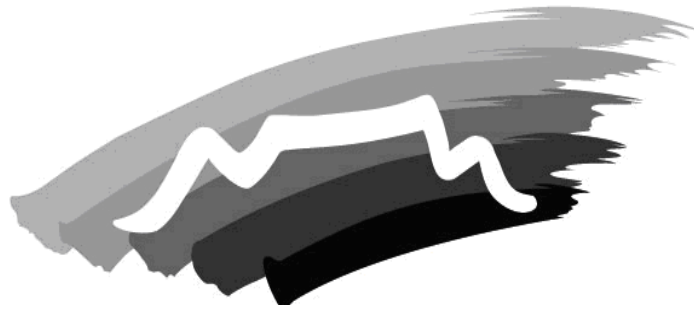


**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**



**ANNUAL FINANCIAL
STATEMENTS**

for the year ended

30 JUNE 2006



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GENERAL INFORMATION

MAYOR Alderman H Zille

DEPUTY MAYOR Councillor A Arnolds

MEMBERS OF THE MAYORAL COMMITTEE

Alderman H Zille : Executive Mayor of the **Mayoral Committee**
Councillor A Arnolds : Mayoral Committee Member and Chairperson of the **Amenities and Sport Portfolio**
Councillor B Walker : Mayoral Committee Member and Chairperson of the **Corporate Services and Human Resources Portfolio**
Councillor W Hassiem : Mayoral Committee Member and Chairperson of the **Economic, Social Development and Tourism Portfolio**
Alderman I Neilson : Mayoral Committee Member and Chairperson of the **Finance Portfolio**
Councillor M Fienies : Mayoral Committee Member and Chairperson of the **Health Portfolio**
Councillor D Plato : Mayoral Committee Member and Chairperson of the **Housing Portfolio**
Councillor M Nieuwoudt : Mayoral Committee Member and Chairperson of the **Planning and Environment Portfolio**
Councillor D Ximbi : Mayoral Committee Member and Chairperson of the **Safety and Security Services Portfolio**
Councillor L Roelf : Mayoral Committee Member and Chairperson of the **Trading Services and Infrastructure Portfolio**
Councillor E Thomson : Mayoral Committee Member and Chairperson of the **Transport, Roads and Stormwater Portfolio**

MEMBERS OF THE AUDIT COMMITTEE

Aklaaq Mahmood : Chairperson
Bertina Engelbrecht : Deputy Chairperson
Andre Barkhuizen : Member
Mervyn Burton : Member
Bulelani Mahlangu : Member
Ray Schur : Member

AUDITORS : Office of the Auditor-General
1st Floor Private Bag X1
Business Connexion Building Chempet
Ring Road 7442
Century Boulevard, Century City

BANKERS : ABSA Bank
1st Floor Tijgerpark IV P O Box 4453
Willie Van Schoor Drive Tyger Valley
Tyger Valley 7536
7530 Bellville

REGISTERED OFFICE : 12 Hertzog Boulevard P O Box 655
8000 Cape Town 8000 Cape Town

CITY MANAGER : Achmat Ebrahim

CHIEF FINANCIAL OFFICER: Mike Richardson

COUNCIL MEMBERS OF THE CITY OF CAPE TOWN

COUNCILLOR/ALDERMAN

Abdullah, R	Green, A M	Mbaliswana, M G	Sasman, D P
Abrahams, A	Grindrod, S P	Mcgluwa, J J	Sass, G M
Abrahams, A N	Groenewald, E	McKenzie, C L	Sawant, E
Amira, D	Hassiem, W	Mdluli, V V	Schäfer, D A
Anderson-Jardine, L O	Heber, B	Mfeketo, N C	Serritslev, A M
Arendse, M G	Hermans, J	Mgayiya, N P	Sidinana, L T
Arendse, P S	Hill, P A D	Mgodeli, P	Sikhutshwa, T R
Arendse, S W P	Hlazo, M W	Mgxekeni, T M	Siljeur, G R
Ariefdien, M G	Holderness, N	Middleton, J H	Simons, J M
Arnolds, A	Ipser, C W	Mini, G B	Sims, S
Bala-Mjobo, B V	Iversen, I	Mkutswana, M A	Smit, D
Baskiti, M	Jackson, I R	Mngxunyeni, P M	Smit, J D
Bayat, S	Jacobs, B M	Mnqasela, M	Smith, D R
Beerwinkel, C F	Jacobs, J	Mocke, D	Smith, J
Bent, N L	Jacobs, N A	Mofoko, N M	Solizwe, M T
Benya, L	Jaftha, W D	Mokoena, J M	Sonnenberg, E J
Bergh, A V	Jama, J S	Morkel, G N	Sotashe, X R
Berry, E A	Jelele, L D	Mrawu, R	Steenkamp, F R
Bester, N	Jespersen, G A	Msuthu, N M	Stemela, H P
Bevu, T N	Joka, M W	Mthiya, T B	Tabisher, C
Billie, N E	Joko, B	Murudker, M	Thee, J W P
Blaai, B C	Jonas, A S	Mxolose, W S	Thomas, C R
Booi, P T	Jones, M	Ncedana, M	Thompson, E L
Bottoman, T N	Justus, C R	Neilson, I D	Thompson, T B
Brady, W E	Kallie, A	Nieuwoudt, M J	Timm, G
Bredenhand, J C	Kearns, F	Nkwele, W A	Traut, A
Brenner, H I	Kent, M E A	Ntamo, G T	Trout, T V
Britz, M T	Kinahan, O M	Ntloko, H N	Truter, B
Brynard, C A	Klaas, M N	Nyameka, N	Tshambula, D
Burger, J H H	Kleinsmith, G	Nyanga, X	Twigg, G G
Carstens, E M	Kotyi, P N	O'Connell, R A	Tyhalisisu, V K T
Cavanagh, G V	Kwayinto, E N	Oliver, M J	van Dalen, P
Chapple, P H	Labase, M M	Omar, A R	van der Bijl, W
Christians, D J	Labuschagne, C	Orrie, A	van Rensburg, L J
Claasen, C P V	Landingwe, N J	Otto, A	van Rensburg, M J
Claassen, H M	Lategan, K H	Pascoe, G I	van Wyk, J
Clayton, C C	Le Roux, B	Paulse, G K	Venter, J D
Cortje-Alcock, B A	Lee, B E H	Pearce, Y	Venter, P J
Daniels, C J	Ludidi, M T	Pick, U E	Vlotman, B
Dase, N	Lukas, A	Pieterse, D	Vos, J
Dudley, D K	Maboee, B E	Pietersen, E	Walker, V M
Dunn, L R	Mafilika, B	Plato, D	Watkyns, B R W
Else, D	Magwentshu, N D	Pretorius, I J	Willemse, J A
Erasmus, J F	Makanda, M	Pringle, S B	Williams, A
Erleigh, D P	March, G W	Purchase, F	Williams, C
Esbach, B M	Martin, F J	Qually, D L	Williams, D C
Fienies, M M	Matha, M S	Rau, R	Xazana, R
Figlan, A M	Matiwane, M P	Raymond, F H L	Ximbi, D L
Gabriel, N A	Matshikiza, A B	Ridder, J C	Yiba, L P L
Gabriel, P J	Matshoba, M O	Robinson, A C	Zille, O H
Gexa, N G	Mavungavunga, V N	Roelf, L E	Zuma, B A
Gophe, X O	Mawela, X G	Ross, N D	
Gouws, P J H	Maxakato, F H	Rothman, L J	

SPEAKER: J D Smit

CHIEF WHIP: A M Serritslev



CITY OF CAPE TOWN | ISIXEKO SASEKAPA | STAD KAAPSTAD

ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2006

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 11 to 59 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the City.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

ACHMAT EBRAHIM
CITY MANAGER

DATE 14 December 2006

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

The City has continued to deliver a strong set of financial results for the year ended 30 June 2006 despite having to manage the changes in political leadership.

During the year under review the City supported measures to ensure that the City's finances remain sound and sustainable. The financial plan forecasts indicate that sustained prudence in financial discipline will, over time, produce an even more solid financial base.

The mounting debtor arrears is once again a source of concern. Nevertheless, the collection rate has marginally improved from 94,9% in the previous year to 95,15% in the year under review.

A positive development was that the capital implementation program which improved from 63% in the previous year to 71% in the year under review. Notwithstanding the increased capital spending, the City still faces enormous challenges to address the infrastructural backlog.

The financial activities of the year are reviewed in the sections of this report.

2. OPERATING RESULTS

The overall summarized operating results for the City as at 30 June 2006 are shown below. The Statement of Financial Performance reflects a summary of income and expenditure, whilst the segmental operating results per service are shown in Appendix D in the annual financial statements.

	2005	2006			2005 to 2006
	Actual R'000	Actual R'000	Budget R'000	Variance R'000	Growth %
REVENUE					
Property rates	1,996,441	2,122,659	2,165,783	43,124	6.32
Service charges	4,163,407	4,297,032	4,466,243	169,211	3.21
RSC levies	893,838	1,027,420	970,699	(56,721)	14.94
Government grants and subsidies	631,906	1,018,808	1,440,412	421,604	61.23
Interest earned	342,008	423,476	300,246	(123,230)	23.82
Other	800,862	747,290	601,153	(146,137)	(6.69)
	8,828,462	9,636,685	9,944,536	307,851	9.15
EXPENSES					
Employee-related costs	2,674,246	2,740,000	2,759,427	19,427	2.46
Bad debts	76,519	93,340	93,340	0	21.98
Depreciation	629,561	675,396	704,799	29,403	7.28
Interest on borrowings	346,827	349,325	383,798	34,473	0.72
Bulk purchases	1,703,049	1,780,755	1,859,232	78,477	4.56
Repairs and Maintenance	679,956	803,972	987,649	183,677	18.24
Other	2,218,997	3,191,924	3,074,093	(117,831)	43.85
	8,329,155	9,634,712	9,862,338	227,626	15.67
Surplus for the year	499,307	1,973	82,198		
Statement of Changes in Net Assets	145,927	(309,001)	(379,263)		
Net results for the year	645,234	(307,028)	(297,065)		
Accumulated Surplus at beginning of year	481,050	1,126,284			
Accumulated Surplus at end of year	1,126,284	819,256			

Actual revenue and expenditure has increased by approximately 9% and 16% between the respective financial years.

A comparison of actual results to the approved budget, and explanations of material differences, are set out in the annual financial statements as per appendix E(1)

Included in the statement of changes in net assets is a contribution of R417,9 million made to the following funds and reserves.

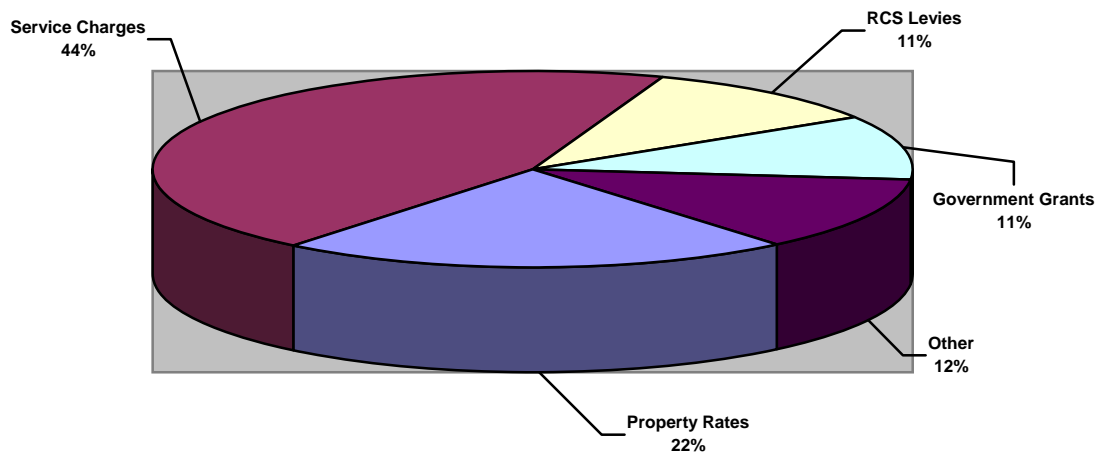
	R'000
Contribution to Capital Replacement Reserve	367,343
Contribution to the Housing Statutory Fund (Interest)	5,457
Contribution to the Self Insurance Reserve	45,115

2.1 Operating Revenue

The major revenue streams that supported the programmes and activities of the Municipality were:

- Property Rates
- Regional Services Levies
- Service Charges made up as follows
 - Electricity sales
 - Water sales
 - Waste water management (sewerage and sanitation)
 - Waste management (solid waste)
- Government grants
- Other

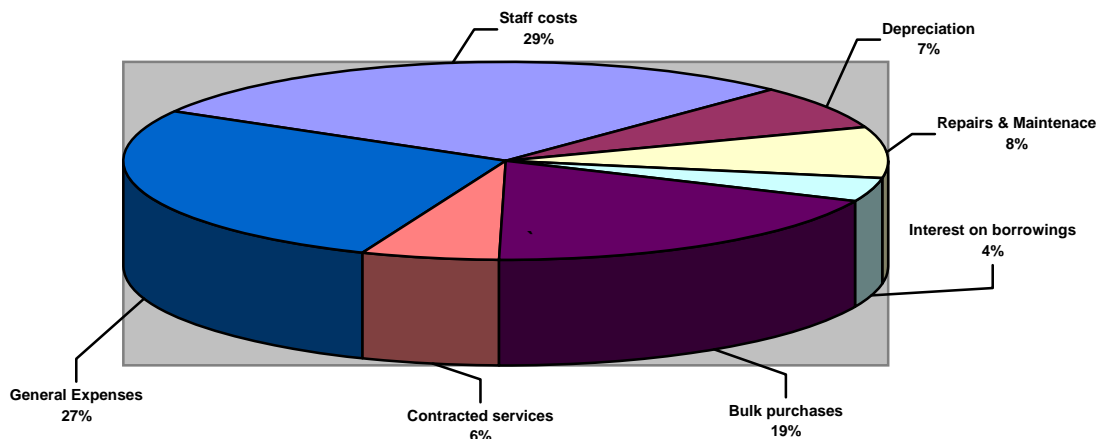
The City experienced a total revenue growth of 9,16% in the year under review which was approximately 3% below budget. Collection levels expressed as a percentage of monthly billings have stabilized above the 93% mark for the major part of the year. As at June 2006 the moving annual average was 95,15%. The following graph indicates the main categories of income.



Further detail of service charges is contained in note 19 of the notes to the financial statements.

2.2 Operating Expenditure

The following graph indicates the main categories of expenditure for the year under review. The pro-active management control and containment of cost increases remains a key priority of the City. Staff costs is still the main category of expenditure and decreased from 30 % of total expenditure in the previous financial year to 29% in the year under review.



Further detail is contained in notes 24 to 31 of the notes to the financial statements.

3. OPERATING RESULTS PER SERVICE

The following is a summary of the operating results of the various services.

3.1 Rates and General Services

Rates and General Services	Actual 2006 R'000	Budget 2006 R'000	Variance 2006 R'000	Actual 2005 R'000
Income	5,472,593	5,697,745	(225,152)	4,983,955
Expenditure	5,707,755	5,816,740	108,985	4,454,049
Surplus (deficit) for the year	(235,162)	(118,995)	(116,167)	519,867
Statement of changes in net assets	(34,721)	(110,428)	75,707	100,736
Net results for the year	(269,883)	(229,423)	(40,460)	620,603

The net results yielded a deficit of R100 million less than the amount budgeted.

3.2 Housing Service

Housing Service	Actual 2006 R'000	Budget 2006 R'000	Variance 2006 R'000	Actual 2005 R'000
Income	410,530	492,184	(81,654)	215,755
Expenditure	483,627	489,107	5,480	298,636
Deficit for the year	(73,097)	3,077	(76,174)	(82,881)
Statement of changes in net assets	(40,685)	(27,353)	(13,332)	(28,580)
Net results for the year	(113,782)	(24,276)	(89,506)	(111,461)

The lower than expected net results in relation to budgeted amounts was mainly due to anticipated grants and subsidies not being realised and the additional provision for bad debts.

3.3 Trading Services

Electricity Service

Electricity Service	Actual 2006 R'000	Budget 2006 R'000	Variance 2006 R'000	Actual 2005 R'000
Income	2,909,316	2,895,451	13,865	2,770,686
Expenditure	2,790,159	2,800,546	10,387	2,669,387
Surplus for the year	119,157	94,905	24,252	101,299
Statement of changes in net assets	(138,786)	(95,743)	(43,043)	67,335
Net results for the year	(19,629)	(838)	(18,791)	168,634

The increased income is due to higher than expected bulk infrastructure levies received from developers and appropriated to the Capital Replacement Reserve. An additional R 30 million contribution was made to the bad debt provision.

3.4 Waste Management (Solid Waste)

Waste Management	Actual 2006 R'000	Budget 2006 R'000	Variance 2006 R'000	Actual 2005 R'000
Income	853,002	854,196	(1,194)	487,617
Expenditure	880,380	896,364	15,984	724,780
Deficit for the year	(27,378)	(42,168)	14,790	(237,163)
Statement of change in net assets	(36,573)	(34,795)	(1,778)	(4,014)
Net results for the year	(63,951)	(76,963)	13,012	(241,177)

The net deficit for the year is less than the amount budgeted. In terms of the City's policy on landfill sites, a once-off allocation of R70,2 million for the restoration cost of landfill sites was made to the operating account.

3.5 Water Service (Water & Waste Water)

Water Service	Actual 2006 R'000	Budget 2006 R'000	Variance 2006 R'000	Actual 2005 R'000
Income	2,408,456	2,320,171	88,285	2,131,543
Expenditure	2,190,003	2,174,792	(15,211)	1,933,358
Surplus for the year	218,453	145,379	73,074	198,185
Statement of changes in net assets	(58,236)	(110,944)	52,708	547
Net results for the year	160,217	34,435	125,782	198,732

The increase in revenue in relation to the budget was a result of increased user service charges and the interest on arrears. The marginal over-expenditure in relation to the budget was mainly due to the increase in the contribution to the bad debt provision. Although the accrued net results appear to be positive, the outstanding debtors increased from R1,16 billion to R1,5 billion thus negatively affecting the cash flow position of the water service.

4. CAPITAL EXPENDITURE AND FINANCING

Capital expenditure incurred during the year, amounted to R1,521 billion which represented 71.4% of the approved capital budget (previous year 63%). Of the amount spent 48% was funded from own - and 52% from external sources, and although the total amount expended reflects an increased trend of 8%, expenditure still represented a considerably lower than planned implementation rate and is an area of concern. Additional measures have now been put in place to address the under-spending. In terms of the stipulations of the MFMA, for improved service delivery, an amount of R268 million was rolled over from this financial year as a supplement to the capital budget of 2006/07.

