disclosed below.

BCMM maintains a separate register for approximately 15 000 properties whereby BCMM holds title but does not exercise control over these properties which have therefore not been recognised in the financial statements.

Borrowing costs capitalised

No borrowing costs were capitalised during the year.

Assets subject to finance lease (Net carrying amount)

Leases - Office equipment	6,467,038	2,424,134
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BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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15. Property, plant and equipment (continued)

Revaluations

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 5000/5.

The value of property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions.

The preferred valuation methodology applied was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties

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 at arms length terms.

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 Metropolitan economic entity. The Metropolitan 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.

16. 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 R890 894 (2012: R856 600) are invested with Nedbank at interest rates of 2% - 5.17% (2012: 2% - 5.32%)

Fixed deposits long term

892,235

856,601

892,235

856,601

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Figures in Rand				2013	2012		
					Restated		
17. Investment in associate							
Name of entity	Listed / Unlisted	% holding 2013	% holding 2012	Carrying amount 2013	Carrying amount 2012	Fair value 2013	Fair value 2012
East London Industrial Development Zone (Pty) Ltd (IDZ)	Unlisted			-	-	260	260
BCMM share in IDZ - 26,000 shares @ 0,01c		26.00 %	26.00 %	260	260	-	-
				260	260	260	260

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

Movements in carrying value

Opening balance	260	260
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Investment in associate at 30 June 2013 amounted to R 260 (2012: R 260).

In the prior period the associate incurred a deficit which resulted in the Metropolitan Economic Entity's interest (accumulated share of surplus in the associate) being reduced by R12 087 832.

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%

Summary of controlled entity's interest in associate

Total equity	(18,206,980)	(29,526,840)
Total liabilities	336,908,841	442,683,592
Total assets	318,701,861	413,156,752
Deficit	(2,626,082)	(13,890,166)
Revenue	4,896,511	6,476,798

Associate with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2012 to 31 March 2013. The results for the quarter ending 30 June 2013 were not available at the time of completing the Financial Statements.

Unrecognised share of loss of associate

The metropolitan economic entity does not recognise its share of the deficits of East London Industrial Development Zone (Proprietary) Limited. The investment is held at R 260 and the metropolitan economic entity has no obligation for any deficits of the associate. The total unrecognised deficits for the current period amount to R2 626 082 (2012 : R13 890 166). The accumulated unrecognised deficits to date amount to R 19 826 977 (2012: R 41 614 932).

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2013

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18. Borrowings		
Held at amortised cost		
Annuity loans	647,177,164	645,789,732
	647,177,164	645,789,732
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	597,206,903	604,256,175
Current liabilities		
At amortised cost	49,970,261	41,533,557
	647,177,164	645,789,732
19. Consumer deposits		
Electricity	27,165,932	19,452,348
Water	18,353,333	17,467,545
	45,519,265	36,919,893

The amounts reflected represent a cost value as Management believes that the cost value approximates the fair value.

Guarantees held in lieu of Electricity and Water Deposits amounted to R13 190 628 (2012: R12 087 359).

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

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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20. Finance lease obligation		
Minimum lease payments due		
- within one year	2,765,600	798,306
- in second to fifth year inclusive	4,898,477	1,518,725
	<u>7,664,077</u>	<u>2,317,031</u>
less: future finance charges	(2,036,425)	(863,249)
Present value of minimum lease payments	<u>5,627,652</u>	<u>1,453,782</u>
Present value of minimum lease payments due		
- within one year	1,686,593	463,541
- in second to fifth year inclusive	3,941,059	990,241
	<u>5,627,652</u>	<u>1,453,782</u>
Non-current liabilities	3,941,058	990,241
Current liabilities	1,686,593	463,541
	<u>5,627,651</u>	<u>1,453,782</u>

The average lease term was 3-5 years and the average effective borrowing rate was 7.35% (2012: 8.50%).

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 contingent rents were recognised as an expense for the period.

The metropolitan 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.

The contingent rent for the current year amounted to R743 123. Contingent rent is based on the annual operating charges of leased equipment which are escalated at a standard interest rate.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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21. Provisions			
Reconciliation of provisions - 2013			
	Opening Balance	Utilised during the year	Total
Landfill sites	178,844,606	(11,464,485)	167,380,121
Reconciliation of provisions - 2012			
	Opening Balance	Additions	Total
Landfill sites	153,348,488	25,496,118	178,844,606
Non-current liabilities		49,968,510	64,922,445
Current liabilities		117,411,611	113,922,161
		167,380,121	178,844,606
Prior period error	49		
Balance previously reported		-	192,973,790
Prior period opening balance Landfill site adjustment		-	(12,536,461)
Prior period movement Landfill site adjustment		-	(1,592,723)
Restated			- 178,844,606

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 10.09% (2012: 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.

In the calculation of the provision for landfill sites, the Metropolitan economic entity adjusted the interest rate from 7.65% in 2012 to 10.09% in 2013, which is the interest rate for long term borrowings as reflected in note 50 of the AFS. If an interest rate of 10.09% was used in the 2012 calculation, this would have resulted in a provision amount of R158 296 774 compared to the amount of R178 844 606 as stated in the above note.

The comparative figure for the previous year in the amount of R192 973 790 was restated by R14 129 184 due to site valuations of two landfill sites that changed significantly and were no longer feasible to rehabilitate.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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22. Payables from exchange transactions		
Accrued leave pay	55,546,070	54,590,844
BCMET	1,645,347	1,910,795
Deposits received	5,884,942	5,277,546
Market creditors	858,561	685,208
BCDA	30,395	92,649
Other creditors	43,958,774	79,207,566
Payments received in advance	84,942,460	61,551,930
Retention monies	25,479,338	24,415,539
Trade payables	353,121,737	224,076,214
	571,467,624	451,808,291
Prior period errors - Deposits received		
Deposits received previously reported	49	-
Adjusted		7,713,276
		(2,435,730)
Restated		- 5,277,546
Prior period errors - Other creditors		
Other creditors previously reported	49	-
Adjusted: Scarce skills		75,498,841
		3,708,725
Restated		- 79,207,566
Summary of prior period errors		
Previously reported	49	-
Adjusted for Deposits received		449,850,089
Adjusted for Other creditors		(2,435,730)
Adjusted for Market creditors		3,708,725
		685,208
Restated		- 451,808,292
Prior period errors		
Outstanding cheques recognised as market creditors	49	-
	5	685,208

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 Municipality (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 5) 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.

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23. Unspent conditional and unconditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional and unconditional grants and receipts		
Government grants	243,490,910	676,286,555
Provincial grants	189,832,657	45,955,939
Other conditional grants	16,825,046	17,295,867
	450,148,613	739,538,361
Prior period errors		
Government grants previously reported	49	- 787,665,935
Adjusted		- (48,127,574)
Restated		- 739,538,361
Detail of conditional and unconditional grants		
Conditional grants	251,735,169	588,173,610
Unconditional grants	198,413,444	151,364,751
	450,148,613	739,538,361

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23. Unspent conditional and unconditional grants and receipts (continued)

Movements on grants

Grant description	Unspent balance 30 June 2012	Receipts	Interest	Transfer operating expenditure	Transfer capital expenditure	Other transfers	Unspent balance 30 June 2013
Transitional Grant	113,769	-	-	-	-	-	113,769
Finance Management Grant	(996)	1,500,000	-	(1,500,000)	-	996	-
Land Affairs Grant	68,997,884	-	3,303,913	-	-	-	72,301,797
Urban Settlement Development Grant	245,455,917	499,474,000	-	(6,231,797)	(465,007,889)	(65,510,841)	208,179,390
Municipal Infrastructure Grant	8,244,260	-	-	-	-	-	8,244,260
Public Transport Infrastructure Systems Grant	280,018,116	3,000,000	-	-	(133,342)	(249,207,016)	33,677,758
Energy Efficient Technology Grant	5,588,975	-	-	-	-	-	5,588,975
European Commission Grant	802,587	-	37,437	-	-	-	840,024
Land Affairs Grant	60,735,251	-	2,806,634	(978)	-	-	63,540,907
Infrastructure Skills Development Grant	-	3,000,000	-	(1,265,458)	(654,959)	-	1,079,583
Department of Water Affairs Grant	604,427	5,830,681	-	(7,729,946)	-	-	-
Expanded Public Works Program Grant	-	1,484,000	-	(929,823)	-	-	554,177
Municipal Support Programme Grant	289,906	-	-	-	-	-	289,906
Disaster Relief Grant	-	-	713	-	-	(713)	-
Local Economic Development Grant	3,312,282	-	-	-	-	-	3,312,282
Provincial Government Premiers Grant	67,421	-	-	-	-	-	67,421
Mdantsane Urban Renewal Grant (Mount Ruth)	7,882,979	-	365,518	-	-	-	8,248,497
Health Management Systems Grant	176,266	-	-	-	-	-	176,266
Aids Training Information Centre Grant	11,048,601	-	-	-	-	(72,821)	10,975,780
Department of Sports Recreation Arts & Culture	10,437,047	-	-	-	-	-	10,437,047
Ward Committee Training Grant	375,372	-	-	-	-	-	375,372
Amatole District Municipality Grant	1,979,270	-	-	-	-	-	1,979,270
Buffalo City Metropolitan Transport Grant	222,603	-	-	-	(204,597)	-	18,006
Donation and Public Contribution Grant	5,225,093	272,201	-	-	-	-	5,497,294
Sector Education Training Authority Grant	470,892	3,418,667	-	-	-	(3,889,559)	-
Department Economic Affairs and Tourism Grant	127,126	-	-	-	-	-	127,126
Vuna Award Grant	1,048,758	-	-	-	-	-	1,048,758
Gavle Grant	511,514	-	30,235	(8,790)	-	-	532,959

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23. Unspent conditional and unconditional grants and receipts (continued)		
Glasgow Partnership Grant	89,858	-
Public Development Areas Development Fund	877,963	-
Eastern Cape Development Agency Grant	67,359	-
Umsobomvu Youth Grant	679,028	31,379
Compost Waste Management Grant	60,640	-
Leiden Grant	531,844	24,010
Human Settlement Development Grant	4,538,807	(413,977)
Housing and Infrastructure Development Grant	347,162	736,712
Electricity Demand Side Management Grant	74,933	15,639
Integrated National Electrification Programme	6,253,799	-
Department of Water Affairs Grant	6	(1,125,786)
Mdantsane Upgrade Water Supply Grant	31,482	1,418
Mdantsane Upgrade Water and Sewerage Grant	147,144	6,628
Water Supply to Cove Rock Grant	327,858	-
Bequests	129,288	3,615
Sundry Grants	3,985,947	11,973
Other Grants ex Amatole District Council	426,365	646
Sundry Housing Grants	7,233,561	87,423
	739,538,364	580,470,983
	7,463,893	7,463,893
	(67,124,564)	(515,570,388)
	(294,629,673)	450,148,615

Prior period errors

Unspent grants previously reported
Adjustments to urban settlement development grant
Adjustments to municipal infrastructure grant

Restated

49
- 787,665,936
- (21,858,431)
- (26,269,143)
- **739,538,362**

All conditions for the funding were complied with and no funds were withheld. These amounts are invested in a ring-fenced investment until utilised. Conditional grants amount to R251 735 169 and unconditional grants amount to R198 413 440.

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24. Post-retirement medical obligation

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

Carrying value

Balance at beginning of year	341,426,029	280,763,820
Interest cost	24,583,110	26,493,119
Current service cost	12,647,770	13,851,056
Actual employer benefit payments	(13,928,851)	(13,459,130)
Actuarial (gain)/loss recognised in the year	(23,165,235)	33,777,164
Net liability	341,562,823	341,426,029

Net costs

Interest cost	24,583,110	26,493,119
Current service cost	12,647,770	13,851,056
Actuarial (gain)/loss recognised in the year	(23,165,235)	33,777,164

Net cost per Statement of Financial Performance

33

14,065,645 **74,121,339**

The Metropolitan 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 22 July 2013 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

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

The best estimates for the employer benefit payments in the 2013/14 financial period is expected to be R14 850 248 (The actual employer benefit payments in the 2012/13 financial period was R13 928 851).

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.88 %	8.59 %
Medical aid inflation rate	6.62 %	7.30 %
Net effective discount rate	1.19 %	1.20 %
Post retirement subsidy	60.00 %	60.00 %

Retirement age

Males	63	63
Females	63	63
Number of eligible members	2,514	2,561
Number of pensioners	518	520

1% change in the assumed medical inflation:

Projected liability increase/(decrease) - 2013	51,234,423	(40,987,539)
Projected liability increase/(decrease) - 2012	54,628,164	(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.

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25. Revaluation reserve

Opening balance		2,446,637,596	16,047,826
Depreciation transfer to income/correction prior year	45	(573,137)	(2,294,320)
Revaluation of investment properties		(18,004,241)	2,432,884,091
		2,428,060,218	2,446,637,596

Prior year error

Balance previously disclosed		-	15,474,690
Revaluation reserve realised (Refer to Statement of Changes in Net Assets)		-	(1,721,185)
Revaluation (Refer to Statement of Changes in Net Assets)		-	2,432,884,091

Restated

- 2,446,637,596

Cash flow movements 2013

45

Movements for the year		-	18,577,378
Depreciation transfer to income (equity)		-	(573,137)
Community assets-2013 impairment released from revaluation reserve as offset against impairment expenditure		-	(52,142)
Community assets-2013 disposals released from the revaluation reserve as offset against loss on sale of assets		-	(37,697)

Total

- 17,914,402

26. Financial assets by category

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

2013

	Financial assets amortised	Total
Other financial assets	57,353	57,353
Trade and other receivables from exchange transactions	383,984,497	383,984,497
Other receivables from non-exchange transactions	212,235,175	212,235,175
Cash and cash equivalents	1,843,315,512	1,843,315,512
Non-current investments	892,235	892,235
VAT receivable	64,736,157	64,736,157
	2,505,220,929	2,505,220,929

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26. Financial assets by category (continued)

2012

		Financial assets amortised	Total
Other financial assets		70,451	70,451
VAT receivable		33,958,513	33,958,513
Trade and other receivables from exchange transactions		312,473,204	312,473,204
Other receivables from non-exchange transactions		146,314,714	146,314,714
Cash and cash equivalents		1,521,968,734	1,521,968,734
Non-current investments		856,861	856,861
		2,015,642,477	2,015,642,477
Adjustment of financial assets previously reported	49		
Previously reported		-	1,989,355,073
Adjusted: Property rates	8	-	(3,013,101)
Adjusted: Other receivables billing	8	-	(4,280,785)
Adjusted: Other debtors - BCDA	8	-	1,750
VAT recognised as financial asset	9	-	33,958,513
Adjusted: Bank overdraft	5	-	(1,064,181)
Adjusted: Market creditors	22	-	685,208
Restated			- 2,015,642,477

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27. Financial liabilities by category

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

2013

	Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	55,546,070	-	55,546,070
BCMET	1,645,347	-	1,645,347
Payments received in advance	84,942,460	-	84,942,460
Other financial liabilities	647,177,164	-	647,177,164
Trade and other payables	423,448,805	-	423,448,805
Consumer deposits	-	45,519,265	45,519,265
Other deposits	-	5,884,942	5,884,942
Unspent conditional grants	450,148,613	-	450,148,613
	1,662,908,459	51,404,207	1,714,312,666