Capital Expenditure per Service	Actual 2006 R'000	Budget 2006 R'000	Variance Actual/ Budget %	Actual 2005 R'000
Rates and General	659,583	1,058,117	(37.66)	477,140
Housing	184,730	337,465	(45.26)	104,413
Trading Services: Electricity	271,106	285,995	(5.20)	167,939
Trading Services: Water	261,250	283,652	(7.90)	90,956
Waste Management	143,973	164,741	(12.60)	111,004
	1,520,642	2,129,970	(28.61)	951,452

The aforementioned fixed assets were financed from the following sources.

Source of Finance	Actual 2006 R'000	Budget 2006 R'000	Variance Actual/ Budget %	Actual 2005 R'000
Capital Replacement Reserve	224,804	347,988	(35.40)	139,843
External Finance Fund	790,842	1,022,483	(22.70)	493,801
Contribution, Grants and Donations	504,442	751,936	(32.90)	313,808
Revenue	554	7,563	(92.67)	4,000
	1,520,642	2,129,970	(28.61)	951,452

A complete analysis of capital expenditure (budgeted and actual) per functional area is included in Appendix C whilst Appendix B and B1 contains detail according to asset class. More details regarding external loans used to finance fixed assets are shown in Appendix A.

5. EXTERNAL LOANS, INVESTMENTS AND CASH

During the year loans of R200 million were taken up and R380 million repaid. Interest to the value of R36,3 million was capitalised during the year.

Long term investments as at 30 June 2006 amounted to R413,1 million of which R349,9 million was set aside for the repayment of loans. Cash and cash equivalents increased by R343 million to R2,05 billion.

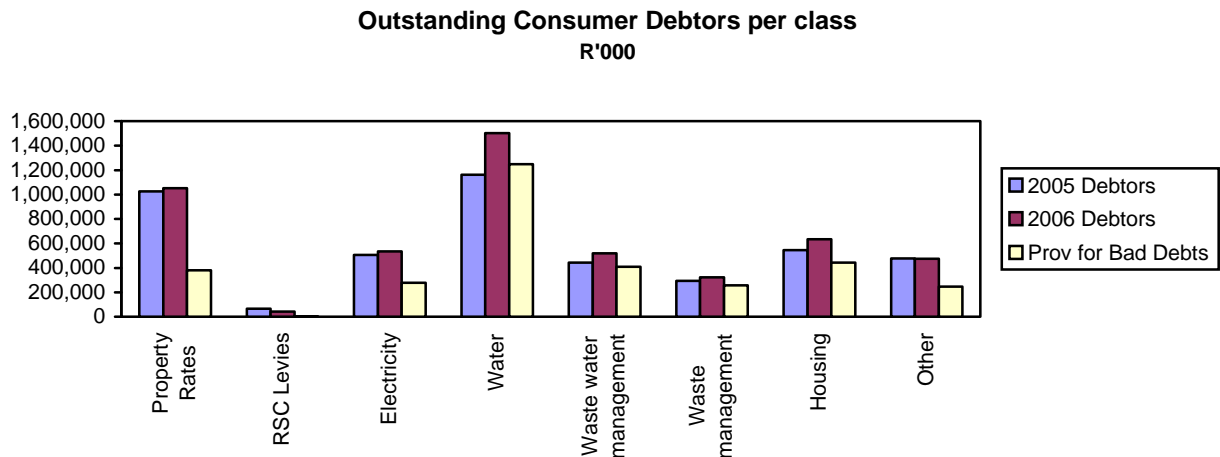
Additional information regarding loans, investments and cash and cash equivalents are disclosed in notes 3, 12, 17 and Appendix A to the financial statements.

6. CONSUMER DEBTORS

Debtors increased from R4,5 billion to R5,08 billion which represented an increase of 12,41%. These debtors are covered by a provision for bad debts of R3,3 billion which represents 64,22% of debtors. Despite the increase in debtors, the collection rate has increased from 94,9% in the previous year to 95,15% for the period under review.

Additional information regarding consumer debtors is contained in Note 15.

The outstanding consumer debtors as at 30 June 2006 are graphically represented below, reflecting also the coverage by the bad debts reserve.



Management Strategies are being established to target non-paying debtors to ascertain their reasons for non-payment. A multi-disciplinary task team and steering committee will deal with disputed accounts and standardise policies and procedures against non-paying debtors. Sections have been established to:-

- manage Councillor and staff arrears
- target the top 1000 arrear debtors
- monitor business arrears during seasonal peaks
- monitor inter-government arrears
- screen suppliers and contractors with dealings with the City Of Cape Town

Adequate staff resources will be made available to effect controls through disconnection and suspension of supply.

7. REHABILITATION OF LANDFILL SITES

The City has for the first time made a provision for the costs relating to the rehabilitation of its landfill sites. The provision has been determined on the basis of a currently awarded tender, projected over the anticipated useful life of the sites and discounted to the present value of R309,6 million. The areas covered by the calculations are based on the City's internal assessment.

The above amount does not include the rehabilitation of the unlicensed, disused, historical sites which now fall into the City's area of jurisdiction. An investigation is envisaged to evaluate the status of these sites to ascertain whether they are in compliance with the stipulations contained in the Environment Conservation Act and the extent of the City's accountability for them.

Technical details setting out the assumptions and factors used in determining the amounts to be provided, and their net present values (NPV), are as follows: -

- A comparative analysis, based on the contract documents relative to the closure, capping and rehabilitation of a sample landfill site, enabled the Waste Management Services to provide reliable current data in support of their estimate. The analysis was performed on operational landfills based on the area of the individual sites and the assumption was that certain factors remained common throughout. Furthermore, allowance was made in the calculations for instances where the site had been previously lined and leachate pump stations already installed. Where clay capping material was available on site provision for transportation costs were substantially reduced, which impacted favourably on the cost per hectare.

- Insofar as the NPV of the sites is concerned it was agreed that as the capping process is programmed over regular intervals into the future the closure cost be spread on an equal basis over the lifespan of the site, adjusted for inflation and discounted at a rate based on the average cost of borrowing to the City. The inflation rate over the next few years is expected to average 5.5% per annum and it is anticipated that the borrowing cost of 11.45% will remain fairly constant in the short-term.

While the City has not been able to consult a specialist in calculating the values, it is the management's opinion that the values calculated represent a reasonable estimate of the City's liability.

8. REGIONAL ELECTRICITY DISTRIBUTOR

While the City has established its Regional Electricity Distributor (RED1), transfer of ownership of the undertaking has not taken place due to the absence of an asset transfer framework in terms of S14(6) of the MFMA. The City and the RED1 Company have agreed to appoint its parent share holder, the City of Cape Town, in terms of an Operating and Transitional Plan, to continue the provision of the electricity distribution services of the City in the interim.

Subsequently, on 26 October 2006 the Cabinet approved the proposal to create six Regional Electricity Distributors (RED's) which will be public entities. The actual implementation date of this change has not yet been established.

9. IMPAIRMENT OF INVESTMENT

The City has impaired its investment in Cape Town International Convention Centre Company (Pty) Limited (Convenco). The audited financial statements of Convenco for the year ended 30 June 2006 reflect an impairment loss of R308 million on the Convention Centre buildings. In addition, Convenco continues to reflect operating losses. These are objective indicators of impairment of the City's investment in Convenco which obliges the City to calculate an impairment loss.

The carrying amount of the City's investment in Convenco has been compared with the City's share of the present value of Convenco's estimated future cash flows discounted at a market related rate of interest. The difference of R244.7 million has been recognised as an impairment loss in the City's statement of financial performance for the year ended 30 June 2006, and the City's investment in Convenco has been written down by the same amount.

10. SUBMISSION OF FINANCIAL STATEMENTS

The City prepared and submitted its annual financial statements for the year ended 30 June 2006 within the normal course of events in accordance with the prescriptions of the MFMA. Subsequently, National Treasury issued a directive on 4 October 2006, clarifying the scope of the Accounting Framework and comprised of:

- Three GRAP STANDARDS
- Eight GAMAP standards, and
- SA statements of GAAP for transactions, events or conditions not covered by the GRAP and GAMAP standards as above.

An agreement was reached at a meeting on 6 December 2006, between the Auditor-General and the City, that the financial statements should be revised in accordance with the directive, and be re-submitted to the Auditor-General.

11. VAT AMENDMENTS

The phasing out of Regional Service Council (RSC) levies and its replacement with grant funding has given rise to the introduction of new VAT amendments which specifically include the zero rating of municipal property rates.

In terms of the VAT amendments all goods and services supplied by a municipality are subject to VAT at the standard rate, except where specifically zero-rated or exempt in terms of the Act. The effective date of these amendments was 1 July 2006.

12. EXPRESSION OF APPRECIATION

I wish to convey my sincere appreciation to Her Worship the Executive Mayor, Mayoral Committee, the Chairperson and the members of the Finance Portfolio Committee, the Audit Committee, SCOPA, City Manager and Executive Management Team for their support and co-operation received during the year.

A special word of gratitude to all financial staff for their contribution and to the staff of the Auditor-General, the auditors appointed by him, and their staff, for conducting the external audit and for their assistance, support and co-operation during the year.

Finally, a further word of thanks to everybody for the months of hard work, sacrifices and concerted effort during the year to enable the City to finalise these financial statements within the prescribed period.



MIKE RICHARDSON
CHIEF FINANCIAL OFFICER

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of:

- *General Notice 991 of 2005*, issued in *Government Gazette* no. 28095 of 7 December 2005; and
- *General Notice 992 of 2005*, issued in *Government Gazette* no. 28095 of 15 December 2005.

The standards comprise of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the going concern basis.

4. HOUSING FUNDS

The Housing Development Fund was established in terms of the Housing Act (Act No 107 of 1997).

4.1 Housing Development Fund

Sections 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, required that the City maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4) (d) (ii) (aa) read with, inter alia, Section 16(2) that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, be paid into a separate operating account and be utilised by the City for housing development in accordance with the National Housing Policy.

The following provisions are set for the creation and utilization of the Housing Development Fund:

- The Housing Development Fund is cash backed, and invested in accordance with the investment policy of the City.
- The proceeds in this fund are utilized for housing developments in accordance with the national housing policy and also for housing development projects approved by the MEC for housing.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

4.2 Unrealised Housing Proceeds

In order to comply with Section 14(4) (d) (i) and (ii) of the Housing Act, (Act 107 of 1997) where all net proceeds need to be paid into the Housing Development Fund, it was necessary to create a holding account which represents the unrealised funds due by long-term housing selling developments and sponsored loan debtors. This account is reduced when debtors are billed for their current loan repayments.

5 RESERVES

The City creates and maintains reserves in terms of specific requirements.

5.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment, from internal sources, amounts are transferred from the accumulated surplus/ (deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds which back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the City.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the accumulated surplus/ (deficit) is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance and is then transferred, via the Statement of Changes in Net Assets, to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR as it is regarded as revenue.

5.2 Capitalisation Reserve (CR)

On the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a CR instead of the accumulated surplus/ (deficit) in terms of a MFMA Circular no.18 issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/ (deficit).

The balance on the CR equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the CR to the accumulated surplus/ (deficit). When an item of property, plant and equipment is disposed of, the balance in the CR relating to such item is transferred to the accumulated surplus/ (deficit).

5.3 Government Grant Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with the MFMA Circular no.18 issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/ (deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Government Grants.

When an item of property, plant and equipment financed from Government Grants is disposed of, the balance in the reserve relating to such item is transferred to the accumulated surplus/ (deficit).

5.4 Donations and Public Contributions Reserve

When items of property, plant and equipment are financed from donations and public contributions, a transfer is made from the accumulated surplus/(deficit) to the Donations and Public Contributions Reserve equal to the Donations and Public Contributions recorded as revenue in the Statement of Financial Performance in accordance with the MFMA Circular no.18 issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the reserve to the accumulated surplus/ (deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from such reserve.

When an item of property, plant and equipment financed from donations and public contributions is disposed of, the balance in the reserve relating to such item is transferred to the accumulated surplus/ (deficit).

5.5 Insurance Reserve

A general insurance reserve has been established and subject to re-insurance where deemed necessary, covers claims that may occur. Premiums are charged to the respective services taking into account claims history and replacement value of the insured assets.

Reinsurance premiums paid to external re-insurers are regarded as an expense and are shown as such in the Statement of Financial Performance. The net surplus or deficit on the insurance operating account is transferred to or from the insurance reserve via the Statement of Changes in Net Assets.

The balance of the self-insurance reserve is invested in short term cash investments. Interest earned on the insurance reserve is recorded as interest earned in the Statement of Financial Performance and is transferred to the Insurance reserve via the Statement of Changes in Net Assets as a contribution.

An actuarial valuation is obtained each year to assess the adequacy of the Insurance Reserve at year-end.

5.6 COID Reserve

The City has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases (COID).

The certificate of Exemption issued by the Commissioner and as prescribed by the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993), requires that the City deposit cash and/or securities with the Commissioner, the market values of which in aggregate, shall not be less than the capitalised value of the of the continuing liability of the City as at 31 December of each year.

The continuing liability is that of annual pensions, the capitalized value of which is determined on the basis of an actuarial determination prescribed by the Commissioner. A COID Reserve has been established to equate to the value of the continuing liability. The market value of the securities is determined annually by the Commissioner and the City is required to meet any shortfall in the aggregate value of the securities as at 31 December.

In addition to the COID Reserve a provision is made annually to provide for outstanding claims as at 30 June of each year.

6. PROPERTY, PLANT AND EQUIPMENT (PPE)

6.1 General

6.1.1 PPE is stated:

- At cost less accumulated depreciation.
- At fair value at date of acquisition less accumulated depreciation where assets have been acquired by grant or donation.

6.1.2 Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and maintenance and is expensed. The enhancement of an existing asset so that its use is expanded or the further development of an asset so that its original life is extended are examples of subsequent expenditure which should be capitalised.

6.1.3 The City has adopted a capitalisation threshold whereby all expenditure below the threshold is expensed when incurred. The threshold is currently R5 000.

6.2 Depreciation and impairment losses

6.2.1 Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets. The depreciation rates are based on the following estimated useful lives:

	Years		Years
Infrastructure		Other	
Roads and Paving	10-30	Buildings	20 - 30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-30	Other vehicles	5-7
Water	15-20	Office equipment	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
		Bins and containers	5
Community		Specialized plant and equipment	10-15
Improvements	30	Other plant and equipment	2-5
Recreational Facilities	20-30	Landfill Sites	30
Security	5		

6.2.2 Heritage assets, which are defined as culturally significant resources, are not depreciated as they are regarded as having an indefinite life. Land is also not depreciated for the same reason.

6.2.3 Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

6.2.4 The carrying amount of an item or a group of identical items of PPE is reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognized as an expense immediately and charged as an impairment loss to the Statement of Financial Performance.

6.2.5 The City has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation in accordance with the City's accounting policy on provisions.

6.3 Disposal of assets

- Assets are written off on disposal.
- The difference between the carrying value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a profit or loss in the Statement of Financial Performance.

6.4 Investment properties

Investment properties are held to earn rental income and for capital appreciation and are stated at cost less accumulated depreciation. Investment properties are written down for impairment where considered necessary. Investment property excludes owner-occupied property where it is used in the production or supply of goods or services or for administrative purposes or property held to provide a social service.

Investment property, other than vacant land, is depreciated on the straight-line basis over the useful lives of the assets estimated at 20 to 30 years.

7 INVESTMENTS

Financial assets and financial liabilities are recognised on the City's statement of financial position when the City has become a party to contractual provisions of the instrument.

7.1 Investments in Financial Instruments

- *Held to maturity (HTM) investments* are financial assets with fixed or determinable payments and fixed maturity where the City has the positive intent and ability to hold the investment to maturity.
- *Loans and receivables originated by the enterprise* are financial assets that are created by providing money, goods or services directly to a debtor.
- *Financial assets at fair value through profit or loss* are financial assets that meet either of the following conditions:
 - they are classified as held for trading, or
 - upon initial recognition they are designated as at fair value through the statement of financial performance.
- *Available for sale investments* are financial assets that are designated as available for sale or are not classified as,
 - loans and receivables,
 - held to maturity investments, or
 - financial assets at fair value through the statement of financial performance.

Initial Measurement of financial instruments is *at cost, which is the fair value* of the consideration given or received. The fair value is usually the transaction price or market price. In terms of AC 133:67 *transaction costs* are included in the initial measurement of financial assets. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs do not include debt premium or discount, financing costs or allocations of internal administrative or holding costs.

Subsequent Measurement of financial assets.

- *HTM investments and loans and receivables originated by the City and not held for trading* are subsequently recognized *at amortized cost using the effective interest rate method*. *Amortized cost* is defined in AC 133:11 as the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount, and minus any write-down for impairment or uncollectability.
- *Financial assets at fair value through profit or loss, and available for sale investments* are measured at fair value without any deduction for transaction costs. Fair value is determined using valuation techniques which discount future cash flows attributable to the financial assets.

The carrying amounts of such investments are reduced to recognize any decline, other than a temporary decline, in the value of individual investments. This reduction in carrying value is recognised in the statement of financial performance.

7.2 Investment in Controlled Entities

Investments in controlled entities under ownership control or effective control of the City are carried at cost and are classified as available for sale investments. Separate consolidated financial statements will be prepared to account for the City's share of net assets and post-acquisition results of these investments.

The carrying amounts of such investments are reduced to recognize any decline, other than one of a temporary nature, in the value of individual investments. This reduction in carrying value is recognized in the statement of financial performance.

7.3 Interests in Joint Ventures

A joint venture is a contractual arrangement whereby the City and other parties undertake an economic activity that is subject to joint control. Interests in joint ventures are stated at cost and are classified as available for sale investments. Separate consolidated financial statements will be prepared to account for the City's share of net assets and post-acquisition results of these investments.

The carrying amounts of such investments are reduced to recognize any decline, other than one of a temporary nature, in the value of individual investments. This reduction in carrying value is recognized in the statement of financial performance.

8. INVENTORIES

Inventories consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the weighted average basis, and net realisable value. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

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

Redundant and slow moving inventories are identified and written down to their estimated net realisable values. Consumables are written down according to their age, condition and utility.

9. ACCOUNTS RECEIVABLE

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful receivables based on past default experience of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified as irrecoverable. Amounts receivable within 12 months from date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the City will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

10 TRADE AND OTHER PAYABLES

Trade and other payables are stated at their nominal value.