2012

	Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	54,590,844	-	54,590,844
BCMET	1,910,795	-	1,910,795
Payments received in advance	61,551,930	-	61,551,930
Other financial liabilities	645,789,732	-	645,789,732
Trade and other payables	328,477,175	-	328,477,175
Consumer deposits	-	36,919,893	36,919,893
Other deposits	-	5,277,546	5,277,546
Unspent conditional grants	739,538,361	-	739,538,361
	1,831,858,837	42,197,439	1,874,056,276

Adjustment of financial liabilities previously reported

Previously reported	49	-	1,015,570,325
Resort rental income erroneously disclosed as caravan deposits	22	-	(2,435,730)
Adjusted: Scarce skills	22	-	3,708,724
Unspent conditional grants recognised as financial liability	23	-	739,538,361
Accrued leave pay, BCMET, payments received in advance, market creditors included in trade and other payables. Recognised as financial liabilities	22	-	118,738,777
Adjusted: Bank overdraft	5	-	(1,064,181)

Restated

- 1,874,056,276

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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28. Revenue		
Service charges	1,964,268,076	1,754,709,786
Rental of facilities and equipment	15,485,474	14,619,601
Licences and permits	15,299,244	15,707,756
Other revenue	203,319,984	138,399,340
Interest received - investment	106,184,278	82,656,471
Property rates	580,100,409	522,514,480
Government grants & subsidies	1,235,137,628	907,186,380
Public contributions and donations - operating projects	-	599,152
Fines	5,979,206	5,455,740
Public contributions and donations - PPE	-	730,105
Fuel levy	317,781,000	170,477,000
	4,443,555,299	3,613,055,811
The amounts included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,964,268,076	1,754,709,786
Rental of facilities and equipment	15,485,474	14,619,601
Licences and permits	15,299,244	15,707,756
Other revenue	203,319,984	138,399,340
Interest received - investment	106,184,278	82,656,471
	2,304,557,056	2,006,092,954
The amounts included in revenue arising from non-exchange transactions are as follows:		
Taxation revenue		
Property rates	580,100,409	522,514,480
Transfer revenue		
Government grants and subsidies	1,235,137,628	907,186,380
Public contributions and donations - operating projects	-	599,152
Fines	5,979,206	5,455,740
Public contributions and donations - PPE	-	730,105
Fuel levy	317,781,000	170,477,000
	2,138,998,243	1,606,962,857
Prior year errors - Rental of facilities and equipment		
Previously reported	49	-
Adjusted	-	13,387,803
Restated	-	14,619,601

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29. Property rates

Rates received

Residential	302,755,675	269,341,269
Commercial	271,383,807	243,352,437
Municipal	2,557,395	967,510
Public Benefit Organisation	41,092	4,580
Educational	4,389	5,586,571
Agricultural	3,251,927	3,117,285
Public Service Infrastructure	503,298	318,116
Vacant land	22,369,422	21,978,245
Less: Income forgone	(22,766,596)	(22,151,533)
	580,100,409	522,514,480

Valuations

Residential	41,099,633,920	41,152,218,219
Commercial	14,769,186,800	14,639,490,800
Public Benefit Organisation	22,357,000	2,800,000
Municipal	1,709,490,766	1,904,813,166
Rural Communal Land and Special	3,361,122,618	1,407,397,700
Educational	853,000	1,219,509,000
Agricultural	1,769,274,990	1,905,430,990
Public Service Infrastructure	273,829,000	277,782,000
Vacant land	1,014,486,202	1,119,340,202
	64,020,234,296	63,628,782,077

The Buffalo City Metropolitan Municipality is required, in terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings 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. The institution undertook a tendering process to procure the services of a supplier to assist with the preparation of a valuation roll that needs to be presented to the Municipal Manager by 31 January 2014. An unsuccessful tenderer has instituted legal proceedings against the award that was made by the Municipality. Arising from this action, a court has interdicted the Municipality from continuing with the process until a judgement has been made by the court on the issue. The interdict placed on the institution to prevent the continued implementation of a General Valuation process is resulting in a risk that it may not achieve the compliance requirements in terms of the MPRA and may not be able to levy rates revenue in the 2014/15 financial year.

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 2014. 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 R/cents

Agricultural	0.001838	0.001636
Business	0.018375	0.016362
Educational	0.005145	0.004581
Public Service Infrastructure	0.001838	0.001636
Residential	0.007350	0.006545
Vacant Land	0.022050	0.019635

Buffalo City Metropolitan Municipality grants rebates, in terms of the Municipality'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 Municipality does not supply some or all of the following services:

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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29. Property rates (continued)		
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 %
	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 2013 was nil% (2012: 25%). The phase in discount in terms of Section 21 of the Municipal Property Rates Act (MPRA) lapsed in the 2011/12 financial year.
- ▶ 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.

30. Service charges

Sale of electricity	1,265,868,452	1,137,197,632
Sale of water	271,026,418	239,551,504
Sewerage and sanitation charges	223,023,307	197,957,711
Refuse removal	198,898,045	175,340,728
Other service charges	5,451,854	4,662,211
	1,964,268,076	1,754,709,786

31. Government grants and subsidies

Operating grants

Government grants - operating projects	19,206,555	25,641,349
Government grants and subsidies - unconditional	652,442,674	663,677,220
Government grants - housing projects	47,918,009	31,616,463
	719,567,238	720,935,032

Capital grants

Government grants (capital: PPE)	515,570,390	186,251,348
	515,570,390	186,251,348
	1,235,137,628	907,186,380

Equitable Share

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

Amendment to government grant (PPE) previously reported

Government grant - PPE previously reported	-	184,968,213
Adjusted for public contributions and donations - PPE	-	1,283,135
Restated	-	186,251,348

Unspent conditional grants and receipts

Conditions still to be met - remaining liabilities (see note 23).

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32. Other revenue		
Administration fees	44,584	26,055
Admission fees	1,794,120	1,803,192
Application: Town planning	70,832	33,388
Cemetery fees	6,120,275	5,800,317
Cold storage fees	413,910	487,416
Commission	16,953,201	15,412,627
Coupons and clip tickets	1,576,794	1,657,828
Dog tax and penalties	728,981	620,211
Fire brigade	337,514	180,558
Fire levy charges	46,278,790	40,780,779
Grazing fees	51,276	52,622
Hire charges	371,402	400,385
Insurance	1,132,222	2,713,626
Levy on gates	45,564	90,757
Library	23,738	24,130
Meter test fees	31,071	34,492
Parking meters	119,949	192,648
Photocopies	94,532	103,523
Plan approval fees	5,164,972	4,459,391
Private works	1,400,278	1,261,309
Sale of plants and animals	11,203	39,671
Scrap	3,302,845	794,177
Service connections and reconnections	11,999,197	7,077,038
Street frontage and administration fees	281,838	270,807
Sub division fees	1,036,732	545,545
Sundry income	72,888,059	24,159,072
Tender receipts	316,656	523,609
Towing fees	33,808	51,824
Vehicle registrations	30,695,641	28,802,345
	203,319,984	138,399,342
Prior year errors		
	49	
Balance previously stated		- 118,100,894
Other revenue - Scrap income for waste disposal sites overstated		- (1,978,231)
Other revenue - Reclaimed VAT for USD and MIG - sundry income		- 22,276,679
Restated		- 138,399,342