11 REVENUE RECOGNITION

Revenue excluding value-added taxation where applicable is derived from a variety of sources which include Rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the City and these benefits can be measured reliably. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

- 11.1 Revenue from rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable.
- A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.
- 11.2 Service charges relating to solid waste, sanitation and sewerage are levied monthly in terms of the approved tariffs.
- 11.3 Service charges relating to Electricity and Water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.
- 11.4 Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received, and the revenue from the issuing of summonses is only recognised when collected by the Courts. Due to the various legal processes that can apply to summonses and the inadequate information received from the Courts, it is not possible to measure this revenue when the summons is issued.
- 11.5 Various services are provided on a prepayment basis in which case no formal billing takes place and revenue is recognised when received.
- 11.6 The Regional Establishment Levy and Regional Services Levy are recognised at the time of receipt of the RSC4 return submitted by all registered levy payers. Where RSC4 returns are not submitted an historical estimate is made of revenue for the year.
- 11.7 Income in respect of housing rental and instalment sale agreements is accrued monthly.
- 11.8 Government grants and public contributions are recognised as revenue when all conditions associated with the grant have been met.
- 11.9 Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment. Interest may be transferred from the accumulated surplus to the Housing Development Fund or the Insurance Reserve.
- Interest earned on the following investments is not recognised in the Statement of Financial Performance:
- Interest earned on Trust Funds is allocated directly to the fund and is not recognised in the Statement of Financial Performance.
 - Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.
- 11.10 Dividends are recognised when the City's right to receive payment is established.
- 11.11 Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income is recognised in terms of the agency agreement.
- 11.12 Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when the risks or rewards of ownership have transferred to the City.
- 11.13 Income from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable.
- 11.14 Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- The City has transferred to the buyer the significant risks and rewards of ownership of the goods.
 - The City 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 City.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

12 CONDITIONAL GRANTS AND RECEIPTS

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

12.1 Unutilised Conditional Grants

Unutilised conditional grants are reflected on the Statement of Financial Position as a creditor. They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilization of this creditor:

- The cash, which backs up the creditor, is invested until it is utilized.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the City's interest it is recognized as interest earned in the Statement of Financial Position.
- Whenever an asset is purchased out of an unutilised conditional grant, an amount equal to the cost price of the asset is transferred from Unutilised Capital Receipts to the Statement of Financial Performance as revenue. Thereafter an equal amount is transferred on the Statement of Changes in Net Assets to the Donations and Public Contributions Reserve. This reserve is equal to the remaining depreciable value (book value) of assets purchased out of Unutilised Capital Receipts. The reserve is used to offset depreciation charged on assets purchased out of Unutilised Capital Receipts.

13 PROVISIONS

A provision is recognized when the City has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) 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 amount of the obligation. Provisions are reviewed at year-end and adjusted accordingly.

14 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

15 EMPLOYEES BENEFITS

15.1 Retirement Benefit Plans

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

The City provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

15.2 Post Retirement Pension Funds

Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff Provident Funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various Pension Funds. The City contributes monthly to the Funds. These contributions are charged to the operating account when employees have rendered the service entitling them to the contribution. Actuarial valuation of the liability is performed on an annual basis. The projected unit credit method has been used to value the liabilities.

The liability in respect of current pensioners are regarded as fully accrued and is therefore not split between a past (or accrued) and future in service element. The liability is recognised at the fair value of the obligation together with adjustments for the unrecognised actuarial gains and losses and past service costs.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are recognised eligible for recognition in the income statement to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme. Actuarial valuations are being performed annually.

15.3 Medical Aid: Continued Members

The City provides post retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the City for the remaining 70%. Under an accrued rights position agreed to by Council, the age of internally appointed staff under the City's new conditions of service determines, on a sliding scale basis, the post-retirement subsidy for medical aid. External appointments do not qualify for post retirement medical aid subsidy.

These contributions are charged to the operating account when employees have rendered the service entitling them to the contribution. In addition the City will contribute annually for the next five years, with effect from 1 July 2003, towards funding the unrecognised transitional liability which was calculated on the projected unit credit actuarial valuation method (AC 116).

The liability in respect of current pensioners are regarded as fully accrued and is therefore not split between a past (or accrued) and future in service element. The liability is recognised at the fair value of the obligation together with adjustments for the unrecognised actuarial gains and losses and past service costs.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are recognised eligible for recognition in the income statement to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme. Actuarial valuations are being performed annually.

15.4 Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. Provision is based on the total accrued leave days at year-end.

16 LEASES

16.1 The City as Lessee

16.1.1 Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the City.

Assets subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the assets is depreciated at appropriate rates on the straight-line basis over the estimated useful lives of the assets. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

16.1.2 Operating leases are those leases, which do not fall within the scope of the above definition. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease.

16.2 The City as Lessor

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

17 BORROWINGS

Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable are accounted for on an accrual basis. Borrowings are initially recognised at fair value, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest rate method.

18 DERIVATIVE FINANCIAL INSTRUMENTS

The City has entered into interest rate swap agreements in order to manage the floating interest rate risk attached to certain of its external borrowings. These derivatives are classified as held for trading financial instruments. Upon initial recognition, the City measures these derivatives at fair value through profit or loss. Subsequently, they are re-measured at fair value and carried on the balance sheet as assets when the fair value is positive and liabilities when the fair value is negative.

19 VALUE ADDED TAX

The City accounts for Value Added Tax on the payment basis.

20 GRANTS-IN-AID

The City transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the City does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

21 INTANGIBLE ASSETS

An intangible asset is defined as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. Intangible assets are treated in accordance with the provisions of IAS 38, "*Intangible Assets*". Intangible assets are initially recorded at their cost price and are subsequently amortized over their expected useful lives. The intangible asset under the control of the City is amortized according to the straight line method.

22 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

23 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorized 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.

24 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

25 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transaction. Trade creditors denominated in foreign currency are reported at balance sheet date by using the exchange rate at that date. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or as expenses in the period in which they arise.

26 COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements are amended, prior period comparative amounts are reclassified and restated. The nature and reasons for the reclassification and restatement are disclosed.

CITY of CAPE TOWN
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2006

	Note	2006 R '000	2005 Restated R '000
NET ASSETS AND LIABILITIES			
Net assets		6,630,029	6,628,056
Housing Development Fund	1	501,627	554,970
Reserves	2	5,309,146	4,946,802
Capital Replacement Reserve		530,846	371,376
Capitalisation Reserve		2,532,606	2,787,869
Government Grant Reserve		1,739,709	1,357,584
Donations and Public Contribution Reserve		114,111	83,214
Self-insurance Reserve		391,874	346,759
Accumulated Surplus		819,256	1,126,284
Non-current liabilities		3,760,869	3,100,354
Long-term liabilities	3	2,217,222	2,132,016
Non-current provisions	4	1,543,647	968,338
Current liabilities		3,241,624	2,998,858
Consumer deposits	5	176,982	161,686
Provisions	6	431,385	371,310
Creditors	7	1,848,865	1,557,388
Unspent conditional grants and receipts	8	438,763	370,752
VAT	9	208,152	171,708
Current portion of long-term liabilities	3	137,477	366,014
Total Net Assets and Liabilities		<u>13,632,522</u>	<u>12,727,268</u>
ASSETS			
Non-current assets		9,455,170	8,606,927
Property, plant and equipment	10	8,604,279	7,526,990
Investment property	11	99,844	104,298
Investments	12	413,154	592,691
Long-term receivables	13	294,287	322,370
Interest rate derivatives	41	43,606	60,578
Current assets		4,177,352	4,120,341
Inventory	14	121,171	117,695
Consumer debtors	15	1,818,946	2,131,204
Other debtors	16	160,481	126,249
Current portion of long-term debtors	13	22,287	33,401
Cash and cash equivalents	17	2,054,467	1,711,792
Total Assets		<u>13,632,522</u>	<u>12,727,268</u>

CITY of CAPE TOWN
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2006

BUDGET			ACTUAL	
2005	2006		2006	2005
R '000	R '000	Note	R '000	Restated R '000
REVENUE				
2,093,573	2,165,783	Property rates	18 2,122,659	1,996,441
23,385	17,000	Property rates - penalties imposed and collection charges	105,135	60,376
4,092,364	4,466,243	Service charges	19 4,297,032	4,163,407
868,696	970,699	Regional Services Levies	20 1,027,420	893,838
158,116	174,094	Rental of letting stock and facilities	20.1 145,787	170,866
185,520	195,246	Interest earned - external investments	241,837	212,911
147,005	105,000	Interest earned - outstanding debtors	181,639	129,097
102,965	118,912	Fines	174,977	121,098
21,694	22,978	Licences and permits	25,280	22,446
132,661	90,000	Income for agency services	104,263	127,379
1,162,683	1,440,412	Government grants and subsidies	21 1,018,808	631,906
119,780	135,169	Other income	22 105,786	148,827
0	0	Public contributions, donated and contributed property, plant and equipment	23 39,774	40,872
70,000	43,000	Gains on disposal of property, plant and equipment	46,288	108,998
9,178,442	9,944,536	Total Revenue	9,636,685	8,828,462
EXPENDITURE				
2,651,921	2,759,427	Employee related costs	24 2,740,000	2,674,246
51,561	50,935	Remuneration of councillors	25 51,801	49,952
12,905	93,340	Bad debts	26 93,340	76,519
0	246,000	Impairment of Investment	27 245,328	3,539
0	2,500	Impairment of Asset	27 1,074	96,035
56,958	65,189	Collection costs	59,140	53,428
642,555	704,799	Depreciation	675,396	629,561
821,202	987,649	Repairs and maintenance	803,972	679,956
391,408	383,798	Interest paid	28 349,325	346,827
1,721,906	1,859,232	Bulk purchases	29 1,780,755	1,703,049
438,959	509,373	Contracted services	534,657	437,705
69,250	70,252	Grants and subsidies paid	30 66,370	71,149
1,730,790	2,129,832	General expenses	31 2,213,261	1,493,562
0	12	Loss on disposal of property, plant and equipment	3,321	3,588
0	0	Loss on valuation of derivatives	16,972	10,039
8,589,415	9,862,338	Total Expenditure	9,634,712	8,329,155
589,027	82,198	Surplus from operations	18,331	499,307
0	0	Deficit from discontinued operations (refer note 45)	-16,358	0
589,027	82,198	SURPLUS FOR THE YEAR	1,973	499,307

CITY of CAPE TOWN
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2006

	Housing Development Fund R '000	Capital Replacement Reserve R '000	Capitalisation Reserve R '000	Government Grants and Reserve R '000	Donations and Public Contributions R '000	Self- Insurance Reserve R '000	Accumulated Surplus R '000	Total R '000
2005								
Balance at 1 July 2004	631,370	372,571	3,240,218	1,186,787	39,551	330,544	328,010	6,129,051
Changes in accounting policy - Note 32			(82,423)				153,040	70,617
Restated balance at 1 July 2004	631,370	372,571	3,157,795	1,186,787	39,551	330,544	481,050	6,199,668
Surplus for the year							499,307	499,307
Transfer to CRR		134,376					(134,376)	0
Property, plant and equipment purchased	(4,896)	(135,630)					140,526	0
Capital grants used to purchase PPE				286,019	27,789		(313,808)	0
Contribution to Insurance Reserve						16,215	(16,215)	0
Transfer to Housing Development Fund	(63)						63	0
Offsetting of Depreciation			(369,976)	(95,375)	(1,649)		467,000	0
Balance at 30 June 2005	626,411	371,317	2,787,819	1,377,431	65,691	346,759	1,123,547	6,698,975
Balance at 30 June 2005-previously reported	626,411	371,317	2,787,819	1,377,431	65,691	346,759	920,665	6,496,093
Changes in accounting policy - Note 32							61,100	61,100
Movement in reserves - Note 33.2		59	50	(19,847)	17,523		2,215	0
Correction of prior period error - Note 33	(71,441)						142,304	70,863
Restated balance at 30 June 2005	554,970	371,376	2,787,869	1,357,584	83,214	346,759	1,126,284	6,628,056
2006								
Net surplus for the year							1,973	1,973
Transfer to CRR		367,343					(367,343)	0
Property, plant and equipment purchased	(16,932)	(207,873)					224,805	0
Capital grants used to purchase PPE				469,582	34,861		(504,443)	0
Contribution to Insurance Reserve						45,115	(45,115)	0
Transfer to Housing Development Fund	(36,411)						36,411	0
Offsetting of Depreciation			(255,263)	(87,457)	(3,964)		346,684	0
Balance at 30 June 2006	501,627	530,846	2,532,606	1,739,709	114,111	391,874	819,256	6,630,029

CITY of CAPE TOWN
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 R '000	2005 Restated R '000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		9,571,962	8,325,955
Cash paid to suppliers and employees		(7,483,413)	(6,899,919)
Cash generated from operations	34	2,088,549	1,426,036
Interest received		203,121	183,888
Interest paid		(327,437)	(312,405)
NET CASH FROM OPERATING ACTIVITIES		1,964,233	1,297,519
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,520,642)	(951,453)
Proceeds on disposal of property, plant and equipment		53,713	139,569
Decreases in non-current receivables		39,197	32,929
Decrease/(Increase) in investments		(65,791)	67,143
NET CASH FROM INVESTING ACTIVITIES		(1,493,523)	(711,812)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised		236,387	23,515
Loans repaid		(379,718)	(163,604)
Increase in consumer deposits		15,296	26,394
NET CASH FROM FINANCING ACTIVITIES		(128,035)	(113,695)
NET INCREASE IN CASH AND CASH EQUIVALENTS	35	342,675	472,012
Cash and cash equivalents at the beginning of the year		1,711,792	1,239,780
Cash and cash equivalents at the end of the year		2,054,467	1,711,792

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R '000	2005 Restated R '000
1. HOUSING DEVELOPMENT FUND		
Realised Housing Proceeds		
Balance at beginning of the year	251,675	239,689
Income	60,997	47,154
Land Sales	9,797	3,080
Repayments Long Term Debtors	41,673	35,325
Repayments Public Organisations	3,088	2,518
Other	6,439	6,231
Add: Interest	5,457	10,584
Less : Expenditure	92,729	28,906
Funding Capital Projects	16,932	4,896
Funding Operating Projects	75,797	24,010
Less : Non Cash transfer to bad debt provision	18,156	16,846
Balance at the end of the year	207,244	251,675
Unrealised Housing Proceeds		
Balance at beginning of the year	303,295	391,681
Less : Loans realised	22,217	16,945
Long term Housing Loans	19,008	17,621
Long term Loans Public Organisations	3,209	(676)
Transfer to / from Bad Debts Provision	13,305	(71,441)
Balance at the end of the year	294,383	303,295
TOTAL	501,627	554,970
2. RESERVES		
Capital Replacement Reserve	530,846	371,376
Future Depreciation Reserve		
Assets financed ex Capitalisation Reserve	2,532,606	2,787,869
Assets financed ex Government Grants	1,739,709	1,357,584
Assets financed ex Donations and public contributions	114,111	83,214
Insurance Reserve	391,874	346,759
Self-insurance Reserve	365,111	319,231
COIDA	26,763	27,528
Total Reserves	5,309,146	4,946,802
The Capital Replacement Reserve and the Self-Insurance Reserve are fully funded and invested in ring-fenced financial instruments.		
3. LONG-TERM LIABILITIES		
Local Registered Stock Loans	11,400	27,900
Annuity Loans	48,771	59,037
Other Loans	1,997,218	2,110,618
Finance Leases	297,310	300,475
Sub-total	2,354,699	2,498,030
Less : Current portion transferred to current liabilities	137,477	366,014
Local Registered Stock Loans	0	16,500
Annuity Loans	10,312	10,267
Other Loans	110,492	324,657
Finance Leases	16,673	14,590
Total Long-term liabilities (Refer to Appendix A for more detail)	2,217,222	2,132,016

The capitalised lease liabilities are secured by items of leased plant, to the carrying value of R175,830 million. R349,949 million (2005: R448,259 million) has been invested in specific ring-fenced deposit accounts for the repayment of long-term liabilities. Refer note 12 and 37 for more detail.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The obligations under finance leases are scheduled below:

Amounts payable under finance leases:	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	2006	2005
	R '000	Restated R '000	R '000	Restated R '000
Payable within one year	63,920	62,146	16,673	14,590
Payable within two to five years	332,411	257,270	176,170	88,831
Payable after five years	123,567	247,836	104,467	197,054
	519,898	567,252	297,310	300,475
Less: Future finance obligations	-222,588	-266,777	0	0
Present value of lease obligations	297,310	300,475	297,310	300,475
Less: Amounts due for settlement within 12 months			-16,673	-14,590
Amount due for settlement after 12 months			280,637	285,885

Finance leases have been entered into for certain items of plant and equipment. The period of the leases range from 10 to 15 years. Interest rates are fixed at the inception of the agreements. No arrangements have been entered into for contingent rental payments. Ownership of the leased assets passes to the City at the termination of the leases. In terms of the lease agreements, the City shall not, without the prior written approval of the lessors, dispose of a major portion of its encumbered assets. The City's obligations under the finance leases are secured by the lessors' title to the leased assets and to sinking fund deposits created to meet certain end of lease capital repayments.

4. NON-CURRENT PROVISIONS

Rehabilitation of Landfill sites	289,569	0
Post Retirement Medical Aid Benefits	1,241,630	949,330
Post Retirement Pension Benefits	12,448	19,008
Total Non-current Provisions	1,543,647	968,338

Landfill Sites

In terms of the licencing of the landfill refuse sites, Council will incur rehabilitation costs of R309,6 million determined at net present value, to restore the sites. Provision has been made for an amount based on the net present value of cost. The provision has been determined on the basis of a recent tender received for the rehabilitation for this purpose. The cost factors derived from the tender have been applied and projected at an inflation rate of 5,5% and discounted to present value at the average borrowing cost of 11,45%.

Comparative landfill rehabilitation figures for the 2005 year are not disclosed as no reliable estimate could be made from the available information at the stage the financial statements were compiled.

Post Retirement Medical Aid Benefit

The total liability in respect of post-retirement medical benefits amounts to R 1595,97 million as at 30 June 2006 (2005 : R1631,4 million). Provision for R1312,63 million has been made (non-current R1241,63 million, current R71 million - refer note 6 and 42).

Post Retirement Pension Benefits

An actuarial valuation as at 30 June 2006 has been performed of the City's unfunded liability in respect of Revenue Pension benefits to eligible employees and retirees of the City of Cape Town and redundant employees to whom Council must contribute until they reach retirement age. The unfunded liability in respect of past service has been estimated at R 15,4 million of which R 12,4 million relates to the non current portion - refer note 42.

The movement in the non-current provisions are reconciled as follows:-

	Landfill Sites	Post Retirement Medical Aid Benefits	Post Retirement Pension Benefits
As at 30 June 2006			
Balance at beginning of the year	0	949,330	19,008
Transfer from (to) current	(20,000)	(11,000)	(875)
Contributions to (from) provisions	309,569	303,300	(5,685)
Balance at end of the year	289,569	1,241,630	12,448
As at 30 June 2005			
Balance at beginning of the year	0	850,898	0
Transfer from current	0	102	0
Contributions to provisions	0	98,330	19,008
Balance at end of the year	0	949,330	19,008

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R '000	2005 Restated R '000
5. CONSUMER DEPOSITS		
Electricity and Water	176,982	161,686
Guarantees held in lieu of electricity and water Deposits were R 25,5m (2005 : R22,9m)		
6. PROVISIONS		
Ambulance Incentive	713	713
COID Claims	11,488	12,607
Insurance claims	64,628	44,675
Legal Fees	600	0
Landfill sites	20,000	0
Post Retirement Medical Aid Benefits	71,000	60,000
SARS	57,535	26,370
Post Retirement Pension Benefits	3,000	2,125
Performance bonuses	21,607	7,097
Staff Leave	180,814	217,723
Total Provisions (refer Appendix G for more detail)	431,385	371,310
Ambulance Incentive		
An incentive amount was negotiated with the unions to be provided for ambulance staff as compensation for their willingness to be transferred to the Provincial Administration Western Cape.		
Insurance and COID claims		
Provision has been made for outstanding insurance claims as at 30 June 2006 out of the Insurance and COID Reserve.		
Legal Fees		
Legal cost relating to process of defending City of Cape Town in Labour Appeal Court and Labour Court cases of which the court dates have already been set.		
Landfill sites		
Current portion of non-current provision, which is due -refer note 4 for more detail.		
Post Retirement Medical Aid Benefits		
Current portion of non-current provision, which is due - refer note 4 for more detail.		
SARS		
As part of the corporate governance strategies, areas have been identified where incorrect amounts of tax have been paid to SARS. A provision has been raised based on available information while the circumstances are being clarified.		
Post Retirement Pension Benefits		
Current portion of non-current provision, which is due - refer note 4 for more detail.		
Performance bonuses		
Performance bonuses accrue to employees on an annual basis subject to certain conditions. The provision is an estimate of the amount due to staff as at the financial year end.		
Staff leave		
Annual leave accrue to employees on a monthly basis subject to certain conditions. The provision is an estimate of the amount due to staff as at the financial year end.		
7. CREDITORS		
Trade creditors	984,766	856,830
Payments received in advance	487,531	338,585
RSC Levies	56,264	66,352
Inter-company advances	118,371	73,201
Third party payments	159,089	170,934
Other creditors	42,844	51,486
Total Creditors	1,848,865	1,557,388
8. UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
Conditional Grants from other spheres of Government	345,022	302,330
MIG Grants	0	17,951
National Government	147,300	121,265
PAWC - other	197,722	163,114
Other Conditional Receipts	93,741	68,422
Public contributions	93,741	68,422
Total Conditional Grants and Receipts	438,763	370,752

These amounts are separately invested in terms of section 12 of the MFMA. Refer note 21 and 23 for more detail of grants from National and Provincial Government.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
9. VAT		
VAT Payable	300,177	239,588
VAT Receivable	(92,025)	(67,880)
Net VAT Payable	<u>208,152</u>	<u>171,708</u>

VAT is payable on the payment basis. Only once payment is received from debtors is VAT paid over to South African Revenue Services.

10. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Cost	Accumulated Depreciation	Carrying Value
	R '000	R '000	R '000
As at 30 June 2006			
Land and Buildings	2,391,828	1,004,347	1,387,481
Infrastructure	8,717,102	3,515,455	5,201,647
Community	422,096	145,541	276,555
Heritage	2,772	0	2,772
Other	2,337,071	1,356,966	980,105
Leased Assets	289,201	113,371	175,830
Housing Rental Developments	1,032,233	452,344	579,889
Total Property, Plant and Equipment	<u>15,192,303</u>	<u>6,588,024</u>	<u>8,604,279</u>

	Cost	Accumulated Depreciation	Carrying Value
	R '000	R '000	R '000
As at 30 June 2005			
Land and Buildings	2,262,909	924,960	1,337,949
Infrastructure	7,693,990	3,199,082	4,494,908
Community	327,825	133,462	194,363
Heritage	1,272	0	1,272
Other	1,880,769	1,209,184	671,585
Leased Assets	337,124	83,014	254,110
Housing Rental Developments	1,007,875	435,072	572,803
Total Property, Plant and Equipment	<u>13,511,764</u>	<u>5,984,774</u>	<u>7,526,990</u>

Refer to **Appendix B** and **B(1)** for more detail.

Certain parcels of land, the value of which is included in land and buildings, have been made available to the Cape Town Community Housing Company.

The lease property, plant and equipment is encumbered as set out in Note 3. Provision has been made for the estimated costs of restoring refuse landfill sites, included in other assets, as described in Note 4.

11. INVESTMENT PROPERTY

	Fair Value	Cost	Accumulated Depreciation	Carrying Value
	R '000	R '000	R '000	R '000
As at 30 June 2006				
Vacant Land	68,380	34,320	0	34,320
Land and Buildings	96,342	90,296	24,772	65,524
	<u>164,722</u>	<u>124,616</u>	<u>24,772</u>	<u>99,844</u>
As at 30 June 2005				
Vacant Land	68,380	34,320	0	34,320
Land and Buildings	96,342	90,296	20,318	69,978
	<u>164,722</u>	<u>124,616</u>	<u>20,318</u>	<u>104,298</u>

Assets previously classified under PPE have now been restated as investment properties. The value under PPE has accordingly been reduced by R48,567million at cost. Rental income has been received on various properties during the year. Fair value is determined from property sales statistics, and is the basis for property valuations for rating purposes.

Property valuations are conducted by independent valuers. The effective implementation date of the last General Valuation was 1 July 2002. The general valuation currently being conducted will be implemented with effect from 1 July 2007.

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
12. INVESTMENTS		
12.1 Held to maturity		
Listed		
RSA Government stock at amortised cost	20,909	21,600
Eskom stock at amortised cost	1,474	2,437
Total listed investments	<u>22,383</u>	<u>24,037</u>
Unlisted		
Bank Deposits		
Fixed Deposits: Sinking fund deposits for redemption of long term loan liabilities - refer note 3	349,949	448,259
Other fixed Deposits	1,926,842	1,445,442
Less provision for impairment	(14,800)	(14,800)
Total	2,261,991	1,878,901
Less current portion maturing within next twelve months - refer note 17.	(1,914,517)	(1,598,247)
Total non-current bank deposits	<u>347,474</u>	<u>280,654</u>
Total held to maturity	<u>369,857</u>	<u>304,691</u>
<p>Included in other fixed deposits is an amount of R16.3 million being the balance of unpaid deposits with the New Republic Bank which went into curatorship in 1999. Following discussions with the curator of the bank regarding projections of future dividends to deposit holders, it was deemed prudent to provide for 90% of the current capital balance outstanding as being irrecoverable.</p>		
12.2 Available for sale		
Unlisted		
Investment in municipal entities at cost:		
Cape Town International Convention Centre Company (Pty) Ltd	284,000	284,000
Less: Provision for impairment - refer note 27.	(244,703)	0
	<u>39,297</u>	<u>284,000</u>
<p>Objective indicators of impairment of the City's investment in Convenco exist, which oblige the City to calculate an impairment loss. The carrying amount of the City's investment in Convenco, R284 million, has been compared with its share of the present value of Convenco's estimated future cash flows (R78.2 million) discounted at a market related rate of interest. An amount of R244.7 million has been recognised as an impairment loss.</p>		
Regional Electricity Distributor One (RED 1)	0	0
The City holds 5 ordinary shares of R1 each		
Investment in joint venture company:		
Cape Town Community Housing Company (Pty) Ltd		
Original investment at cost	25,697	25,071
Less : Amounts previously written off	(10,000)	(10,000)
Less : Provision for impairment - refer note 27	(15,697)	(15,071)
Carrying Value	<u>0</u>	<u>0</u>
Other investment at cost		
Thibault Square Parking Garage	4,000	4,000
Total available for sale	<u>43,297</u>	<u>288,000</u>
Total Investments	<u>413,154</u>	<u>592,691</u>
Market valuation of listed investments		
RSA Government Stock	21,380	23,002
Eskom stock	1,552	2,635
Total	<u>22,932</u>	<u>25,637</u>
Council's valuation of unlisted investments		
Investment in subsidiary company	39,297	284,000
Investment in joint venture company	0	0
Other investments	4,000	4,000
Total	<u>43,297</u>	<u>288,000</u>

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R '000	2005 Restated R '000
13. LONG-TERM RECEIVABLES		
Loans to employees	17,474	39,957
Sporting bodies	2,325	2,628
Public Organisations	36,233	39,441
	258,148	263,851
Housing selling development loans	316,284	335,292
Less: Bad Debt Provision	(58,136)	(71,441)
Other : Road widening and Epping Fresh Market Credit Facility	2,394	9,894
	316,574	355,771
Less : Current portion transferred to current receivables	22,287	33,401
Loans to employees	6,456	13,360
Sporting bodies	201	254
Public Organisations	1,377	1,323
Housing selling development loans	11,918	10,919
Other: Road widening and Epping Fresh Market Credit Facility	2,335	7,545
Total Non-Current Loans	294,287	322,370
Reconciliation of bad debt provision		
Balance at beginning of the year	71,441	0
Transfers to/(from) provisions	(13,305)	71,441
Balance at 30 June	58,136	71,441

Loans to employees

Staff were entitled to various loans, such as car and computer loans which attract interest at 8% to 17% per annum, and are repayable over a maximum period of 6 years. These loans were granted before the implementation of the MFMA and the last of the loans are repayable by 2010.

Sporting Bodies

Loans were made to sporting bodies to facilities the development of sporting facilities. These loans attract interest at a rate of 4% to 19% per annum and are repayable over a maximum period of 20 years.

Public Organisations

Loans to public organisations were granted in terms of the National Housing policy. The applicable interest rate and loan repayment periods are determined by the Minister of Housing. At present these loans attract interest at 1%(buildings) and 11%(infrastructure) and are repayable over 30 years.

Housing Selling Development Loans

Housing loans are granted to qualifying individuals in terms of the National Housing policy. These loans attract interest at a rate determined by the Minister of Housing, currently 13,5% per annum and are repayable over 20 years.

Road Widening

A loan was made to a ratepayer for the amount due by him in respect of the construction of a road. This loan attracts interest at a rate of 15% per annum and is repayable over a maximum period of 10 years.

Epping Fresh Produce Market Credit

Certain accredited buyers at the Epping Market were allowed to buy fresh produce on credit. After the Epping Market was sold by the City, the debtors negotiated with the City and approval was given for the repayment of the debt in monthly instalments.

14. INVENTORY

Consumable stores	90,630	90,338
Medical supplies	2,832	3,665
Spare parts	1,822	2,092
Meters	14,247	9,379
Water	4,401	3,008
Other goods held for resale (plants, compost)	7,239	9,213
Total Inventory	121,171	117,695

Inventory to the value of R3,686 million (2005: R14,786 million) was written-off during the year.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

15. CONSUMER DEBTORS

	Gross Balances R'000	Provision for Bad debts R'000	Net Balance R'000
As at 30 June 2006			
Service debtors	4,450,214	(2,822,491)	1,627,723
Rates	1,051,056	(380,985)	670,071
Trade: Electricity	536,152	(277,395)	258,757
Water	1,503,978	(1,248,515)	255,463
Waste Management (solid waste)	323,130	(256,629)	66,501
Waste Water Management (sewerage and sanitation)	518,315	(408,171)	110,144
RSC Levies	42,781	(3,046)	39,735
Rates and General	474,802	(247,750)	227,052
Housing Rental Developments	307,325	(236,596)	70,729
Public Organisations Housing Loans	6,157	(4,745)	1,412
Housing Selling Developments	320,384	(201,302)	119,082
Total	5,084,080	(3,265,134)	1,818,946
As at 30 June 2005			
Service debtors	3,976,687	(2,029,223)	1,947,464
Rates	1,026,713	(232,870)	793,843
Trade: Electricity	507,360	(215,432)	291,928
Water	1,162,757	(902,414)	260,343
Waste Management (solid waste)	293,655	(209,886)	83,769
Waste Water Management (sewerage and sanitation)	443,095	(318,631)	124,464
RSC Levies	64,842	(14,344)	50,498
Rates and General	478,265	(135,646)	342,619
Housing Rental Developments	249,275	(166,581)	82,694
Public Organisations Housing Loans	3,936	0	3,936
Housing Selling Developments	292,732	(195,622)	97,110
Total	4,522,630	(2,391,426)	2,131,204

Analysis of Consumer Debtors Age in Days

	Total R'000	Current R'000	31 - 60 R'000	61 - 90 R'000	91 - 180 R'000	+180 R'000
As at 30 June 2006						
Rates	1,051,056	149,863	39,158	26,578	90,447	745,010
Electricity	536,152	206,625	36,787	15,345	37,060	240,335
Water	1,503,978	141,043	66,694	46,726	138,345	1,111,170
Waste Management	323,130	44,135	12,694	9,672	31,400	225,229
Waste Water Management	518,315	67,187	24,398	18,559	50,866	357,305
RSC Levies	42,781	1,394	2,365	3,070	2,895	33,057
Rate and General	474,802	45,142	5,019	11,721	23,071	389,849
Housing Rental Developments	307,325	27,569	6,979	7,125	15,233	250,419
Housing Selling Developments	326,541	20,528	3,045	3,183	10,888	288,897
Total	5,084,080	703,486	197,139	141,979	400,205	3,641,271
As at 30 June 2005						
Rates	1,026,713	78,756	4,190	5,931	16,666	921,170
Electricity	507,360	260,172	23,430	8,325	30,960	184,473
Water	1,162,757	166,269	55,511	38,563	122,252	780,162
Waste Management	293,655	60,941	14,943	7,885	25,465	184,421
Waste Water Management	443,095	83,016	25,197	16,251	44,203	274,428
RSC Levies	64,842	1,422	2,038	2,263	2,769	56,350
Rate and General	478,265	167,647	(5,392)	3,328	(10,075)	322,757
Housing Rental Developments	249,275	18,660	1,353	6,341	1,681	221,240
Housing Selling Developments	296,668	24,212	2,677	3,003	2,251	264,525
Total	4,522,630	861,095	123,947	91,890	236,172	3,209,526

	2006 R '000	2005 Restated R '000
Reconciliation of bad debt provision		
Balance at beginning of the year	2,391,426	1,957,809
Contributions to provisions	860,405	464,189
Transfers to/(from) provisions	13,303	(30,572)
Balance at 30 June	3,265,134	2,391,426

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
16. OTHER DEBTORS		
Payments made in advance	6,796	5,287
Rate and general	31,754	22,976
Property rentals	21,363	25,327
Sporting bodies	1,770	1,434
Miscellaneous accounts	84,486	86,975
Government subsidies	46,151	16,089
	<u>192,320</u>	<u>158,088</u>
Less : Provision for bad debts	(31,839)	(31,839)
Total Other Debtors	<u>160,481</u>	<u>126,249</u>
Reconciliation of bad debt provision		
Balance at beginning of the year	31,839	0
Transfers to/(from) provisions	0	31,839
Balance at 30 June	<u>31,839</u>	<u>31,839</u>

17. CASH AND CASH EQUIVALENTS (BANK AND CASH)

The Municipality has the following bank accounts: -

Main Bank account	40-5658-4470	121,375	93,536
Salary Bank account	40-5658-4496	0	0
Cashier's Bank account	40-5658-4527	0	0
General Income Bank account	40-5658-4569	0	0
RSC Levies Bank account	40-5542-0263	0	0
RSC Levies Agents Bank account	40-5961-0446	0	0
Market Bank account (holding account)	40-5089-3435	0	0
Traffic Fines Bank account	62073198816	44	9
		<u>121,419</u>	<u>93,545</u>

All accounts are with ABSA except the traffic fines account which is with First National Bank. All account balances are cleared on a daily basis to the main account. The Market bank account is currently a holding account to facilitate the receipt of sundry debtor payments.

Bank statement balance at beginning of year	93,545	56,341
Bank statement balance at end of year	121,419	93,545
Cash book balance at beginning of year	113,545	75,834
Petty Cash / Float	266	263
Cash	121,419	93,545
Cash in transit	18,265	19,737
Cash book balance at end of year	<u>139,950</u>	<u>113,545</u>
Investments: Current portion matures within next twelve months - refer note 12.	<u>1,914,517</u>	<u>1,598,247</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>2,054,467</u>	<u>1,711,792</u>

18. PROPERTY RATES

Actual

Residential	}		
Commercial		2,291,278	2,189,468
State			
Less		(168,619)	(193,027)
Income forgone *		(26,267)	(66,777)
Revenue Recognition		(142,352)	(126,250)
Total Property Rates		<u>2,122,659</u>	<u>1,996,441</u>
Valuations			
Rateable Properties		196,984,074	196,062,379
Non-Rateable Properties		9,427,676	6,163,377
Total Property Valuations		<u>206,411,750</u>	<u>202,225,756</u>

* Income forgone can be defined as any income that the City is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
Valuations as at July		
Residential	128,734,488	130,883,733
Commercial	61,388,230	56,361,620
Agriculture	1,000,602	
State	13,835,987	13,526,749
Municipal	1,452,443	1,453,654
Total Property Valuations	206,411,750	202,225,756

A general valuation on land and buildings is performed every four years. The last general valuation came into effect on 1 July 2002. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied on an annual basis with the final date for payment being 30 September. Interest at prime plus 1% per annum and a collection fee, is levied on rates outstanding two months after due date. A general valuation is currently in progress.

19. SERVICE CHARGES

Sale of Electricity	2,653,863	2,497,632
Sale of Water	1,059,056	896,976
Waste Management (solid waste)	440,272	408,340
Waste Water Management (sewerage and sanitation)	570,445	537,250
Other	184,855	207,879
	4,908,491	4,548,077
Less	(611,459)	(384,670)
Revenue Recognition	(544,347)	(289,201)
Income forgone	(67,112)	(95,469)
Total Service Charges	4,297,032	4,163,407

20. REGIONAL SERVICE LEVIES

With regard to item 11.6 of the accounting policy the following needs to be noted: Provisional RSC Levies are raised where levy payers do not submit declarations of their actual liabilities. The provisional RSC Levies are calculated based on actual historical declarations or information submitted with initial registration as a levy payer. As these provisional levies cannot be determined accurately and the eventual recovery thereof is uncertain, a possible income of R6,5million (2004/05 R121,3million) was not recognised in the Statement of Financial Performance. Refer note 47.