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33. General expenses		
Accounting fees	87,200	132,709
Advertising	2,476,131	2,210,070
Assessment rates & municipal charges	1,669,591	2,195,640
Assets expensed	1,972,741	1,857,599
Auditors remuneration	9,483,025	7,480,260
BCMET	236,082	283,029
Bank charges	5,587,362	5,782,567
Chemicals	14,277,663	15,271,994
Cities network	321,539	292,308
Cleaning	3,326,696	4,094,844
Commission paid	12,431,331	11,133,109
Community development and training	-	7,218
Computer expenses	7,624,331	2,101,289
Conferences and seminars	3,258,715	2,062,661
Consulting and professional fees	30,712,954	29,598,390
Consumables	6,384,656	6,838,765
DWAF	5,850,062	4,227,598
Disconnections	6,344,239	3,768,702
Electricity	44,874,856	42,236,581
Entertainment	2,577,006	2,032,754
Essential users cost	13,028,671	11,862,533
Fuel and oil	41,114,758	31,455,269
Hire (labour and plant)	1,350,355	1,540,921
Horticulture	1,944	-
IT expenses	3,215,365	3,954,888
Insurance	15,859,288	15,535,982
Lease rentals on operating lease	51,172,482	40,944,282
Levies	13,646,090	13,225,798
Magazines, books and periodicals	1,563,835	2,443,226
Marketing	144,951	244,400
Motor vehicle expenses	4,259,245	3,985,988
Operating and housing projects ex grants	147,271,362	100,939,751
Other expenses	62,094,995	42,267,031
Post-retirement medical obligation net cost	14,065,645	74,121,339
Postage and courier	4,409,239	4,695,788
Printing and stationery	8,999,445	8,132,810
Promotions	423,574	342,366
Refuse	6,212,935	8,831,682
Royalties and license fees	8,772,290	8,366,907
Security (Guarding of municipal property)	189,097	391,668
Software expenses	941,938	326,682
Special events	2,908,093	1,159,801
Subscriptions and membership fees	9,801,914	9,501,138
Telecommunication costs (telephones, faxes and cell phones)	20,526,210	20,515,910
Title deed search fees	15,597	6,966
Training	3,008,454	3,133,866
Travel - local	7,009,710	6,233,208
Travel - overseas	1,659,289	1,114,021
Uniforms	6,980,293	6,832,462
Water	5,161,896	3,906,151
	615,305,140	569,620,921
Amendment to general expenses previously disclosed		
General expenses previously reported	-	594,148,300
Medical aid obligation net cost(ex statement of financial performance)	-	74,121,339
Poor relief (now disclosed per note 43: grants & subsidies)	-	(98,646,962)

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33. General expenses (continued)		
Adjustment to telecommunication costs due to overstatement of expenditure in the 2012 financial year	-	(1,750)
Amended total	-	569,620,927
Prior year errors - BCDA	49	
Telecommunication costs previously reported	-	20,517,660
Adjustment to telecommunication costs due to overstatement of expenditure in the 2012 financial year	-	(1,750)
Restated	-	20,515,910

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34. Employee related costs		
Basic emoluments	610,444,235	602,172,059
Medical aid contributions	42,217,987	40,410,121
UIF	6,610,236	6,005,373
Leave pay contribution	20,868,042	25,319,589
Pension fund contribution	112,547,443	110,355,566
Overtime payments	62,098,630	50,915,706
Long-service awards	13,224,861	12,194,233
13th Cheque's	49,567,189	50,148,188
Car allowance	17,416,594	18,717,538
Housing benefits and allowances	3,508,636	3,770,310
Group life	5,248,707	5,333,247
Other allowances	37,138,769	31,023,598
	980,891,329	956,365,528
Prior year errors - Other allowances	49	
Previously reported		- 27,314,873
Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year		- 3,708,725
Restated		- 31,023,598
Summary of prior period errors	49	
Previously reported		- 952,656,803
Adjusted for Other allowances		- 3,708,725
Restated		- 956,365,528
Remuneration of Municipal Manager		
Remuneration	1,055,584	803,225
Travel Allowance	90,000	-
Contributions to UIF, Medical and Pension Funds	29,306	-
Allowance	446,701	-
Other	-	535,483
	1,621,591	1,338,708
Remuneration of Chief Financial Officer		
Remuneration	313,222	702,740
Housing subsidy	1,478	-
Travel Allowance	65,589	-
Allowance	14,584	-
UIF	595	-
Medical aid	11,381	-
Pension contributions	39,669	-
Group life	3,924	-
Other	-	468,493
	450,442	1,171,233

The CFO position was filled in March 2013. Remuneration based on the position being filled for the full period equates to R1 351 352. Acting allowance to the value of R 155 012 was paid in the 2012/13 financial year in respect of the vacant CFO position.

Remuneration of Director Executive Support Services

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34. Employee related costs (continued)		
Remuneration	-	527,055
Travel allowance	-	144,000
Allowance	-	78,681
UIF	-	1,123
Medical aid	-	14,922
Pension contributions	-	102,776
Group life	-	9,869
	-	878,426

The position was vacant for 2012/13. Remuneration based on the position being filled for the full period equates to R1 237 994. Acting allowance to the value of R 225 243 was paid in the 2012/13 financial year in respect of the vacant Director Executive Support Services position.

Remuneration of Chief Operations Officer

Remuneration	-	292,808
Travel allowance	-	80,000
Allowance	-	35,599
UIF	-	624
Medical aid	-	16,403
Pension contributions	-	57,098
Group life	-	5,483
	-	488,015

The position was vacant for 2012/13. Remuneration based on the position being filled for the full period equates to R1 237 994. Acting allowance to the value of R 176 010 was paid in the 2012/13 financial year in respect of the vacant COO position.

Remuneration of Director Corporate Services

Remuneration	61,900	702,740
Housing subsidy	3,000	36,000
Travel allowance	15,000	180,000
Allowance	9,679	97,906
UIF	125	1,497
Medical aid	1,392	16,056
Pension contributions	12,070	137,034
	103,166	1,171,233

The Director of Corporate Services resigned on the 31 July 2012 and the position remained vacant for the remainder of the financial year. Remuneration based on the position being filled for the full period equates to R1 237 994. Acting allowance to the value of R 154 770 was paid in the 2012/13 financial year in respect of the vacant Director Corporate Services position.

Remuneration of Director Health and Public Safety

Remuneration	495,198	702,740
Allowance	232,426	329,962
UIF	1,142	1,497
Pension contributions	96,564	137,034
	825,330	1,171,233

The contract for the Director of Health and Public Safety expired on 28 February 2013. He was appointed as Special Advisor to the Executive Mayor with effect from 01 June 2013. The payment for the period March to May 2013 is reflected under note 55: Irregular expenditure. Remuneration based on the position being filled for the full period equates to R1 237 994.

Remuneration of Director Engineering Services

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Figures in Rand	2013	2012 Restated
34. Employee related costs (continued)		
Remuneration	742,796	702,740
Travel allowance	168,000	168,000
Allowance	157,225	140,220
UIF	1,713	1,497
Medical aid	13,565	12,424
Pension contributions	144,845	137,034
Group life	9,849	9,318
	1,237,993	1,171,233

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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Figures in Rand	2013	2012 Restated
34. Employee related costs (continued)		
Remuneration of Director Development and Planning		
Remuneration	742,796	702,740
Travel allowance	192,000	192,000
Allowance	121,232	105,115
UIF	1,713	1,497
Medical aid	21,499	19,688
Pension contributions	144,845	137,034
Group life	13,908	13,158
	1,237,993	1,171,232
Remuneration of Director Community Services		
Remuneration	742,796	702,740
Travel allowance	120,000	120,000
Allowance	214,731	196,803
UIF	1,713	1,497
Pension contributions	144,845	137,034
Group life	13,908	13,158
	1,237,993	1,171,232
35. Remuneration of Councillors		
Executive Mayor	640,892	607,480
Deputy Mayor	42,726	485,984
Speaker	512,714	485,984
Chief Whip	480,668	455,610
Mayoral Committee Members (Allowance = R480 668: 9 Councillors)	4,253,657	4,100,490
Traditional leaders	356,325	-
Councillors (Allowance = R 224 312: 87 Councillors)	20,282,120	24,842,828
Councillors pension contribution	2,626,833	1,767,177
Councillors housing subsidy	2,690,095	2,261,594
Councillors medical aid	1,031,476	795,151
Travel allowance	10,413,804	7,075,811
UIF	-	87,557
	43,331,310	42,965,666

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 R2 710 857 (2012: R 2 486 553).

The Executive Mayor and Deputy Mayor each have the use of a Council owned vehicle for official duties. Operating costs of the vehicles amounts to R192 985 (2012: R 333 666). An amount of R396 833 (2012: R 304 444) was incurred for hired vehicles.

The Executive Mayor and Deputy Mayor each have full-time bodyguards and an official driver. Cost of the bodyguards and the drivers amounts to R1 664 084 (2012: R1 427 729).

These benefits are governed by MFMA circular 58 dated 14 December 2011 and the Government Gazette 35962 dated 07 December 2012. Certain benefits that were prohibited by MFMA circular 58 dated 14 December 2011 have been regularised by Government Gazette 35962 dated 07 December 2012. These benefits includes the provision of electronic devices and official accommodation and furniture for the Executive Mayor. House keeping costs in the amount of R32 869 are also included.

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36. Debt impairment			
Contributions to debt impairment allowance account		106,769,757	58,206,738
37. Interest received			
Interest revenue			
Unlisted financial assets		75,756,373	51,472,891
Bank		8,223,811	7,260,714
Interest charged on trade and other receivables		22,196,338	23,911,632
Interest on sporting body loans		7,756	8,252
SARS interest		-	2,982
		106,184,278	82,656,471
38. Fair value adjustments and discounting of receivables and payables			
In terms of GRAP 104 Paragraph AG 87 the initial period granted for short-term payables and receivables is 30 days. As the normal municipal receivables and payables terms are within 30 days and is consistent with established practice and legislation, no discounting needs to be performed.			
39. Depreciation and amortisation			
Property, plant and equipment	15	696,166,151	671,224,895
Intangible assets - amortisation	12	3,184,946	4,477,178
		699,351,097	675,702,073
Prior period errors	49		
Previously reported		-	513,024,034
Adjustment		-	162,678,039
Restated		-	675,702,073
40. Finance costs			
Non-current borrowings		67,258,679	70,498,923
41. Auditor General remuneration			
Expenses		9,483,025	7,480,260
42. Contracted services			
Other Contractors		7,763,365	6,839,654

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Figures in Rand	2013	2012 Restated
43. Grants and subsidies paid		
Grants-in-Aid		
Grants And Subsidies	2,016,324	-
Subsidies-Churches, sport and other welfare org.	1,636,935	-
Buffalo City Development Agency	57,496	167,465
Mayoral Social Responsibility	400,047	420,901
Publicity Association Grant	3,763,505	1,115,717
Sponsored Sporting Events	13,127,110	12,036,803
Poor relief	94,920,244	98,646,964
	115,921,661	112,387,850
Amendment to grants and subsidies previously disclosed		
Grants-in-Aid previously reported	-	13,740,886
Poor relief previously disclosed under general expenses	-	98,646,964
Amended total	-	112,387,850
44. Bulk purchases		
Electricity	900,088,648	787,947,122
Water	140,024,695	127,440,041
	1,040,113,343	915,387,163
45. Net cash flows from operating activities		
Surplus	482,778,674	(48,407,957)
Non-cash movements		
Depreciation and amortisation	39 699,351,097	675,702,073
Loss on the sale of property, plant and equipment	15 8,166,366	7,546,528
Share of deficit of associate	17 -	12,087,832
Fair value adjustment on Investment Property revalued	13 12,106,576	12,514,554
Impairment deficit	15 71,393	1,798,575
Debt impairment	36 106,769,757	58,206,738
Movement in operating leases	10 (2,605,046)	(1,582,011)
Movement in post retirement medical aid benefit obligation	24 136,794	60,662,209
Movement in provisions relating to landfill sites	21 (11,464,485)	25,496,119
Revaluation realisation	25 (17,914,402)	(2,294,320)
Adjustment of prior year transactions	15 -	(53,876,651)
Adjustment of prior year transactions	32 -	(20,298,448)
Adjustment of prior year transactions	34 -	3,708,724
Adjustment of prior year transactions	64 -	8,708,272
Revaluation of property, plant and equipment	15 -	67,929
Non-cash property, plant and equipment adjustments	15 215,924	-
Non-cash property, plant and equipment additions	15 (7,829,585)	(26,245,909)
Non-cash property, plant and equipment transfers	15 11,464,486	-
Movement in inventory	6 45,462,930	20,303,946
Movement in receivables from non-exchange transactions	8 (65,920,461)	(62,260,537)
Movement in receivables from exchange transactions	7 (178,281,050)	(159,620,632)
Movement in payables from exchange transactions	22 119,659,331	82,253,322
Movement in VAT receivables and payables	9 (30,767,882)	2,380,395
Movement in current tax payable	67 24,920	246,394
	1,171,425,337	597,097,145

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46. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment

▶ Community	167,425,695	32,930,069
▶ Infrastructure	807,740,428	227,001,502
▶ Other	196,737,090	121,217,979
	1,171,903,213	381,149,550

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	6,927,809	6,357,433
- in second to fifth year inclusive	17,157,685	24,085,494
	24,085,494	30,442,927

Operating lease payments represent rentals payable by the metropolitan 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.

47. Contingencies

Contingent assets

A counterclaim of R27 140 802 has been instituted by Council against Dormell Properties trading as Allaince Communications for repayment of amounts paid to them relating to the forensic investigation on Dr Zitha's appointments.

The estimated amount of recoverable traffic fines for 2013 is R1 544 400 (2012: R1 495 800) at year end.

BCMM purchased property in the amount of R762 440 (2012: R762 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 R492 050 (2012: R492 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 R515 946 (2012: 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.

BCDA has lodged a dispute on the VAT balance, as at 30 June 2012, per SARS statements. BCDA submitted VAT returns as required subsequent to the last VAT assessment conducted by SARS. The VAT outstanding as per SARS amounts to R33 897.

48. Related parties

Associate

Refer to note 17

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.

BCMM paid an amount of R 128,200 VAT inclusive in April 2013 in respect of grass mowing on behalf of East London IDZ.

For key management and Councillors remuneration refer to notes 34 and 35.

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

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49. 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:

Accumulated Surpluses

Resort rental income erroneously disclosed as caravan deposits	22	1,203,931
IDZ rebate on rates overcharged 07/08, 08/09, 09/10, 10/11 financial years	8	(3,013,101)
IDZ overcharged on electricity 09/10 financial year	8	(1,400,484)
Scrap income for waste disposal sites overstated 09/10, 10/11 financial years	8	(902,070)
Reclaimed VAT for MIG grant not claimed for the 10/11 financial year	23	25,850,895
Electricity assets - carrying value overstated in prior year	15	- (34,429,802)
Land - Adjustments made due to the review, update and reclassification of immovable assets	15	- (2,313,722,613)
Buildings - Adjustments made due to the review, update and reclassification of immovable assets	15	- (844,950,428)
Work in progress - Adjustments made due to the review, update and reclassification of immovable assets	15	- (36,230,591)
Recreational facilities - Adjustments made due to the review, update and reclassification of immovable assets	15	- (32,841,173)
Roads	15	- 4,383,777
Water network - Adjustments made due to the review, update and reclassification of immovable assets	15	- (125,119,395)
Community buildings - Adjustments made due to the review, update and reclassification of immovable assets	15	- (30,311,285)
Revaluation reserve - Adjustments made due to the review, update and reclassification of immovable assets	25	- 942,683
Investment property - Adjustments made due to the review, update and reclassification of immovable assets	13	- 188,063,317
Heritage assets - Adjustments made due to the review, update and reclassification of immovable assets	14	- (3,420,756)
Total changes to accumulated surpluses		(3,205,897,095)