Regional Service Levies - turnover	842,348	745,304
Regional Services Levies - remuneration	173,774	154,424
	1,016,122	899,728
Less : Revenue Recognition	11,298	(5,890)
Total Regional Service Levies	1,027,420	893,838

20.1. RENTAL OF LETTING STOCK AND FACILITIES

Rental agreements	189,939	186,921
Hire / Rentals	22,984	23,889
	212,923	210,810
Less : Revenue Recognition	(67,136)	(39,944)
Total rentals	145,787	170,866

21. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	254,216	180,893
MIG projects	227,428	147,959
Provincial Health subsidies	105,759	100,921
Metropolitan Transport Advisory Board	69,356	28,793
National projects	45,858	40,446
Provincial projects other	307,868	123,174
Other	8,323	9,720
Total Government Grant and Subsidies	1,018,808	631,906

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
Equitable Share		
These grants are used to subsidise the provision of basic services to indigent communities.		
MIG projects		
Balance unspent at beginning of year	(17,951)	(21,251)
Current year receipts	(186,244)	(146,155)
Adjustments	2,228	1,496
Conditions met - transferred to revenue	227,428	147,959
Amounts still to be claimed	(25,461)	
Conditions still to be met - transferred to liabilities (refer note 8)	0	(17,951)

This grant was used to fund the construction of infrastructural assets for the City. Other than the amount unspent, the conditions of the grant have been met. No funds have been withheld.

Provincial Health Subsidies

Balance unspent at beginning of year	0	0
Current year receipts - included in public health vote (see Appendix D)	(105,759)	(100,921)
Conditions met - transferred to revenue	105,759	100,921
Conditions still to be met - transferred to liabilities	0	0

The City renders services on behalf of the PAWC and is refunded partially for expenditure incurred. This grant has been used to fund clinic services. The conditions of the grant have been met. There were no delays in payment of the subsidies nor were any amounts withheld.

Provincial projects and MTAB

Balance unspent at beginning of year	(163,114)	(118,110)
Regrouping adjustment	16,584	38,622
Current year receipts	(405,414)	(243,067)
Interest earned	(5,998)	(3,693)
Adjustments	(26,799)	4,318
Conditions met - transferred to revenue	377,224	151,967
Amounts still to be claimed	9,795	6,849
Conditions still to be met - transferred to liabilities (refer note 8)	(197,722)	(163,114)

The City received various grants from PAWC for projects. Other than the amounts unspent, the conditions of the grants have been met. No funds have been withheld.

National Government projects

Balance unspent at beginning of year	(121,265)	(65,084)
Regrouping adjustment	1,182	(17,831)
Current year receipts	(76,672)	(80,887)
Interest earned	(113)	(38)
Adjustments	3,710	267
Conditions met - transferred to revenue	45,858	40,446
Revenue not materialised	0	3,089
Amounts still to be claimed	0	(1,227)
Conditions still to be met - transferred to liabilities (refer note 8)	(147,300)	(121,265)

These grants received from National Government are for operating and capital expenditure such as budget reform, restructuring, urban renewal and other. Excluding the amounts unspent, the conditions of the grants have been met. See appendix F.

22. OTHER INCOME

Insurance recoveries	1,273	3,424
Bulk infrastructure levies	82,945	46,254
City Improvement District (CID's)	45,431	39,131
Gain on foreign exchange	40	0
Skills Development levy	22,622	9,737
Other income	71,343	53,185
	223,654	151,731
Less : Revenue Recognition	(117,868)	(2,904)
City Improvement District	(1,343)	(1,683)
Other	(116,525)	(1,221)
	105,786	148,827

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
23. PUBLIC CONTRIBUTIONS		
Public contributions: Consumer connections	30,346	27,789
Other	9,428	13,083
	39,774	40,872
Public contributions and other third party funds		
Balance unspent at beginning of year	(68,422)	(55,843)
Regrouping adjustment	4,811	(191)
Current year receipts	(66,995)	(58,778)
Interest earned	(930)	(864)
Adjustments	574	1,003
Conditions met - transferred to revenue	39,774	40,872
Amounts still to be claimed	(2,553)	5,379
Conditions still to be met - transferred to liabilities (refer note 8)	(93,741)	(68,422)

The City receives grants from various private funders for operating and capital projects. Included in these funds are monies held on behalf of third parties. Other than the amounts unspent, the conditions of the grants have been met. No funds have been withheld.

24. EMPLOYEE RELATED COSTS

Salaries and Wages	2,059,727	2,018,661
Social contributions - UIF, pensions and medical aid	524,882	526,206
Travel, motor car, accommodation, subsistence and other allowances	204,989	200,253
Housing benefits and allowances	44,325	54,542
Overtime payments	117,136	97,953
Performance bonus - net contribution	14,468	740
Long-service awards	0	259
	2,965,527	2,898,614
Expenditure Recharged	(225,527)	(224,368)
Recharged to repairs and maintenance	(207,266)	(207,645)
Recharged to capital projects	(18,261)	(16,723)
Total Employee Related Costs	2,740,000	2,674,246

The published figures in note 24 of the 2004/05 Annual Financial Statements were inadvertently transposed between the line items "Recharged" to "repairs and maintenance" and "Capital project." respectively. This was corrected in the comparative figures in the 2005/06 Annual Financial Statements.

Remuneration of Executives	Total	Annual	Performance	Car	Social
	R'000	Salary R'000	Bonus R'000	Allowance R'000	Contribution R'000
2006					
Municipal Manager (until February 2006)	935	563	186	93	93
Finance	1,053	755	167	110	21
Chief Operations Officer (until May 2006)	935	888	31	16	0
City Secretariat	1,087	718	172	83	114
Community Development	950	713	29	93	115
Corporate Support Services (until May 2006)	984	922	46	16	0
Corporate Support Services (June 2006)	95	74	0	10	11
Executive Management Unit	888	833	39	9	7
Strategy & Development	965	909	42	14	0
Transport, Roads & Planning	1,114	717	179	95	123
Services & Infrastructure	693	560	0	65	68
Chief Audit Executive	881	782	39	56	4
	10,580	8,434	930	660	556

	Total	Annual	Performance	Car	Social
	R'000	Salary	Bonus	Allowance	Contribution
	R'000	R'000	R'000	R'000	R'000
2005					
Municipal Manager	1,104	729	138	120	117
Finance	808	686	0	100	22
Chief Operations Officer (from May 2005)	260	260	0	0	0
City Secretariat (from April 2005)	147	120	0	8	19
Community Development (from May 2005)	144	127	0	7	10
Corporate Support Services (from April 2005)	306	306	0	0	0
Executive Management Unit (from April 2005)	182	182	0	0	0
Strategy & Development (from April 2005)	181	181	0	0	0
Transport, Roads & Planning (from April 2005)	229	177	0	21	31
Community Services (until March 2005)	911	523	211	84	93
Development & Infrastructure (until March 2005)	882	496	231	64	91
Corporate Systems & Services (until March 2005)	934	513	189	128	104
Chief Audit Executive (from April 2005)	236	236	0	0	0
	<u>6,324</u>	<u>4,536</u>	<u>769</u>	<u>532</u>	<u>487</u>

	2006	2005
	R '000	Restated R '000
25. REMUNERATION OF COUNCILLORS		
Executive Mayor	595	572
Deputy Executive Mayor	501	484
Speaker	509	480
Mayoral Committee Members	3,875	3,898
Sub Council Chairpersons	6,131	9,510
Chief Whip	443	0
Councillors	34,058	29,548
Councillors' medical aid contributions	1,087	909
Councillors' pension contributions	4,602	4,551
Total Councillors' Remuneration	<u>51,801</u>	<u>49,952</u>

In-kind Benefits

The Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip and Mayoral Committee members are employed full-time.

Sub Council Chairpersons and full time Councillors are provided with an office, administrative and secretarial support at the cost of Council.

The Executive Mayor and Deputy Mayor and other full-time Mayoral Committee members have access to Council owned vehicles for ceremonial and official functions.

The Executive Mayor has two full-time bodyguards and all Councillors have access to security in terms of the Councillors' security policy.

Councillors are provided with work stations / ward offices which are appropriately equipped. Computers are provided to councillors either in their offices or at their homes.

26. BAD DEBTS

Housing Debtors	10,825	13,687
Other Debtors	82,515	62,832
	<u>93,340</u>	<u>76,519</u>

27. IMPAIRMENT INVESTMENTS AND ASSETS**Impairment of Investments**

Cape Town International Convention Centre Company (Pty) Ltd	244,703	0
Cape Town Housing Company(Pty) Ltd.	625	1,739
New Republic Bank.	0	1,800
	<u>245,328</u>	<u>3,539</u>

During the year, the City made provision for the impairment of the value of the investments as a result of assessments made by management regarding the future economic benefits to the City for the recovery of carrying values. Refer note 12 for more detail.

Impairment of Asset

Housing Projects: Land	1,023	0
Freehold Property : Athlone Power Station	51	80,304
Freehold Property : Abattoir	0	15,731
	<u>1,074</u>	<u>96,035</u>

During the year, the City made provision for the impairment of the above freehold property due to it having been decommissioned and made obsolete.

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
28. INTEREST PAID		
Long-term liabilities	289,092	298,092
Finance leases	60,233	48,735
Total Interest on External Borrowings	349,325	346,827
29. BULK PURCHASES		
Electricity	1,609,564	1,546,606
Water	171,191	156,443
Total Bulk Purchases	1,780,755	1,703,049
30. GRANTS AND SUBSIDIES PAID		
Ad Hoc	1,722	538
Cape Film Commission	0	700
Cape Town Festival	3,350	3,543
Community Upliftment	5,953	1,452
Destination Marketing Organisation	30,000	28,350
Disabled	237	18
Economic Promotion and Job Creation	1,427	11,740
Educational Institutions and Health Forums	2,167	813
HIV/Aids/TB	232	1,792
Programmes, Conferences & Events	1,375	2,690
S A National Parks	6,340	9,250
Senior Citizens	169	58
Social Arts & Culture and other	727	1,363
Sporting Bodies	1,813	1,899
Tourism	248	252
Wesgro	10,610	6,691
Total Grants and Subsidies	66,370	71,149

Ad Hoc

Grants and Donations made by the Mayor's office on an ad hoc basis.

Cape Film Commission

Special Purpose Vehicle for the City of Cape Town. The City contributes towards the operating costs of the Film Commission.

Cape Town Festival

Contribution towards the annual festival.

Community Upliftment

Contribution towards projects and community organisations for community upliftment ie. Arts & Crafts, Living Fountain enrichment, counselling services and advisory offices, cleaning projects, women's organisations and capacity building.

Destination Marketing Organisation (DMO)

Grants were made to DMO being the new organisation for the marketing of tourism in the Western Cape.

Disabled

Donations / Grants for equipment and functions for the disabled.

Economic Promotion and Job Creation

Donations to various small business to aid with job creation.

Educational Institutions and Health Forums

Donations were made to various local schools and health forums.

HIV/Aids/TB

Made to various NGO's in connection with HIV/Aids/TB.

Programmes, Conferences & Events

Funding of programmes such as sport, youth development, animal welfare, awards, awareness campaigns and conferences.

S A National Parks

Conservation grant to Table Mountain National Park in terms of the memorandum of agreement.

Senior Citizens

Contribution towards Senior Citizens Establishments.

Social Arts & Culture and Other

Donations were made to various arts and culture societies and to non-government organisations for social upliftment.

Sporting Bodies

Donations were made to various sporting bodies for maintenance and the promotion of sport.

Tourism

Donations were made to various tourism organisations for the promotion of tourism in the City.

Wesgro

Contributions were made to Wesgro, the official trade promotion agency for the Western Cape.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
31. GENERAL EXPENSES		
Chemicals	54,574	42,952
Communication and publication	41,722	21,631
Computer services and software	14,290	21,030
Consultants	69,589	24,819
Contributions - Medical aid	370,370	157,560
Contributions - to / (transfers from) provisions	115,074	30,948
Electricity - Eskom payments	29,649	29,202
Fuel	107,033	76,840
Furniture and Fittings	30,374	8,226
Hire charges	43,360	36,257
Hire of LDV	28,582	35,550
Legal fees	24,326	20,052
Levy: Skills development	22,974	20,755
Licences and permits	59,089	37,206
Loss on foreign exchange	474	0
Materials and consumables	43,552	35,842
MIDS/CIDS	43,414	36,928
Minor Tools and Equipment	25,544	34,019
Pharmaceutical supplies	24,432	18,374
Postage and courier	22,687	23,500
Printing and stationary	33,865	28,153
Rental	32,580	32,885
Scrapping of assets	1,105	19,710
Security services	95,787	69,012
Sewerage services - disposals external	30,454	23,978
Telecommunications	46,278	60,042
Telecommunication Equipment rental	37,386	30,584
Training	18,209	16,037
Transformation	45,804	0
Insurance : claims	23,837	23,928
Insurance : underwriting	25,161	32,288
Indigent relief	186,032	172,334
Operating grants and donations - Projects	188,165	70,576
Other	313,678	227,508
	<u>2,249,450</u>	<u>1,518,726</u>
Expenditure Recharged	(36,189)	(25,164)
Recharged to repairs and maintenance	(33,414)	(23,753)
Recharged to capital projects	(2,775)	(1,411)
Total General Expenses	<u>2,213,261</u>	<u>1,493,562</u>

32. CHANGES IN ACCOUNTING POLICY - IMPLEMENTATION GRAP / GAMAP

During the previous year the City changed its accounting policy in respect of assets funded out of the Capitalisation Replacement Reserve. Previously the funding of the asset from the reserve account was spread over its useful life whereas at present in terms of the revised National Treasury requirements, MFMA circular no.18, the full funding amount is immediately transferred to the accumulated surplus account. The effect of the change in accounting policy at the beginning of the year on the accumulated surplus is as follows:-

0 82,423

The Financial Statements have been prepared in terms of circular 18 in accordance with the approved three GRAP and eight GAMAP statements. Subsequently, an additional directive, circular 36, was issued which states that in the event of any material transactions, balances and/or events falling outside the scope of the above standards, these events must comply with the SA GAAP statements. As a result of the above, the City has applied the following SA GAAP statements and the effect of the changes in accounting policies at the beginning of the year on the accumulated surplus is as follows:

* AC133, Financial Instruments: Recognition and Measurement

Gain on valuation of derivatives	60,578	70,617
Retention fair value adjustment	9,527	0

* AC105, Leases

Finance leases previously treated as operating leases	(9,005)	0
	<u>61,100</u>	<u>153,040</u>

The policy has been applied prospectively from the start of 2005/06 because it was not practicable to estimate the effects of applying the policy in all cases.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R '000	2005 Restated R '000
33 CORRECTION OF ERROR-PRIOR YEAR ADJUSTMENTS		
Bad Debt Provision	0	(71,441)
Bad debt provision for long term housing debtors was implemented and transferred from Housing Development Fund.		
Bulk Water	0	(2,069)
Bulk water expenses relating to the 2005 financial year were paid in the 2006 year and the financial statements were adjusted to reflect the expenditure in the correct financial year.		
Inventory	0	(11,572)
Entries for electricity transformers issued in the 2005 year only passed in the 2006 year.		
Depreciation	0	4,275
Adjustments to the 2005 depreciation incorrectly raised only adjusted in the 2006 financial year.		
Post-employment Health Care benefits	0	151,670
Incorrect contribution to post retirement medical benefits in 2005 year corrected in 2006 year.		
	0	70,863
33.1 Restated prior year comparatives		
Property Rates (refer note 18)	0	126,250
Service Charges (refer note 19)	0	289,201
RSC Levies (refer note 20)	0	5,890
Rental of Letting Stock (refer note 20.1)	0	39,944
Other Income (refer note 22)	0	2,904
	0	464,189
Less: Bad Debts (refer note 26)	0	(464,189)
	0	0
In order to comply with GAMAP 9 and reflect a revenue figure in the statement of financial performance that takes into account the assessment of the probability of an inflow of economic benefits to the City, the revenue figures of the prior year has been restated. The adjustment comes through as a revenue recognition line in notes 18, 19, 20 and 22 to the financial statements. There is no resultant effect on the surplus for the year in the statement of financial performance due to the change, as the bad debts figure has been restated accordingly.		
33.2 Movement in reserves		
Capital Replacement Reserve	0	59
Capitalisation Reserve Adjustment	0	50
Government Grant Reserve Adjustment	0	(19,847)
Public Contribution Reserve Adjustment	0	17,523
	0	(2,215)
These adjustments relate to creditors raised erroneously and the incorrect utilisation of funds for expenditure.		
34 CASH GENERATED BY OPERATIONS		
Surplus for the year	1,973	499,307
Adjustment for :-	2,091,335	1,231,911
- Depreciation	675,396	629,561
- Impairment	1,074	96,035
- Impairment of investments	245,328	3,539
- Gain and loss on disposal of property, plant and equipment	(42,967)	(105,410)
- Loss on valuation of derivatives	16,972	10,039
- Contribution to provisions – current	395,975	127,872
- Contribution to bad debt provision	873,708	465,456
- Investment income	(423,476)	(342,008)
- Interest paid	349,325	346,827
Operating surplus before working capital changes:	2,093,308	1,731,218
(Increase) Decrease in inventories	(3,476)	4,494
Increase in debtors	(341,095)	(513,170)
Decrease (Increase) in other debtors	(34,232)	72,732
Increase in unspent conditional grants and receipts	68,011	110,464
Increase (Decrease) in creditors	269,589	(15,389)
Increase in net VAT	36,444	35,687
Cash generated by operations	2,088,549	1,426,036
35 CASH AND CASH EQUIVALENTS		
Balance at the end of the year	2,054,467	1,711,792
Balance at the beginning of the year	1,711,792	1,239,780
Net increase in cash and cash equivalents (Refer note 17)	342,675	472,012

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

2006
 R '000

2005
 Restated
 R '000

36 IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure

Opening balance	23,607	23,607
Irregular expenditure current year	314,760	0
Approved by Council	(11,607)	0
Transfer to receivables for recovery	0	0
Closing balance	326,760	23,607