Statement of Financial Position 2012

Adjustment to deposits erroneously disclosed - should be rental income	22	(2,435,729)
IDZ rebate on rates overcharged 07/08, 08/09, 09/10, 10/11 financial years	8	3,013,101
IDZ overcharged on electricity 09/10 financial year	8	1,400,484
Scrap income for waste disposal sites overstated 09/10, 10/11, 11/12 financial years	8	2,880,301
Reclaimed VAT for MIG grant not claimed for the 10/11 financial year	23	(48,127,574)
Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year	22	3,708,724
Adjustment to accounts receivable for telephone expenses overstated in the 2012 financial year - BCDA	8	(1,750)
Increase in tax due to decrease in telephone expenses in the 2012 financial year - BCDA	67	490
Accumulated depreciation for the year adjusted	15	(839,751)
Cash on hand/creditors adjusted	5&22	2,283,083
Bank account adjusted	5	- (2,283,083)
Other properties (landfill sites) adjusted	15	- 14,129,184
Provisions (landfill sites) adjusted	21	- (14,129,184)
Total changes to the Statement of Financial Position 2012		(40,401,704)

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49. Prior period adjustments (continued)

Statement of Financial Performance 2012

Surplus for the year as per audited financial statements			<u>123,730,338</u>
Resort rental income erroneously disclosed as caravan deposits	28		1,231,798
Scrap income for waste disposal sites overstated 11/12 financial year	32		(1,978,231)
Reclaimed VAT for MIG and USD grants not claimed for the 11/12 financial year	32		22,276,679
Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year	34		(3,708,724)
Adjustment to accounts receivable for telephone expenses overstated in the 2012 financial year - BCDA	8		1,750
Increase in tax due to decrease in telephone expenses in the 2012 financial year - BCDA	67	-	(490)
Repairs and maintenance - Adjustments made due to the review, update and reclassification of immovable assets	33	-	(8,708,272)
Depreciation - Adjustments made due to the review, update and reclassification of immovable assets	39	-	(162,678,039)
Fair value - Adjustments made due to the review, update and reclassification of immovable assets	13	-	(12,514,554)
Disposals - Adjustments made due to the review, update and reclassification of immovable assets	15	-	(6,060,218)
Net affect on surpluses for 2012			<u>(172,138,301)</u>
Restated surpluses for 2012			<u>(48,407,963)</u>

Summary: Adjustments affecting Net Assets

Changes to operating income and expenditure accounts in the 2011 and earlier years	(3,205,897,095)
Changes to the operating income and expenditure accounts in the 2012 year	(172,138,301)
Total changes affecting Net Assets	<u>(3,378,035,396)</u>

Reconciliation of the restated balance of the accumulated surpluses as at 1 July 2012

Balance as per audited statements	11,291,325,421
Changes effecting net assets	(3,378,035,396)
Balance as at 1 July 2012 as restated	<u>7,913,290,025</u>

Reconciliation of the restated balance of the accumulated surpluses as at 1 July 2011

Balance as per audited statements	11,180,335,322
Prior year adjustments	(3,205,897,095)
Balance as at 1 July 2011 as restated	<u>7,974,438,227</u>

50. Risk management

Capital risk management

The metropolitan economic entity's objectives when managing capital are to safeguard the metropolitan 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 Metropolitan economic entity consists of debt, which includes the borrowings, cash and cash equivalents and equity.

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

Financial risk management

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50. Risk management (continued)

The metropolitan 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 metropolitan economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the metropolitan 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 metropolitan economic entity's risk to liquidity is a result of the funds available to cover future commitments. The metropolitan 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 metropolitan economic entity has no significant interest-bearing assets, the metropolitan economic entity's income and operating cash flows are substantially independent of changes in market interest rates.

The metropolitan economic entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Metropolitan economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the metropolitan 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 (1/7/2012-31/1/2013 = 7.5%)	8.00 %	660,955,829	-	-	-	-
Cash in current banking institutions	4.50 %	146,017,859	-	-	-	-
Call investment deposits	4.67 %	1,697,297,653	-	-	-	-
Trade and other payables - extended credit terms	10.50 %	(422,559,849)	-	-	-	-
Long term borrowings	10.09 %	(49,970,261)	(104,603,263)	(150,700,458)	(201,409,489)	(445,767,676)

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 2013	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)
Trade and other receivables - normal credit terms (1/7/2012-31/1/2013 = 7.5%)	8.00 %	660,955,829	611,996,138	617,715,728	606,381,494
Trade and other payables	10.50 %	(397,110,906)	(359,376,386)	(362,658,362)	(356,153,279)
Cash in current banking institutions	4.50 %	146,017,859	139,730,009	141,080,057	138,405,554
Call investment deposits	4.67 %	1,697,297,653	1,621,570,319	1,637,211,974	1,606,224,712

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.

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50. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits (refer note 5) and trade debtors (refer notes 7&8). The metropolitan economic entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

51. 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.

52. Events after the reporting date

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

53. Unauthorised expenditure

Unauthorised expenditure for the year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	14,478,000	-
Closing balance	14,478,000	-
Prior period error		
Previously reported	-	8,116,451
Adjusted	-	(8,116,451)
Restated	-	-

The asset register is currently being revised for certain infrastructure asset categories which has led to an increase in the cost of these assets and the resulting depreciation on them, which was not budgeted for. This is also due to a large amount of infrastructure projects that were still under construction (WIP) when the budgeted figures were calculated. This resulted in depreciation on roads and certain municipal properties being charged when these assets were capitalised which was not budgeted for.

No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

The comparative figure for the previous year in the amount of R8 116 451 was reversed due to this amount being deemed by the Metropolitan economic entity to not be unauthorised expenditure.

54. Fruitless and wasteful expenditure

Opening balance	7,148,190	6,146,874
Acts of negligence, damage to municipal properties and theft of goods.	421,177	828,514
Payment made iro yearly bus licences.	119,880	-
Interest charged on overdue accounts due to late payment and sheriff fees.	-	103,004
Payments made in respect of Council Litigations.	393,253	60,555
Penalties charged by SARS for late/incorrect submission of VAT returns - BCDA	-	7,276
Cellphone charges with no contract/services - BCDA	-	1,750
AGSA late payment - BCDA	-	217
Cellphone charges refund received - BCDA	(1,750)	-
	8,080,750	7,148,190

Staff members involved in acts of negligence, damage to vehicles, theft of goods and overpayment of overtime, resulted in the Metropolitan economic entity incurring losses totalling R421 177 (2012: R 828 514). No disciplinary action has been taken to date of reporting and there is no indication that these costs are recoverable.

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54. Fruitless and wasteful expenditure (continued)

Payments made in respect of Council Litigations amounted to R393 253 (2012: R60 555).

Payment made iro yearly bus licences in terms of the National Road Traffic Act of 1996 to the amount of R119 880. The busses are not in use due to litigation.

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the condonement and future actions to be taken in regards to irregular, fruitless and wasteful expenditure.

BCDA - Cellphone charges with no contract/services amounted to R1 750.

BCDA - Penalties charged by SARS for late/incorrect submission of VAT returns accrued but not yet paid amounted to R7 276 during 2012.

BCDA - AGSA late payment amounted to R217.

55. Irregular expenditure

Opening balance	664,006,652	227,215,436
Irregular Expenditure - current year	117,127,620	436,791,216
	781,134,272	664,006,652

Analysis of expenditure awaiting condonation per age classification

Current year	117,127,620	436,791,216
Prior years	664,006,652	227,215,436
	781,134,272	664,006,652

Details of irregular expenditure

Procurement made outside SCM regulations	13,153,621	-
BCC contracts	17,308,350	67,623,247
Annual contracts	77,233,540	9,390,425
Expired contracts	89,370	186,920,051
Expired leases on machinery and other expired leases	1,958,187	2,400,297
Expired leases on hygiene products	261,265	1,972,725
Irregular expenditure made on 3 quotation system	4,705,137	103,585,743
Completeness of SCM documentation	1,571,468	-
Payment iro employment contract - Section 57 employee	271,490	-
Stock purchases	-	177,354
Payments iro Councillors	-	15,175,427
ED contracts	-	48,852,489
Informal tenders	-	596,480
Non-approved deviations by Council - MFMA Regulation 36 on SCM	575,192	-
Scope extention and 3 quotation system - BCDA	-	96,978
	117,127,620	436,791,216

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the condonement and future actions to be taken in regards to irregular, fruitless and wasteful expenditure.