Incident	Disciplinary steps / criminal proceedings	2006 R '000	2005 Restated R '000
Misappropriation of inventory at stores.	Criminal proceedings taken and reported to SAPS. Council resolution dated 28 September 2005.	1,039	1,039
Alleged irregular hire of plant and equipment	Criminal proceedings taken and reported to SAPS. Council resolution dated 7 December 2006.	12,000	12,000
Cell phone allowances of Councillors	The Chief Whip and a select committee of Councillors to enter into further discussions with the Auditor-General on the regularisation of the presumed unauthorised allowances. Council resolution dated 25 October 2006	3,389	3,389
Reimbursement of travelling allowances of Councillors	After consultation with the MEC the issues have been referred to MAYCO for consideration. Council resolution dated 25 October 2006	6,665	6,665
Outstanding PAYE paid on behalf of Councillors	Council resolution dated 25 October 2006	514	514
Contracts not provided during the 2004/05 audit	No contracts could be provided. Council resolution dated 7 December 2006	1,094	0
Severance packages paid without approved policy	No policy or Council approval was available to verify the validity of these payments. Council resolution dated 7 December 2006	45,963	0
Transport allowances	No policy existed to grant these allowances. Council resolution dated 7 December 2006.	700	0
Performance bonus paid to City Manager	Discrepancies between performance evaluation results and ratings according to summary of performance appraisal. The validity and accuracy of amount could not be verified. Council resolution dated 7 December 2006.	186	0
Performance bonus paid to Executive Directors	No performance contracts existed for two Executive Directors and the determination of the benefits were not properly approved. The validity and accuracy of amounts could not be verified. Council resolution dated 7 December 2006.	743	0
Performance bonus paid to relevant Directors, Sub-Council Co-ordinators and certain managers without relevant evaluation	No performance evaluations was performed for these employees and an across the board rating approved by the City Manager was used. No council approval or delegated authority could be obtained. Council resolution dated 7 December 2006.	2,490	0
Supply chain management policy not followed in procurement of services - no tender could be submitted.	Report in terms of section 32 of MFMA to be submitted to SCOPA .Council resolution dated 7 December 2006.	261,152	0
No quotations could be submitted regarding certain expenditure	Report in terms of section 32 of MFMA to be submitted to SCOPA .Council resolution dated 7 December 2006.	2,388	0
Regulatory framework for supply chain management and Council's policy on payment of travel not followed	Report in terms of section 32 of MFMA to be submitted to SCOPA .Council resolution dated 7 December 2006.	44	0
Council approved the submissions on the various dates specified in the above table regarding the irregular expenditure except for the items specified as having been reviewed on 7 December 2006 and referred to SCOPA for further investigation in accordance with Section 32 (2)b of the MFMA.		(11,607)	0
Estimated irregular expenditure		326,760	23,607

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006	2005
	R '000	Restated R '000
37 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term liabilities raised (refer Appendix A)	200,000	0
Used to finance property, plant and equipment	1,342,855	648,659
2004/2005 and prior years	551,548	154,858
2005/2006	791,307	493,801
Total EFF (overdrawn)	(1,142,855)	(648,659)
Cash set aside for the repayment of long-term liabilities - refer note 3 and 12	349,949	448,259
Cash (overdrawn) / cash invested	(792,906)	(200,400)

External loans have been utilised in accordance with the Municipal Finance Management Act. The City's cash flow budget for 2005/2006 takes into account the cash flow requirement to ensure that external loans can be repaid on redemption date. Capital expenditure during the year under review was temporarily financed out of revenue. A bridging finance facility of R300 million has been put in place and is available for use together with the R400 million balance of a R600 million term loan concluded in 2005/2006

38 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Supply Chain Management Regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	Reasons submitted for non-compliance		
Social crime prevention	Circumstances surrounding the Social Crime Prevention Project made it impractical to follow the procurement process due to community involvement.	270	0
Earthmoving Equipment repairs	Unforeseen additional minor repairs found necessary when testing and commissioning equipment.	272	0
Emergency pipeline repairs	Emergency of the situation; danger of possible health and safety risk; to avoid additional cost of repairs; and possible danger to pedestrians and road traffic.	3,027	0
Extension of consultants: Potsdam wastewater treatment works	Exceptional cases where it would not be in Council's best interest and also impractical to follow the normal procurement procedures due to a committed project expense of R230 million.	30,000	0
Driving License Testing Centre: Phillipi	An oversight of the policy on the part of responsible official i.e. additional quotations not obtained.	49	0
Total amount condoned by Council		33,618	0

	SALGA Contributions R '000	Audit Fees R '000	PAYE UIF R '000	Pension and Medical Aid R '000
As at 30 June 2006				
Opening balance	0	265	29,614	65,833
Council subscriptions	6,840	11,748	388,022	903,119
Amount paid - current year	(6,840)	(11,505)	(360,444)	(828,290)
Amount paid - previous years	0	(265)	(29,614)	(65,833)
Balance unpaid (included in creditors)	0	243	27,578	74,829
As at 30 June 2005				
Opening balance	0	1,589	27,177	63,467
Council subscriptions	5,228	11,510	388,505	745,969
Amount paid - current year	(5,228)	(11,245)	(358,891)	(680,136)
Amount paid - previous years	0	(1,589)	(27,177)	(63,467)
Balance unpaid (included in creditors)	0	265	29,614	65,833

VAT

VAT output payables and VAT input receivables are shown in note 9. All VAT returns have been submitted by the due date throughout the year.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

COUNCILLOR'S ARREAR CONSUMER ACCOUNTS

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2006:-

As at 30 June 2006	Total	Outstanding 90 days	Outstanding < 90 days
	R	R	R
B A Zuma (Jeremiah)	300	300	0
B V Bala	200	200	0
F H Maxakato	2,026	618	1,408
G G Twigg	2,289	1,542	747
J F Erasmus	3,753	3,639	114
J Pascoe	105	105	0
J T Mokoena	145	141	4
J W P Thee	200	194	6
L R Dunn	1,390	1,390	0
M Mbaliswano	113	0	113
M Murudker	206,149	194,323	11,825
M Ncedana	2,011	162	1,849
M T Mgxekeni	283	283	0
N Jacobs	215	91	124
N P Mgayiya	4,716	1,258	3,458
N T Bottoman	3,087	2,926	161
P M Motyi	128	37	91
P Mgcoleli	817	651	167
V V Mdluli	1,151	1,000	151
W Hassiem	23,547	16,876	6,671
Total Councillor Arrear Consumer Accounts	252,626	225,736	26,890

In addition, the below councillors were in arrears as at 30 June 2006 and have made signed arrangements to pay amounts outstanding.

A M Figlan	10,903		10,903
B V Bala	2,948		2,948
C Carstens	5,066		5,066
C P V Claasen	2,992		2,992
D J Christians	5,549		5,549
D W Jaftha	48,382		48,382
E L Thompson	11,798		11,798
J F Erasmus	50,973		50,973
M A & P W Mkutshwana	9,094		9,094
N D Magwentshu	9,317		9,317
N G Gexa	3,162		3,162
P F Mngxunyeni	11,701		11,701
Total signed arrangements	171,886	0	171,886

Account in dispute

W Hassiem	190,972	184,747	6,225
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As at 30 June 2005

W Hassiem	13,760	10,977	2,783
K H & Mrs P E Lategan	631	366	266
K E Magaxa	1,156	887	269
Ms T I Ngamlana	1,123	1,068	55
Mrs A Abrahams	497	299	198
N M Elias	12,618	12,381	237
M Y and Mrs M Mohamed	898	488	410
L R Dunn and E J Dunn	22,426	21,535	890
V V Mtini	18,507	17,639	867
V R and Mrs N N Seymor	594	395	199
M Mdluli	514	434	81
N V Mhaga	941	932	8
M Ncedana	516	416	100
Total Councillor Arrear Consumer Accounts	74,180	67,816	6,364

Account in dispute

W Hassiem	163,481	160,509	2,972
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2006
 R '000

2005
 Restated
 R '000

39 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and contracted for

Infrastructure

Community

Other

729,553 1,743,233

612,861 1,676,309

37,188 13,659

79,504 53,265

- Approved but not yet contracted for

Infrastructure

Community

Heritage

Other

163,824 695,563

67,453 633,768

24,571 9,630

0 1,364

71,800 50,801

Total

893,377 2,438,796

This expenditure will be financed from:

- External Loans

- Asset Financing Reserve

- Government Grants

- Other sources

449,437 406,259

99,468 175,955

344,472 1,807,304

0 49,278

893,377 2,438,796

40 FINANCIAL RISK MANAGEMENT

Interest rate risk

The City is not exposed to interest rate risk on its financial liabilities. All of the City's interest bearing external loan liabilities, as detailed in Appendix A, are fixed interest rate loans. Similarly with financial assets, the City invests its surplus funds on fixed interest rate deposits with banks for fixed terms not exceeding one year.

Liquidity risk

The City manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. Standby credit facilities are available with the City's main banker to cater for any unexpected temporary shortfall in operating funds.

Credit risk

The City manages credit risk in its borrowing and investing activities by dealing with only A rated financial institutions and by spreading its exposure over a range of such institutions in accordance with its approved investment policies. Credit risk relating to consumer debtors is managed in accordance with the City's credit control and debt collection policy. The City's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in paragraph 6 of the Chief Financial Officer's report and in note 15 to the financial statements.

Fair value interest rate risk

The City is exposed to fair value interest rate risk on its external loan liabilities which are all fixed interest rate loans.

41 INTEREST RATE DERIVATIVES

Interest rate swap agreements, based on notional amounts totalling R200 million, have been entered into as part of a structured external loan to the City over the life of the loan (1998 - 2008). These derivatives are classified as held for trading financial instruments, and fair valued through profit or loss.

42 RETIREMENT BENEFIT INFORMATION

The City makes provision for post-retirement benefits to eligible Councillors and employees who belong to different pension schemes. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes. Contributions of R296,1million (2005 : R303,4million) to the defined benefit and defined contribution structures are expensed as incurred during the year under review.

These schemes are subject to a tri-annual, bi-annual or annual actuarial valuation as set out hereunder.

CAPE JOINT PENSION FUND

The Cape Joint Pension Fund operates both as a defined benefit and defined contribution scheme.

Defined Benefit Scheme

The DB section is a multi-employer plan and the contribution rate payable is 27%, 9% by the members and 18% by their councils. The fund was certified as being in a sound financial condition as at 30 June 2005 by the Actuary. The valuation disclosed an actuarial surplus of R87,2 million and was funded 103,4%.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Defined Contribution Scheme

This scheme was established to accommodate the unique characteristics of contract employees and "cost to company" employees. All existing members were given the option to transfer to the defined contribution plan before 01 July 2003. The actuary report certified that, the structure of the assets is appropriate relative to the nature of the liabilities, assuming a smoothed bonus philosophy and given normal circumstances. The report further indicated that the defined contribution plan is funded on sound actuarial principles.

CAPE JOINT RETIREMENT FUND

The contribution rate paid by the members (9%) and their councils (18%) is sufficient to fund the benefits accruing from the Fund in future. The Actuary certified the fund, a defined contribution plan, as being in a sound financial position as at 30 June 2005.

SALA PENSION FUND

The fund, a defined benefit plan, remains financially unsound and was 81,9% funded (which is a decline on the previous statutory valuation in 2001 where it was 92,1% funded) at the valuation date, 30 June 2004. There is significant pressure on the required future service contribution rate, since the total of the employer and employee contributions is not sufficient to fund the current benefits as well as the deficit within the remaining 7 year period of the original scheme of arrangement with the Financial Services Board (FSB). In a revised scheme of arrangement approved by the FSB as at 1 July 2003, the FSB agreed to spread this over 10 years.

The revised scheme of arrangement as negotiated with the Financial Services Board has been taken into account in the statutory actuarial valuation, 30 June 2004, but the rule amendments giving effect to these changes have not yet been approved. As part of the new scheme of arrangement, the fund's benefits have been restructured to ease the pressure on the required future service contribution rate. There is thus a risk that the reduction in benefits in question may not be fully backdated with the consequent adverse effects on the fund.

The City is contributing an additional 2.71% to the fund as from 1 July 2005, effective from July 2003.

Being a multi-employer fund that is not fully funded, the City's obligation to the fund cannot be measured and no provision has therefore been made for the potential liability.

MUNICIPAL COUNCILLORS' PENSION FUND

The Municipal Councillors' Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13.75%) and their councils (15.00%) is sufficient to fund the benefits accruing from the fund in the future. The last actuarial valuation of the fund was undertaken at 30 June 2005 and the actuary reported that the fund is as a whole in a sound financial position.

CAPE MUNICIPAL PENSION FUND

The Cape Municipal Pension Fund operates both as a defined benefit and defined contribution scheme. The last actuarial valuation of the fund was performed at 30 June 2003 and certified the fund as being in a financially sound position. The next statutory valuation is due by 30 June 2006.

	Total	DB section	DC section
In-service members	9,977	604	9,373
Pensioners	6,155	5,921	234
Membership 30 June 2003	<u>16,132</u>	<u>6,525</u>	<u>9,607</u>
		2006	2005
		R 'Million	Reinstated R 'Million
Past service position - Defined benefit section		1,914	1,960
Past service position - Defined contribution section		1,914	1,702
Total liabilities		<u>3,828</u>	<u>3,662</u>
Assets valued at market value		<u>3,828</u>	<u>3,696</u>
Actuarial surplus		<u>0</u>	<u>34</u>
		DB members	DB/DC members
Key financial assumptions		before retirement	in retirement
Net investment return assumed		1.5%	3.3%
On-going funding - differential: investment return and salary / pension increases		3.25%	5.0%
Net return (earnings yield basis before retirement)		4.1%	5.0%

NATIONAL FUND FOR MUNICIPAL WORKERS

The Retirement and Pension Funds are both defined contribution schemes. The last voluntary actuarial valuation of the Fund was performed on 30 June 2005. As at 30 June 2005 the interim results state that the way the benefits are structured in the rules, the fund is limited to an amount equal to the accumulation of all the contributions plus investment returns less administration costs.

SOUTH AFRICAN MUNICIPAL WORKERS UNION NATIONAL PROVIDENT FUND

The SAMWU National Provident Fund is a defined contribution scheme. The last actuarial valuation of the fund was performed at 30 June 2005 and certified as being in a financially sound position. The next statutory valuation is due not later than 30 June 2008.

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

2006 **2005**
R 'Million **Restated**
R 'Million

POST EMPLOYMENT HEALTH CARE BENEFITS

For past service of in-service and retired employees, the City recognises and provides for the actuarially determined present value of post retirement medical aid employer contributions on an accrual basis using the projected unit credit method.

The members of medical aid schemes, entitled to a post employment medical scheme subsidy at 30 June 2006 were as follows:

In-service members 15311 persons (2005 : 16273)
Continuation members 6269 persons (2005 : 6138)

Post Employment Health Care Benefits

Present value of unfunded liability	1,595.97	1,631.38
Unrecognised transitional liability	-368.15	-552.23
Unrecognised actuarial gain/(losses)	84.81	-69.82
Unrecognised Past service cost		
Net liability in balance sheet	<u>1,312.63</u>	<u>1,009.33</u>

Amounts included in the statement of financial performance

Service cost	50.60	48.05
Transitional liability recognised	184.08	184.33
Interest costs	135.69	133.82
Effect of curtailment/settlement	0.00	-0.56
Miscellaneous item	0.00	-208.11
Total included in profit and loss	<u>370.37</u>	<u>157.53</u>

Movement in the liability recognised in the statement of financial position

Balance at the beginning of the year	1,009.33	911.00
Net expense recognised in statement of financial performance	370.37	157.53
Contributions paid	<u>(67.07)</u>	<u>(59.20)</u>
	<u>1,312.63</u>	<u>1,009.33</u>

The contributions paid are actual contributions paid by the city and the unrecognised actuarial gains and losses have been adjusted accordingly to take into account the difference between the estimated contribution payments determined by the actuary and actual contributions paid to members by the City of Cape Town.

Key financial assumptions

Discount rate	8.0%	8.5%
Health care cost inflation rate	6.5%	6.5%
Net effective discount rate	1.4%	
Replacement Ratio	65.0%	
Expected retirement age - females	60	60
Expected retirement age - males	65	65

Health care arrangement assumptions

It was assumed that the Employer's health care arrangements and subsidy policy would remain as outlined in the accounting policy and that the level of benefits and contributions would remain unchanged, with exception for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to retiree members within the medical scheme are sustainable and will continue.

It is further assumed that the subsidy will continue until the last survivor's death, for eligible members and their spouses and to age 21, if earlier, for dependant children.

Continuation of Membership

It is assumed that 100% of in-service members entitled to a post-retirement subsidy retiring from the City of Cape Town will remain on the Employer's health care arrangements.

Family Profile

It is assumed that 90% of in-service members will be married at retirement and that husbands will be four years older than their wives. Retirees' actual marital status is used and the potential for remarriage is ignored.

Plan Assets

There are currently no long-term assets to set aside off-balance sheet in respect of the Employer's post-employment health care liability.

	2006	2005
	R 'Million	Restated R 'Million
POST RETIREMENT PENSION BENEFITS		
For past service of employees and retired employees, the City recognises and provides for the actuarially determined present value of post retirement revenue pensions on an accrual basis using the projected unit credit method.		
The number of employees who were eligible for a post retirement pension at 30 June 2006 was as follows:		
Eligible employees	62 persons (2005 : 71)	
Pensioners	226 persons (2005 : 173)	
Post Employment Retirement Pension Benefits.		
Present value of unfunded liability	15,448	21,133
Unrecognised transitional liability		0
Unrecognised actuarial gain/(losses)		0
Unrecognised Past service cost		0
Net liability in balance sheet	<u>15,448</u>	<u>21,133</u>
Amounts included in the statement of financial performance		
Service cost	307	357
Past service cost		11,789
Redundancy Benefit recognised		10,506
Interest costs	1,236	903
Effect of curtailment/settlement		
Miscellaneous		
Total included in profit and loss	<u>1,543</u>	<u>23,555</u>
Movement in the liability recognised in the statement of financial position		
Balance at the beginning of the year	21,133	0
Net expense recognised in statement of financial performance	1,543	23,555
Increase / Decrease in redundancy benefit	-4,656	
Contributions paid	<u>-2,572</u>	<u>-2,422</u>
	<u>15,448</u>	<u>21,133</u>
Key financial assumptions		
Discount rate	8.0%	8.5%
General salary inflation rate - employees	6.5%	6.0%
Net effective discount rate - employees	1.4%	2.4%
Pension increase rate - pensioners	2.7%	2.3%
Net effective discount rate - pensioners	5.2%	6.1%

43 CONTINGENT LIABILITY

Guarantees issued

The Development Bank of South Africa (DBSA) has made a loan to the Gugulethu Central Market Place (the Company) of the sum of R250,000. The City of Cape Town has issued an undertaking to the DBSA to take over the obligation of the Company in terms of the loan agreement, should the Company not be in a position to repay the loan. As at 30 June 2006, the Company was in arrears with its repayment of capital and interest to the DBSA by the sum of R208,609.

Contractual disputes

Various contractual claims by contractors/suppliers and staff are currently in dispute and being addressed through mediation. The maximum potential liability is estimated at R62,8 million.

Loan agreements

The rates of interest payable on certain structured loans and finance leases are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions for income tax purposes in connection with the loans. In the event of changes to the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders are required to increase or decrease the future rates of interest payable on the loans or their remaining lives in order to absorb the increase or decrease in costs.

N2 Gateway Pilot Project

The housing component of the N2 Gateway Pilot Project is, with effect December 2005, being administered by the Provincial Department of Local Government and Housing and the National Housing Department (via its agent Thubelisha). As a consequence of, inter alia, typology and timing changes associated with the project certain claims have been submitted to the City of Cape Town by contractors which might result in a future liability to the City. The content and quantum of these claims are currently being addressed by the City in conjunction with the Provincial Department of Local Government and Housing, the National Housing Department (via its agent Thubelisha) and the contractors.

CITY of CAPE TOWN
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	2006 R '000	2005 Restated R '000
44 OPERATING LEASE COMMITMENTS		
<i>The City as Lessee</i>		
Future minimum lease payments under non-cancellable operating leases:		
Buildings	34,715	30,069
Payable within one year	20,078	19,846
Payable within two to five years	14,637	10,223
Vehicles and other equipment	121,995	37,092
Payable within one year	32,023	11,547
Payable within two to five years	89,972	25,545
	156,710	67,161

In terms of the additional guidance from AC 105 (leases), escalations in operating leases are no longer recognised in the periods they actually incurred, but are now charged in the statement of financial performance on a straight-line basis over the term of the lease. The impact has been an increase in current year expenditure of R595,433 .

The City as Lessor

At Statement of Financial Performance date the City has contracted with tenants for the following future minimum lease payments.

Payable within one year	8,026	7,951
Payable within two to five years	29,235	30,273
Payable after five years	85,052	92,040
	122,313	130,264

The City lets its investment properties under operating leases. Property rental income earned during the year was R7,743million (2005:R7,529million). The properties are maintained by the tenants at their cost. No investment properties have been disposed of since the statement of financial performance date.

45 RELATED PARTY DISCLOSURES

Investments in Municipal Entities

The following controlled entities identified as Municipal entities by the City of Cape Town will be included in the consolidated annual financial statements :

	Percentage Owned	Percentage Owned
Cape Town International Convention Centre Company (Pty) Ltd	50.26%	50.26%
Khayelitsha Community Trust	100.00%	100.00%
Regional Electricity Distributor One	100.00%	100.00%
South Peninsula Micro Loans - discontinued during 05/06 financial year	100.00%	100.00%
Phillipi East Trading Centre (Pty) Ltd - discontinued during 05/06 financial year	100.00%	100.00%

Controlled Entities

The following amounts relate to arms length transactions for the year with the entities listed below:

Cape Town International Convention Centre Company (Pty) Ltd.

Receivables	26,891	1,881
Service charges	31,153	4,866

Khayelitsha Community Trust

Receivables	1,420	0
Grants paid	1,719	2,512

Regional Electricity Distributor One (RED1)

Inter-company advance	1,719	0
Fees and rentals	7,033	0

City Improvement Districts

Receivables	2	8
Service charges	37,931	32,393

Cape Town Community Housing Company (Pty) Ltd (Joint Venture)

Receivables	7,868	7,279
Service charges	24	46

Cape Metropolitan Transport Fund (Administrator of the fund)

Funds on behalf of CTMTF	116,652	73,201
Grants received	69,381	38,173

CITY of CAPE TOWN
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Councillors

A number of councillors of the City hold positions in other entities, where they may have significant influence over the financial or operating policies of these entities. Accordingly, the following are considered to be such entities:

Councillor	Position held in entity	Entity	Nature
Chaaban B	Lessee	Greenmarket Square	Property lease
Jelele L	Director	Masibambane Recruitmen	Staff recruitment
Jelele L	Member	Masighame cc	Small business enterprise
Joko B	Member	Sizisa Ukhanyo Trading cc	Small business enterprise
Justus C	Director	Communicare	Housing developers
Lukas A	Member	Seasons Find t/a Faras	Catering
Matshoba M	Stakeholder	Vodacom & Cell C	Telecommunication
Mavakato F	Member	Clean up your street	Community upliftment project
Mkutswana M	Member	Silver Solutions cc	Small business enterprise
Msuthu N	Member	Inyameko Trading cc	Small business enterprise
Purchase F	Member	Regal Cycles cc	Small business enterprise
Qually D	Director	Muizenberg Improvent District	City improvement
Williams A	Director	Blue Downs Community Base Org.	Community upliftment project
Yiba L	Member	Sizisa Ukhanya cc	Small business enterprise

Executive Management Team

No inter-party business transactions took place between the City of Cape Town and key management personnel (City Manager and Executive Directors) and their close family members during the year under review. Details relating to remuneration of executives are disclosed in note 24.

46 DISCONTINUED OPERATIONS: MAITLAND ABATTOIR

In terms of a Council resolution the Maitland Abattoir was closed during the year and all operations were discontinued during the 2005/2006 financial year. The financial activities for the financial year under review are as follows:

Statement of Financial Performance to date of discontinuation

	R '000
Revenue	2,529
Less Expenditure	<u>(18,887)</u>
	(16,358)
Inter-departmental charges	<u>14,348</u>
Deficit for the Year	<u>(2,010)</u>

Statement of Financial Position at date of discontinuation

NET ASSETS AND LIABILITIES	
Net Assets	(64,972)
Accumulated deficit	<u>(62,962)</u>
Deficit for the year	<u>(2,010)</u>
Current Liabilities	71,284
Creditors	<u>4,199</u>
Advances COCT	<u>67,085</u>
Total Net Assets and Liabilities	<u>6,312</u>
ASSETS	
Non-current Assets	0
Property, Plant & Equipment	<u>23,176</u>
less: Depreciation	<u>(23,176)</u>
Current Assets	6,312
Debtors	<u>7,564</u>
less: Bad Debt provision	<u>(1,252)</u>
Total Assets	<u>6,312</u>

Cash Flow Statement at date of discontinuation

Cash Flow from operating activities	
Cash Receipts	2,529
Cash Paid	<u>18,887</u>
Cash utilised in operations	<u>(16,358)</u>
Cash flow from Financing Activities	
Increase in advance COCT	<u>16,358</u>
Net decrease in cash and cash equivalents	<u>0</u>

47 EVENTS AFTER REPORTING DATE

Regional Electricity Distribution Services (RED1)

The City had agreed to transfer its electricity function to the Regional Electricity Distributor (RED1). The national framework for the transfer of assets from local authorities to the regional electricity distributors was however not finalised by National Treasury at the time of compiling these financial statements.

Furthermore, the position has changed due to a decision of Cabinet on the 26 October 2006 nullifying the formation of the REDs as municipal entities, and establishing alternatively the REDs as public entities for electricity distribution.

The board of directors of RED1 resolved to wound up the affairs of the RED1 municipal entity at a special general meeting held on 8 March 2007.

N2 GATEWAY – 705 JOE SLOVO RENTAL UNITS

The 705 Joe Slovo rental units which form part of the N2 Gateway Pilot Project, were to have been transferred to the Provincial Department of Local Government and Housing/Thubelisha. Subsequently it was ascertained that the City of Cape Town and Thubelisha (an agent of the National Housing Department) had entered into negotiations to conclude a long term lease for the 705 Joe Slovo housing units in terms of which Thubelisha will manage and operate the Joe Slovo units. These units will have to be capitalised in the 2006/07 financial year by the City following the conclusion of this lease agreement in terms of which the City will retain the ownership of the properties for the duration of the lease. The management of the properties will revert to the City on expiry of the lease agreement.

RSC Levies

RSC Levies was abolished by Act 9 of 2006, published in Government Gazette 29068 of 25 July 2006, as from 1 July 2006. The effect was that all liabilities for RSC levies which accrued after 1 July 2006 was abolished, but not the liability which accrued before 1 July 2006. That still remains payable.

An amendment to the RSC Act was promulgated on 19 July 2005. This amendment inserted a two year prescription period into the RSC Act. Previously, RSC Levies were accepted as having a prescription period similar to taxes, namely 30 years. All outstanding RSC debts and payments received without declarations and older than 2 years, were written off at the year end. The effect was that R7 302 286 was transferred to income and an amount of R20 599 643 was written off against the Provision for Bad Debts.

The Minister replaced the income derived from RSC Levies with a direct grant from Government as well as an amendment to the VAT Act to zero rate municipal rates for VAT. The effect of the zero rating municipal rates is that the City may now claim all VAT on expenditure funded from municipal rates as a VAT input expense. National Treasury indicated that the grant in lieu of RSC Levies amounts to R986m for the 2006/07 financial year and is included in the 2006/07 budget.

AFRICAN JEWELLERY CITY PROJECT

In terms of a forensic audit the following were *inter alia* revealed:

- Expenditure of approximately R8,627 m has been identified as potentially unauthorised, irregular, fruitless and/or wasteful
- No authority existed to award a 99-year lease on an extremely valuable foreshore site to a consortium.

The City is currently investigating whether relevant action should be instituted in terms of the MFMA.

APPENDIX A
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2006

EXTERNAL LOANS	Interest Rate	Loan Number	Redeemable Date	Balance at 30 June 2005 R'000	Received during the period R'000	Capitalised during the period R'000	Redeemed/ written off during period R'000	Balance at 30 June 2006 R'000	Carrying Value of PPE R'000	Other Costs in accordance with the MFMA R'000
LOCAL REGISTERED STOCK										
CMB Nominees	15.000%	830001680	2005	15,000			15,000	0	0	
ABSA Investor Services	16.500%	830004515	2010	4,600				4,600	3,275	
Standard Bank Nominees	14.650%	830011508	2014	6,800				6,800	6,143	
Standard Bank Nominees	18.500%	830011522	2006	1,500			1,500	0	0	
Total Local Registered Stock				27,900	0	0	16,500	11,400	9,418	0
ANNUITY LOANS										
ABSA Bank	11.150%	830000000	2010	32,689			5,202	27,487	31,880	
Unibank	18.480%	830000380	2005	2			2	0	0	
Unibank	18.480%	830000390	2005	1			1	0	0	
ABSA Bank	11.150%	830000450	2010	25,245			4,017	21,228	25,396	
Inca	15.250%	830000510	2007	87			31	56	45	
Inca	18.000%	830000660	2005	47			47	0	0	
Investec Asset Management	16.450%	830001590	2006	966			966	0	0	
Total Annuity Loans				59,037	0	0	10,266	48,771	57,321	0
OTHER LOANS										
DBSA	10.590%	83001050	2018	440,910			33,916	406,994	448,212	
DBSA	12.250%	83001051	2015	259,777			25,978	233,799	266,134	
ABSA Bank	7.852%	830000440	2010	134,327		24,738		159,065	98,737	
Durolink	17.000%	830000900	2006	200,000			200,000	0	0	
FBC Syndicate	13.090%	830000910	2008	200,000				200,000	140,332	
Nedcor Bank	1.000%	830000920	2019	50				50	39	
Rand Merchant Bank	15.026%	830001690	2008	34,959			8,729	26,230	40,068	
Rand Merchant Bank	15.152%	830001700	2008	17,303			4,355	12,948	16,419	
Rand Merchant Bank	16.259%	830001710	2011	82,930			8,889	74,041	73,063	
Rand Merchant Bank	12.989%	830003504	2017	210,362			2,938	207,424	179,079	
ABSA Bank	10.900%	830007011	2018	260,000			20,000	240,000	255,215	
First National Bank	10.077%	830009531	2018	270,000			20,000	250,000	299,256	
DBSA	5.000%	830012028	2020	0	60,000		4,000	56,000	57,772	
DBSA	9.420%	830012035	2020	0	140,000		9,333	130,667	135,344	
Total Other Loans				2,110,618	200,000	24,738	338,138	1,997,218	2,009,670	0
FINANCE LEASES										
Nedbank	14.291%	860000860	2008	55,300		11,327		66,627	38,593	
Investec	14.343%	830000870	2012	38,007			3,869	34,138	32,030	
First National Bank	12.545%	830000880	2013	113,255			7,292	105,963	89,404	
SCMB	15.409%	830000890	2011	84,908		322		85,230	45,236	
Bankfin	8.500%		2007	9,005			3,653	5,352		
Total Finance Leases				300,475	0	11,649	14,814	297,310	205,263	0
TOTAL EXTERNAL LOANS				2,498,030	200,000	36,387	379,718	2,354,699	2,281,672	0

APPENDIX B
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2006

	Cost					Accumulated Depreciation					Carrying Value R '000
	Opening Balance R '000	Transfers/ Adjustments R '000	Additions R '000	Disposals R '000	Closing Balance R '000	Opening Balance R '000	Transfers/ Adjustments R '000	Additions R '000	Disposals R '000	Closing Balance R '000	
Land and Buildings											
Land	126,963	3,163	6,470	(45)	136,551	(60,859)	(134)	(1,023)	6	(62,010)	74,541
Buildings	2,135,946	17,890	101,886	(445)	2,255,277	(864,101)	(3,757)	(74,625)	146	(942,337)	1,312,940
	2,262,909	21,053	108,356	(490)	2,391,828	(924,960)	(3,891)	(75,648)	152	(1,004,347)	1,387,481
Infrastructure											
Assets Under Construction	178,861	(153,092)	522,211		547,980	0				0	547,980
Drains	317,651	1,096	17,039		335,786	(134,253)	(884)	(11,704)		(146,841)	188,945
Roads	2,323,908	78,617	84,391		2,486,916	(973,906)	(27,987)	(142,623)		(1,144,516)	1,342,400
Beach Improvements	3,553	135	786		4,474	(11)	(14)	(122)		(147)	4,327
Sewerage Mains & Purif	781,421	83,963	29,791		895,175	(235,249)	(17,544)	(48,011)		(300,804)	594,371
Electricity Mains	532,644	(144,947)	48,998		436,695	(153,673)	65,243	(18,503)		(106,933)	329,762
Electricity Peak Load Equip	1,787,109	(1,800)	200,045		1,985,354	(890,254)	22,935	(54,461)		(921,780)	1,063,574
Water Mains & Purification	1,400,656	96,685	103,401		1,600,742	(635,002)	(11,485)	(49,350)		(695,837)	904,905
Reservoirs - Water	354,058	28,152	2,808		385,018	(176,250)	(5,628)	(15,257)		(197,135)	187,883
Water Meters and Mains	14,129	2,796	22,037		38,962	(484)		(978)		(1,462)	37,500
	7,693,990	(8,395)	1,031,507	0	8,717,102	(3,199,082)	24,636	(341,009)	0	(3,515,455)	5,201,647
Community Assets											
Assets Under Construction	1,164	(1,037)	72,317		72,444	0				0	72,444
Parks & Gardens	8,178	251	1,499		9,928	(2,168)	(5)	(219)		(2,392)	7,536
Libraries	115,646	(161)	1,072		116,557	(36,477)		(3,066)		(39,543)	77,014
Recreation Facilities	60,564	192	596		61,352	(19,041)	(2)	(1,813)		(20,856)	40,496
Civic Buildings	142,273	331	19,211		161,815	(75,776)	(47)	(6,927)		(82,750)	79,065
	327,825	(424)	94,695	0	422,096	(133,462)	(54)	(12,025)	0	(145,541)	276,555
Heritage Assets											
Painting & Art Galleries	1,272	(566)	2,067	(1)	2,772	0				0	2,772
	1,272	(566)	2,067	(1)	2,772	0	0	0	0	0	2,772
Leased Assets											
Infrastructure and Other	337,124	(47,923)	0	0	289,201	(83,014)	(11,699)	(18,658)	0	(113,371)	175,830
	337,124	(47,923)	0	0	289,201	(83,014)	(11,699)	(18,658)	0	(113,371)	175,830
Other Assets											
Assets Under Construction	7,536	(6,231)	57,205		58,510	0				0	58,510
Landfill Sites	68,955	239,409	14,330		322,694	(1,789)		(2,313)		(4,102)	318,592
Office Equipment	101,279	1,491	15,380	(3,544)	114,606	(73,472)	(320)	(9,055)	3,336	(79,511)	35,095
Furniture & Fittings	65,124	4,112	4,151	(2,147)	71,240	(44,193)	(1,068)	(6,630)	1,967	(49,924)	21,316
Bins and Containers	25,821		1,520	(4)	27,337	(12,708)	(2)	(4,296)	4	(17,002)	10,335
Emergency Equipment	16,787	(939)	3,600	(1,879)	17,569	(12,003)	427	(1,462)	1,736	(11,302)	6,267
Motor vehicles	815,335	(28,062)	88,022	(29,119)	846,176	(688,591)	55,963	(44,599)	27,773	(649,454)	196,722
Fire engines	70	44,943	0	(3,362)	41,651	(64)	(27,780)	(3,532)	3,331	(28,045)	13,606
Refuse tankers	49,087	(3,974)		(6,781)	38,332	0	(33,591)	(2,791)	6,774	(29,608)	8,724
Computer equipment	730,571	8,748	79,655	(20,474)	798,500	(376,236)	(2,753)	(128,741)	19,868	(487,862)	310,638
Watercraft	204		252		456	(128)		(28)		(156)	300
	1,880,769	259,497	264,115	(67,310)	2,337,071	(1,209,184)	(9,124)	(203,447)	64,789	(1,356,966)	980,105
Housing Rental Stock	1,007,875	10,901	19,902	(6,445)	1,032,233	(435,072)	134	(21,229)	3,823	(452,344)	579,889
Investment Properties	124,616	0			124,616	(20,318)		(4,454)		(24,772)	99,844
Total	13,636,380	234,143	1,520,642	(74,246)	15,316,919	(6,005,092)	2	(676,470)	68,764	(6,612,796)	8,704,123

APPENDIX B(1)