Amounts condoned by Council at the Council meeting on 31 July 2013 were R75 786 430 and R143 410 018 in respect of 2011 and 2012 respectively.

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55. Irregular expenditure (continued)		
Details of irregular expenditure recoverable		
Tender award - Irregularities - Neo Solutions		2,278,189
Tender award - Irregularities - Waste Rite		20,231,888
		<u>22,510,077</u>
56. In-kind donations and assistance		
FELZOO donated assistance to BCMM	23,800	193,378
57. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	9,800,000	9,500,000
Amount paid - current year	(9,800,000)	(9,500,000)
	-	-
Contributions to SA Cities Network		
Current year subscription / fee	321,539	292,308
Amount paid - current year	(321,539)	(292,308)
	-	-
Audit fees		
Current year fee	9,219,239	7,328,872
Amount paid - current year	(9,219,239)	(7,328,872)
	-	-
PAYE, UIF and Skills		
Current year subscription / fee	131,332,923	125,865,881
Amount paid - current year	(131,332,923)	(125,865,881)
	-	-
Amounts in respect of June 2012 were paid by 07 July 2012 as per legislation, therefor there were no outstanding amounts for the financial year 2012/2013.		
Pension and Medical Aid Deductions		
Current year subscription / fee	230,482,775	221,671,814
Amount paid - current year	(230,482,775)	(221,671,814)
	-	-

Amounts in respect of June 2012 were paid by 07 July 2012 as per legislation, therefor there were no outstanding amounts for the financial year 2012/2013.

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

VAT

VAT receivable	64,736,157	33,958,513
VAT payable	(9,762)	-
	64,726,395	33,958,513

VAT output payables and VAT input receivables are shown in note 9 as net VAT receivable.

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

Councillors and officials arrear consumer accounts

Arrear Councillors accounts totalling R8 515 were outstanding for more than 90 days at 30 June 2013 (2012: R2 912) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

30 June 2013	Outstanding more than 90 days
Councillor R. Angelbeck - since 30 June 2013 amount paid	1,115
Councillor S. Gomba - since 30 June 2013 amount paid	3,644
Councillor N. Mekani - since 30 June 2013 amount paid	150
Councillor M. Nkula - since 30 June 2013 amount paid	1,447
Councillor G. Norexe - since 30 June 2013 amount paid	185
Councillor R. Thiele - since 30 June 2013 outstanding amount less than 90 days	1,974
30 June 2012	Outstanding more than 90 days
Councillor A.M. Matana	502
Councillor N.E. Maqidlana	652
Councillor R.N. May	530
Councillor N. Mekani	633
Councillor L.J. Mentoor	358
Councillor L. Quse	237

During the year officials accounts totalling R879 397 (2012: R461 723) were outstanding for more than 90 days.

Material losses

Electricity losses for the current year amounted to 9.54% i.e. R85 345 229 (2012: 12.61% i.e. R97 544 542). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 5% i.e. R44 723 885 (2012: 6.5% i.e. R50 285 375). Non-technical losses, being theft, faults, billing errors etc., account for 4.54% R40 621 344 (2012: 6.11% i.e. R47 259 167). Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 45.67% i.e. R102 924 479 (2012: 47.28% i.e. R105 221 795). 41.06% i.e. R92 503 445 (2012: 37.56% i.e. R83 590 522) of these losses can be accounted for in terms of the National Guidelines for non-revenue water. 4.61% i.e. R10 421 034 (2012: 9.72% i.e. R21 631 273) 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.

The above losses include rural areas and informal settlements.

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58. Utilisation of Long-term liabilities reconciliation		
Long-term liabilities raised	45,368,396	-
Finance leases raised	5,004,171	749,790
Used to finance property, plant and equipment	(50,372,567)	(749,790)
	-	-

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.

59. Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 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 totaling R16 182 283 (2012: R21 666 617) 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.

Nature of deviation	No of contracts	Value of contracts
Emergency	3	12,541,744
Sole supplier	1	80,000
Exceptional case	4	3,560,539
	8	16,182,283

60. 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
- Aftrevoorsieningsfonds 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 2012 conducted by S. Neethling from Metropolitan Life Limited. The fund was 99.4% funded at valuation date. BCMM has both defined contributions (8) and defined benefit (29) members within this fund. The fund includes a number of municipalities and it is therefore not possible to identify each municipalities performance as the assets of the fund cannot be separately identified. Due to the low number of members it is envisaged that a surplus or deficit will not have a material effect on future contributions.

The Cape Retirement Fund's last actuarial valuation was at 30 June 2012 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 2021 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 funding level level was at 99.67% at valuation date.

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60. Retirement benefit information (continued)

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 2008 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 of the assets is in his opinion, suitable for the nature of the liabilities of the fund at the date of valuation.

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 at this date was 102.2%.

The Municipal Councillors Pension Fund's last interim valuation was at 28 February 2011 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 13.9 million.

An amount of R157 million (2012: R 151.9 million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee 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.

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61. Contingent liabilities		
Litigation Issues		
A claim has been instituted against Council by T.L. Rayi due to alleged defamation. Legal advice has been sought and Council will defend the claim.	100,000	100,000
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	2,617,040	1,162,631
A claim 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). (Resolved)	-	4,092,956
A claim 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).	1,563,415	1,563,415
A claim 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).	1,382,118	1,382,118
A claim 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).	9,780,185	9,780,185
A claim 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). (Resolved)	-	2,872,579
A claim has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyance work done on Council's behalf (Date of incident August 2011 and summons received by BCMM September 2011).	3,948,000	3,948,000
A claim 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).	7,786,920	7,786,920
A claim 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).	2,910,575	2,910,575
A claim has been instituted against Council by Mkwanzani Construction (Pty) Ltd 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).	36,861,290	36,861,290
A claim 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).	2,209,820	2,209,820
A claim has been instituted against Council by Claremont Farming as the plaintiff wants BCMM to take ownership of its farm after BCMM allegedly erected a water reservoir on the farm. (Resolved)	-	680,000
Contracts awarded during Dr.Zitha's tenure as acting Municipal Manager were investigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.	20,474,866	20,983,535
A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013).	15,812,736	-
A claim has been instituted against Council by Evaluations Enhanced Property Appraisals (Pty) Ltd for an application to set aside an award made by BCMM to a competing tenderer under contract 2953 - General Valuation Project (Summons received November 2012).	29,642,513	-
A claim has been instituted against Council by Ranamane Mokalane Incorporated for professional fees owed for services rendered by them (Date of incident April and May 2010 and summons received March 2013).	2,724,871	-

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61. Contingent liabilities (continued)		
A claim has been instituted against BCDA by (Kwezi V3 now Worley Parsons) for claiming an amount above contract amount. This additional amount relates to additional services and disbursements that had not been included in the initial contract and there was no agreement entered for these additional costs.	45,104	-
Total Contingent Liabilities in respect of Litigation Issues	137,859,453	96,334,024
Labour Issues		
Directors bonuses	3,074,537	2,105,653
Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims.	6,878,488	4,815,057
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.	37,000,000	35,000,000
Employees who have appealed against TASK evaluation results may receive a higher TASK level and backpay if their TASK levels are upgraded through the appeal process. It is also possible that positions within the Municipality could be re-graded and employees could also in some cases be upgraded and receive backpay. 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.	10,000,000	10,000,000
The Senior Professional Nurses allege that their Occupational Specific Dispensation allowances have been incorrectly calculated and that they should be receiving higher amounts. 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). (Resolved)	-	4,800,000
Certain former R293 employees received a lesser total package when they were transferred to the Municipality in April 2000.	5,000,000	5,000,000
Total Contingent Liabilities in respect of Labour Issues	61,953,025	61,720,710
Insurance Issues		
Claims 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.	5,805,000	6,582,866
Claims have been instituted against Council due to various damage claims.	1,010,472	256,854
A claim 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).	2,300,235	4,183,882
A claim has been instituted against Council by M. Ntswanhlana in respect of personal injury caused by a billboard (Date of incident August 2005 and claim received by BCMM September 2006). (Resolved)	-	1,880,000
A claim 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).	2,500,000	2,500,000
A claim has been instituted against Council by T Beija and D.H.E. Beija in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012).	7,001,518	-
Total Contingent Liabilities in respect of Insurance issues	18,617,225	15,403,602
Other issues not yet under litigation		
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	60,792	75,147