RECONCILIATION OF CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2006

Reconciliation of Carrying Value	Land and Buildings R'000	Infrastructure R'000	Community R'000	Heritage R'000	Other R'000	Leased Assets R'000	Housing R'000	Total R'000
Carrying values at 1 July 2005	1,337,949	4,494,908	194,363	1,272	671,585	254,110	572,803	7,526,990
Cost	2,262,909	7,693,990	327,825	1,272	1,880,769	337,124	1,007,875	13,511,764
Accumulated depreciation	(924,960)	(3,199,082)	(133,462)	0	(1,209,184)	(83,014)	(435,072)	(5,984,774)
Acquisitions	108,356	1,031,507	94,695	2,067	264,115	0	19,902	1,520,642
Capital under Construction							(20,206)	(20,206)
Depreciation based on cost	(75,648)	(340,958)	(12,025)		(203,447)	(18,658)		(650,736)
Carrying value of disposals	(338)	0	0	(1)	(2,521)	0	(2,622)	(5,482)
Cost	(490)			(1)	(67,310)	0	(6,445)	(74,246)
Accumulated depreciation	152				64,789	0	3,823	68,764
Impairment losses		(51)					(1,023)	(1,074)
Transfers	17,162	16,241	(478)	(566)	250,373	(59,622)	11,035	234,145
Carrying Values at 30 June 2006	1,387,481	5,201,647	276,555	2,772	980,105	175,830	579,889	8,604,279
Cost	2,391,828	8,717,102	422,096	2,772	2,337,071	289,201	1,032,233	15,192,303
Accumulated depreciation	(1,004,347)	(3,515,455)	(145,541)	0	(1,356,966)	(113,371)	(452,344)	(6,588,024)
Carrying values at 1 July 2004	1,303,121	4,408,459	193,095	7,151	686,758	278,762	458,672	7,336,018
Cost	2,159,722	7,193,140	298,218	11,241	1,986,938	339,400	880,618	12,869,277
Accumulated depreciation	(856,601)	(2,784,681)	(105,123)	(4,090)	(1,300,180)	(60,638)	(421,946)	(5,533,259)
Acquisitions	105,892	546,344	27,870	271	180,613	0	90,462	951,452
Capital under Construction	0	0	0	0	0	0	0	0
Depreciation based on cost	(69,581)	(312,768)	(12,499)	0	(195,551)	(23,096)	(16,790)	(630,285)
Carrying value of disposals	(2,012)	0	66	(6,194)	(12,698)	(49)	(2,807)	(23,694)
Cost	(2,763)	0	66	(8,502)	(282,206)	(207)	(6,471)	(300,083)
Accumulated depreciation	751	0	0	2,308	269,508	158	3,664	276,389
Impairment losses	0	(80,304)	(15,419)	0	(312)	0	0	(96,035)
Transfers	529	(66,823)	1,250	44	12,775	(1,507)	43,266	(10,466)
Carrying Values at 30 June 2005	1,337,949	4,494,908	194,363	1,272	671,585	254,110	572,803	7,526,990
Cost	2,262,909	7,693,990	327,825	1,272	1,880,769	337,124	1,007,875	13,511,764
Accumulated depreciation	(924,960)	(3,199,082)	(133,462)	0	(1,209,184)	(83,014)	(435,072)	(5,984,774)

APPENDIX C
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2006

	Cost					Accumulated Depreciation					Carrying Value R '000	Budget / Additions 2006 R '000
	Opening Balance R '000	Additions R '000	Disposals R '000	Transfers R '000	Closing Balance R '000	Opening Balance R '000	Additions R '000	Disposals R '000	Transfers R '000	Closing Balance R '000		
Executive and Council	13,357	3,106	(187)	(1,578)	14,698	(8,381)	(499)	136	1,602	(7,142)	7,556	5,317
Finance and Administration	1,478,096	107,922	(26,621)	44,111	1,603,508	(779,462)	(161,676)	25,784	(38,918)	(954,272)	649,236	140,576
Planning and Development	228,517	65,067	(2,439)	(611)	290,534	(79,523)	(10,987)	2,421	489	(87,600)	202,934	93,688
Health	119,789	10,121	(667)	(390)	128,853	(38,594)	(4,617)	620	199	(42,392)	86,461	14,966
Community & Social Services	428,111	29,164	(1,627)	(568)	455,080	(178,510)	(11,277)	1,526	533	(187,728)	267,352	61,509
Housing	1,081,805	184,730	(7,687)	(2,422)	1,256,426	(452,204)	(24,454)	4,690	70	(471,898)	784,528	337,465
Public Safety	486,817	33,585	(10,242)	(71,558)	438,602	(273,324)	(19,375)	9,583	62,095	(221,021)	217,581	72,442
Sport and Recreation	784,979	111,073	(1,018)	382	895,416	(337,086)	(34,281)	761	(345)	(370,951)	524,465	131,807
Environmental Protection	636	850	(7)	0	1,479	(280)	(115)	7	0	(388)	1,091	6,543
Waste Management	1,467,477	143,973	(10,593)	247,534	1,848,391	(487,275)	(70,085)	10,445	(6,841)	(553,756)	1,294,635	164,741
Road Transport	2,794,310	296,534	(2,818)	317	3,088,343	(1,204,285)	(153,462)	2,718	34	(1,354,995)	1,733,348	528,429
Water	2,066,725	261,250	(3,027)	16,889	2,341,837	(956,852)	(83,548)	2,997	(17,200)	(1,054,603)	1,287,234	283,652
Electricity	2,648,094	271,106	(7,313)	2,038	2,913,925	(1,183,435)	(104,597)	7,076	(1,717)	(1,282,673)	1,631,252	285,995
Abattoir	23,178	0	0	(1)	23,177	(23,177)	(1)	0	1	(23,177)	0	0
Tourism	14,489	2,161	0	0	16,650	(2,704)	2,504	0	0	(200)	16,450	2,840
TOTAL	13,636,380	1,520,642	(74,246)	234,143	15,316,919	(6,005,092)	(676,470)	68,764	2	(6,612,796)	8,704,123	2,129,970

Note 1: The balance as at 30 June 2006 for certain assets includes Electricity and Bulk Water assets held under finance leases with a cost value of R289,201 million.

Note 2: Encumbered Assets: Certain parcels of land, the value of which is included in this appendix, have been made available to the Cape Town Community Housing Company (CTCHC).

APPENDIX D
SEGMENTAL INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

2005 Restated Actual Income R '000	2005 Restated Actual Expenditure R '000	2005 Restated Surplus/ (Deficit) R '000		2006 Actual Income R '000	2006 Actual Expenditure R '000	2006 Surplus/ (Deficit) R '000
2,553,293	341,679	2,211,614	Rates	2,845,621	815,697	2,029,924
17,284	172,392	(155,108)	Executive & Council	4,092	196,056	(191,964)
1,741,980	1,290,928	451,052	Finance & Administration	1,860,301	1,779,861	80,440
143,109	278,362	(135,253)	Planning & Development	155,092	308,117	(153,025)
136,771	292,379	(155,608)	Health	127,427	316,707	(189,280)
22,347	241,981	(219,634)	Community & Social Services	23,936	223,348	(199,412)
215,755	298,636	(82,881)	Housing	410,530	483,627	(73,097)
167,275	687,154	(519,879)	Public Safety	218,838	750,637	(531,799)
51,108	475,187	(424,079)	Sport & Recreation	45,683	544,353	(498,670)
22	4,903	(4,881)	Environmental Protection	702	2,602	(1,900)
487,617	724,780	(237,163)	Waste Management	853,002	880,380	(27,378)
776,850	643,260	133,590	Waste Water Management	721,421	600,340	121,081
134,301	637,965	(503,664)	Road Transport	173,516	736,611	(563,095)
1,354,693	1,290,098	64,595	Water	1,687,035	1,602,935	84,100
2,770,686	2,669,387	101,299	Electricity	2,909,316	2,790,159	119,157
16,456	38,090	(21,634)	Discontinued Operations: Abattoir	17,385	19,395	(2,010)
0	0	0	Other: Market	0	0	0
9	3,068	(3,059)	Other: Tourism	0	1,099	(1,099)
10,589,556	10,090,249	499,307	Sub Total	12,053,897	12,051,924	1,973
1,761,094	1,761,094	0	Less Inter-Departmental Charges	2,417,212	2,417,212	0
8,828,462	8,329,155	499,307	Total	9,636,685	9,634,712	1,973

APPENDIX E(1)
ACTUAL REVENUE AND EXPENDITURE VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2006

	Actual R '000	Budget R '000	Variance R '000	Variance %	Explanation of Variances greater than 10%
REVENUE					
Property rates	2,122,659	2,165,783	43,124	1.99%	
Property rates - penalties imposed and collection charges	105,135	17,000	(88,135)	-518.44%	Budget adjustment between this category and interest on outstanding debtors category - budget incorrect.
Service charges	4,297,032	4,466,243	169,211	3.79%	
Regional Services Levies - turnover	1,027,420	970,699	(56,721)	-5.84%	
Rental of facilities and equipment	145,787	174,094	28,307	16.26%	Increase in rented properties resulted in higher interest income than expected.
Interest - external investments	241,837	195,246	(46,591)	-23.86%	Actual interest earned on cash investments exceeding budget due to higher than budgeted cash balance throughout the year resulting from under spend on capital budget.
Interest - outstanding debtors	181,639	105,000	(76,639)	-72.99%	Increase in debtors resulted in higher interest income than expected.
Fines	174,977	118,912	(56,065)	-47.15%	LABAT launched a intensive fine recovery program, including a media campaign during the financial year.
Licences and permits	25,280	22,978	(2,302)	-10.02%	Increase in recoveries
Agency services	104,263	90,000	(14,263)	-15.85%	Recoveries from agents were more than budgeted.
Government grants and subsidies	1,018,808	1,440,412	421,604	29.27%	Grants received were lower than expected.
Other income	105,786	135,169	29,383	21.74%	Recoveries from developers were more than budgeted.
Public contributions, donated/contributed PPE	39,774	0	(39,774)	0.00%	
Gains on disposal of property, plant and equipment	46,288	43,000	(3,288)	-7.65%	Income on land sales higher than expected.
Total Revenue	9,636,685	9,944,536	307,851	3.10%	
EXPENDITURE					
Employee related costs	2,740,000	2,759,427	(19,427)	-0.70%	
Remuneration of councillors	51,801	50,935	866	1.70%	
Bad debts	93,340	93,340	0	0.00%	
Impairment of Investment	245,328	246,000	(672)	-0.27%	
Impairment of Asset	1,074	2,500	(1,426)	-57.04%	Housing impairment not materialised
Collection costs	59,140	65,189	(6,049)	-9.28%	
Depreciation	675,396	704,799	(29,403)	-4.17%	
Repairs and maintenance	803,972	987,649	(183,677)	-18.60%	Secondary recharges did not materialise.
Interest on external borrowings	349,325	383,798	(34,473)	-8.98%	
Bulk purchases	1,780,755	1,859,232	(78,477)	-4.22%	
Contracted services	534,657	509,373	25,284	4.96%	
Grants and subsidies paid	66,370	70,252	(3,882)	-5.53%	
General expenses - other (including abnormal expenses)	2,213,261	2,129,832	83,429	3.92%	
Loss on disposal of property, plant and equipment	3,321	12	3,309	27575.00%	Sale of damaged assets covered by insurance claims
Loss on valuation of derivatives	16,972	0	16,972	0.00%	
Total Expenditure	9,634,712	9,862,338	(227,626)	-2.31%	
NET SURPLUS FOR THE YEAR	1,973	82,198	80,225	97.60%	

APPENDIX E(2)

ACTUAL VERSUS BUDGET - ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2006

	Actual	Total Additions	Budget	Variance	Variance	Explanation of Significant Variances greater than 5% versus Budget
	R '000	R '000	R '000	R '000	%	
Executive and Council	3,106	3,106	5317	2,211	41.58%	Underspending mainly due to increase in capitalisation limit (R5 000)
Finance and Administration	107,922	107,922	140,576	32,654	23.23%	Mainly due to increase in capitalisation limit
Planning and Development	65,067	65,067	93,688	28,621	30.55%	External funding only received February 2006 and unable to spend before year end
Health	10,121	10,121	14,966	4,845	32.37%	Due to implementation delays
Community & Social Services	29,164	29,164	61,509	32,345	52.59%	Mainly due to tenders being higher than budgeted amount
Housing	184,730	184,730	337,465	152,735	45.26%	Responsibilities of N2 Gateway taken over by Province
Public Safety	33,585	33,585	72,442	38,857	53.64%	Implementation delays
Sport and Recreation	111,073	111,073	131,807	20,734	15.73%	Mainly due to late approval of community centre
Environmental Protection	850	850	6,543	5,693	87.01%	Mainly due to increase in capitalisation limit
Waste Management	143,973	143,973	164,741	20,768	12.61%	Implementation delays
Road Transport	296,534	296,534	528,429	231,895	43.88%	Mainly due to external funding not received.
Water	261,250	261,250	283,652	22,402	7.90%	Foreign exchange saving and implementation delays
Electricity	271,106	271,106	285,995	14,889	5.21%	
Other:Abattoir	0	0	0	0	0.00%	
Other:Tourism	2,161	2,161	2,840	679	23.91%	Mainly due to increase in capitalisation limit
TOTAL	1,520,642	1,520,642	2,129,970	609,328	28.61%	

APPENDIX F
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF THE MFMA

NAME OF GRANT	FUNDER	QUARTERLY RECEIPTS					QUARTERLY EXPENDITURE					TOTAL
		September R'000	December R'000	March R'000	June R'000	Total R'000	September R'000	December R'000	March R'000	June R'000	Total R'000	
CS-Amenities & Recreation	PAWC : Social Services			3,000		3,000					0	3,000
CS-Amenities & Recreation	PAWC : Sport and Recreation				500	500					0	500
CS-City Health	PAWC : Health	721	937	1,246	5,300	8,204	742	601	2,602	4,510	8,455	(251)
CS-Emergency Services	PAWC : Other		1,798	2,252		4,050			1,591	163	1,754	2,296
CS- City Police	PAWC : Other				471	471						471
CS-Open Space Nature Conservation	PAWC : Human Settlement			197		197				36	36	161
CS-Open Space Nature Conservation	PAWC : Other		1,400	1,450	1,400	4,250		387	529	1,843	2,759	1,491
CS-Social Development	PAWC : Social Services			2,524		2,524	237	456	19	142	854	1,670
DV-Development Integration	PAWC : Human Settlement	3,262	84			3,346	461	(20)			441	2,905
DV-Economic Development & Tourism	PAWC : Human Settlement	1,382	1,459	351		3,192	1,433	936	(2)	35	2,402	790
DV-Economic Development & Tourism	PAWC : Other	383	620	570	260	1,833	403	1,101	322	710	2,536	(703)
DV-Planning & Environment	PAWC : Housing			500		500			439	61	500	0
DV-Planning & Environment	PAWC : Human Settlement	54				54			48		48	6
DV-Planning & Environment	PAWC : Other	179		250	200	629	31			219	250	379
DV-Planning & Environment	State			400		400			350	44	394	6
DV-Planning & Environment	State : DWAF				460	460						460
DV-Planning & Environment	State Department Other				591	591						591
DV-Public Housing	PAWC : Housing	18,021	42,056	69,707	52,277	182,061	79,456	41,361	15,483	19,715	156,015	26,046
DV-Public Housing	PAWC : ISLP	2,801	3,417	1,595	79	7,892						7,892
DV-Public Housing	PAWC : Other	4,214		1,104	1,871	7,189	1,231	1,467	513	220	3,431	3,758
DV-Public Housing	Prov. House Dev. Board	27,066	22,811	23,660	22,577	96,114	12,701	18,931	17,373	29,244	78,249	17,865
DV-Transport Roads StWater	Metropolitan Transport Authority	0	27,812	14,020	27,524	69,356	8,232	19,580	14,020	27,524	69,356	0
Support Services	Municipal Infrastructure Grant	47,500	93,949	12,138	32,657	186,244	25,706	79,021	84,271	37,873	226,871	(40,627)
Support Services	National Treasury	9,475	5,476	5,476		20,427	484	2,079	2,093	8,110	12,766	7,661
Support Services	PAWC : Housing		24			24	39	79	64	64	246	(222)
Support Services	PAWC : Other			28		28				317	317	(289)
Support Services	PAWC : Transport & Public Works				10,000	10,000						10,000
Support Services	State Prov. Dept. Local Government	1,000	500	500		2,000	1,031	776			1,807	193
TS- Electricity Services	Department of Mineral and Energy		2,312	15,232		17,544	27	3,426	4,372	4,027	11,852	5,692
TS- Water Services	State : DWAF			250		250						250
		116,058	204,655	156,450	156,167	633,330	132,214	170,181	144,087	134,857	581,339	51,991
CONDITIONS NOT MET												
Support Services (refer footnote 1)	National Treasury	35,000				35,000	420	2,784	1,498	10,310	15,012	19,988
SUB-TOTAL		35,000	0	0	0	35,000	420	2,784	1,498	10,310	15,012	19,988
GRAND TOTAL		151,058	204,655	156,450	156,167	668,330	132,634	172,965	145,585	145,167	596,351	71,979

Conditions not met

1. Quarterly progress reports not submitted on time.

APPENDIX G

ANALYSIS OF PROVISIONS AS AT 30 JUNE 2006

	For period 30 June 2005					For period 30 June 2006				
	Opening Balance	Contribution	Transfers	Expenditure	Closing Balance	Opening Balance	Contribution	Transfers	Expenditure	Closing Balance
	R`000	R`000	R`000	R`000	R`000	R`000	R`000	R`000	R`000	R`000
Africa Best (PTY) LTD	500			(500)	0	0				0
Ambulance Incentive	713				713	713				713
Market Incentive	560		(560)		0	0				0
ERP Bonus	933		(933)		0	0				0
Expropriation of land	1,221		(1,221)		0	0				0
Insurance claim	32,211	12,464			44,675	44,675	19,953			64,628
Medical Aid	60,102	60,000	(60,102)		60,000	60,000		11,000		71,000
SARS	24,057	2,313			26,370	26,370	38,426	(7,261)		57,535
Performance bonus	7,070	7,097	(5,424)	(1,646)	7,097	7,097	21,607	(7,097)		21,607
COID Claims	15,788		(3,181)		12,607	12,607	(1,119)			11,488
Legal fees	0				0	0	600			600
Landfill sites	0				0	0		20,000		20,000
Revenue Pension	0	2,125			2,125	2,125		875		3,000
Staff Leave	272,454	0	(54,731)		217,723	217,723	21	(36,930)		180,814
	415,609	83,999	(126,152)	(2,146)	371,310	371,310	79,488	(19,413)	0	431,385