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61. Contingent liabilities (continued)		
Total Contingent Liabilities	218,490,495	173,533,483
62. Cash flows from operating activities		
Receipts: Sale of goods and services		
Total revenue as per Statement of Financial Performance	4,443,555,299	3,613,055,811
Less: Fair value adjustments	13 (12,106,576)	(12,514,554)
Less: Interest received	37 (106,184,278)	(82,656,471)
Less: Public contributions and donations	28 -	(599,152)
Less: Government grants and subsidies received	28 (1,235,137,628)	(907,186,380)
Less: Public contributions- PPE	28 -	(730,105)
Gain/(Loss) on sale of assets	15 8,166,366	7,546,528
Movement from non-exchange transactions	8 (65,920,461)	(62,260,537)
Fair value adjustment on Investment Property revalued	13 12,106,576	12,514,554
Movement in receivables from exchange transactions	7 (178,281,050)	(159,620,632)
Movement in VAT receivables	9 (30,767,882)	2,380,395
Movement in operating lease receivable	10 (2,605,046)	(1,582,011)
Net revenue from sale of goods and services as per the cash flow statement	2,832,825,320	2,408,347,446
Payment: Suppliers		
Total expenditure as per the Statement of Financial Performance	(3,948,645,126)	(3,636,612,003)
Employee costs	34&35 1,024,222,639	999,331,194
Interest paid	40 67,258,679	70,498,923
Depreciation and amortisation	39 699,351,097	675,702,072
Reversal of impairments	15 71,393	1,798,575
Debt impairment	36 106,769,757	58,206,738
Non-cash property, plant and equipment transfers	15 11,464,486	-
Movement in post retirement medical aid benefit obligation	24 136,794	60,662,209
Movement in provisions relating to landfill sites	21 (11,464,485)	25,496,119
Ajustment of prior year transactions	15 -	(53,876,651)
Ajustment of prior year transactions	32 -	(20,298,448)
Ajustment of prior year transactions	34 -	3,708,724
Ajustment of prior year transactions	64 -	8,708,272
Revaluation of property plant and equipment	15 -	67,929
Movement in payables from exchange transaction	45 119,659,331	82,253,322
Non-cash asset additions-leases	15 (7,829,585)	(26,245,909)
Movement in inventory	45 45,462,930	20,303,946
Tax on adjustment of SARS interest and penalties calculated	37 -	(2,982)
Revaluation reserve realisation	25 (17,914,402)	(2,294,320)
Non-cash property, plant and equipment adjustments	15 215,924	-
Net payments to suppliers as per cash flow statement	(1,911,240,568)	(1,732,592,290)
Government grants, subsidies and public contributions and donations		
Government grants & subsidies	31 1,235,137,628	907,186,381
Public contributions and donations - operating	28 -	599,152
Public contributions and donations - PPE	28 -	730,105
Total as per cash flow statement	1,235,137,628	908,515,638

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63. Surplus / (Deficit) for the year		
Reconciliation of actual operating results to net income/ (deficit)		
Net income for the period	482,778,674	(48,407,953)
Offset depreciation	423,793,015	473,029,283
Items not provided for in the operating budget	3,940,210	(19,634,360)
Capital expenditure ex grant funding	(515,570,387)	(187,131,453)
Actual operating results	394,941,512	217,855,517
Items not provided for in the operating budget		
(Loss) on disposal of assets and liabilities	(8,166,366)	(7,546,528)
Fair value adjustment on Sanlam shares revalued	(12,106,576)	(12,514,554)
Share of deficit of associate accounted for under the equity method	-	(12,087,832)
Other income and expenditure not budgeted for	3,940,210	(19,634,360)
<p>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.</p> <p>Other income and expenditure as 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.</p>		
64. Repairs and maintenance		
Repairs and maintenance summary		
Repairs and maintenance - Buildings	12,682,400	12,445,133
Repairs and maintenance - Vehicles	12,914,335	11,011,960
Repairs and maintenance - Equipment	6,047,438	6,204,702
Repairs and maintenance - Minor improvements	2,790,570	2,700,551
Repairs and maintenance - Office machines	4,241,485	4,069,482
Repairs and maintenance - Roads	35,859,297	22,048,981
Repairs and maintenance - Furniture	173,693	121,624
Repairs and maintenance - Electricity	13,866,930	12,691,835
Repairs and maintenance - Deffered maintenance	76,584,866	55,779,001
Repairs and maintenance - Sewerage	9,000,089	8,242,751
Repairs and maintenance - Water network	15,558,749	19,314,642
Repairs and maintenance - Mechanical repairs	1,792,541	1,656,041
Repairs and maintenance - Stormwater	6,758,996	5,064,405
Repairs and maintenance - Radio equipment	87,685	162,762
Repairs and maintenance - Maintenance contracts	50,569,944	43,249,967
Repairs and maintenance - Grounds	704,326	667,907
Repairs and maintenance - General	10,787,805	9,662,715
Repairs and maintenance - Extinguishers	88,591	127,658
Repairs and maintenance - Health and Public safety	330,211	1,051,305
Repairs and maintenance - Community services	2,861,738	3,018,962
Total Repairs and maintenance	263,701,689	219,292,384
Prior year error		
Balance previously stated	49	-
Adjusted		210,584,112
		8,708,272
Restated		- 219,292,384

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65. Deferred tax		
Deferred tax asset		
Deferred tax	275	275
66. Other financial liabilities		
Other non-current financial liabilities		
Seaview Developers	50,000	50,000
Marina Glen	50,000	50,000
Other refundable deposits	2,500	2,500
	102,500	102,500
67. Current tax payable		
Current tax payable	518,489	493,569
Reconciliation of tax payable		
Opening balance	493,569	247,175
SARS interest and penalties payable	-	(2,982)
Current tax payable	24,920	249,376
Total tax payable	518,489	493,569
Prior period error - BCDA	49	
Normal tax previously reported	-	493,079
Adjusted for decrease in telephone expenditure for the 2012 financial year	-	490
Restated	-	493,569
68. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	24,920	249,376
Reconciliation of the tax expense		
Reconciliation between accounting surplus and tax expense.		
Accounting taxable surplus	555,345	884,581
Tax at the applicable tax rate of 28% (2012: 28%)	24,920	378,188
Tax effect of adjustments on taxable income		
Less: Interest received - SARS (R 2,982 * 28%)	-	(834)
Add: Tax Effect on interest and penalties (R7,275 * 28%)	-	2,037
	24,920	379,391
Prior period error - BCDA	49	
Normal tax previously reported	-	248,885
Adjusted for increase in taxable income for the 2012 financial year	-	130,016
Adjusted for decrease in telephone expenditure for the 2012 financial year	-	490
Restated	-	379,391

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69. Bids awarded to family of employees in service of BCMM

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

Connected person	Position held in State	2013	2012
N. Mtwebana	Admin clerk	2,890	-
V. Mayekiso	Ward committee	14,400	-
N. Ntho	Electrification intern	10,500	-
S. Gantana	L.R. Practitioner	7,720	-
Z. Garishe	Overseer: Coastal	29,000	-
Total		64,510	-