



Ekurhuleni
METROPOLITAN MUNICIPALITY

EKURHULENI METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 42, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 28 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.

City Manager

Germiston

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

General Information

MAYORAL COMMITTEE

EXECUTIVE MAYOR

Clr D Nkosi

COUNCILLORS

Speaker - Clr N Mekgwe

Chief Whip - Clr M Maseko

MMC: City Development - Clr L Von Ronge

MMC: Community Services - Clr G N Shongwe

MMC: Corporate Services - Clr T N A Mabena

MMC: Economic Development - Clr N P Kumalo

MMC: Environmental Development - Clr V M Mabena

MMC: Finance - Clr M G H Akoon

MMC: Health - Clr M M Maluleke

MMC: Housing - Vacant

MMC: Infrastructure Services - Clr L M Sibeko

MMC: Sport, Recreation, Arts & Culture - Clr I M Bangilizwe

GRADING OF LOCAL AUTHORITY

The Metropolitan Municipality is a Grade Six Local Authority in terms of Item IV of Government Notice R1227 of 18 December 2007, published in terms of the Remuneration of Public Office Bearers Act, 1998.

AUDITORS

Auditor General South Africa

BANKERS

ABSA Bank

CITY MANAGER

P Flusk

CHIEF FINANCIAL OFFICER

K M Pillay

REGISTERED OFFICE

Corner Cross and Rose Street
Germiston
1400

POSTAL ADDRESS

Private Bag X69
Germiston
1400

Ekurhuleni Metropolitan Municipality

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Ekurhuleni Metropolitan Municipality

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ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
GAAP	Generally Accepted Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (previously CMIP)
PAYE	Pay As You Earn
PPE	Property Plant and Equipment
SALGA	South African Local Government Association
SARS	South African Revenue Service
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Statement of Financial Position as at 30 June 2008

Figures in Rand	Note(s)	2008	2007
NET ASSETS AND LIABILITIES			
NET ASSETS			
Capital replacement reserve		-	106,648,384
Capitalisation reserve		637,517,037	830,006,472
Government grant reserve		1,663,487,688	1,198,035,629
Donations and public contributions reserve		4,406,358	5,473,676
Housing Development Fund	2	12,896,429	82,452,700
Accumulated surplus (deficit)		6,008,963,588	4,723,555,363
		8,327,271,100	6,946,172,224
LIABILITIES			
Non-Current Liabilities			
Long-term liabilities	3	1,054,195,546	1,127,826,261
Non-current provisions	4	208,373,356	269,323,271
Other long-term liabilities	10	14,527,148	39,233,268
		1,277,096,050	1,436,382,800
Current Liabilities			
Creditors	5	1,521,520,421	1,339,002,498
Consumer deposits	6	337,898,451	294,376,857
Unspent conditional grants and receipts	9	167,384,946	135,732,011
Current provisions	4	172,762,466	193,121,133
Current portion of long-term liabilities	10	73,629,483	54,604,893
		2,273,195,767	2,016,837,392
Total Liabilities		3,550,291,817	3,453,220,192
Total Net Assets and Liabilities		11,877,562,917	10,399,392,416
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	6,967,986,323	5,026,187,622
INVESTMENTS IN MUNICIPAL ENTITIES	12	382,136,608	387,258,476
Other investments	13	244,101,833	339,454,088
Long-term receivables	14	85,222,286	127,665,197
		7,679,447,050	5,880,565,383
Current Assets			
INVENTORIES	15	129,726,804	82,406,014
Current portion of long-term receivables	16	76,760,907	6,119,703
Other investments	13	133,996,620	34,933,719
Other debtors	17	98,194,659	-
Consumer debtors	18	1,395,871,826	1,521,545,834
VAT	7	54,467,245	27,316,881
Cash and cash equivalents	19	2,309,097,806	2,846,504,882
		4,198,115,867	4,518,827,033
Total Assets		11,877,562,917	10,399,392,416

Ekurhuleni Metropolitan Municipality

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Statement of Financial Performance

Figures in Rand	Note(s)	2008	2007
Revenue			
Property rates	21	1,649,261,207	1,577,008,212
Property rates - penalties and collection charges		38,036,624	110,976,886
Service charges	22	5,529,534,411	5,241,320,602
Rental of facilities and equipment		44,579,884	38,811,838
Interest earned - outstanding debtors		437,810,429	301,856,153
Fines		77,793,871	83,056,009
Licences and permits		23,439,253	28,232,263
Sale of properties		-	4,039,362
Income from agency services		139,250,305	117,584,664
Government grants and subsidies	23	2,062,157,752	1,917,879,478
Other income	24	36,449,158	67,378,927
Interest received - external investment		351,156,808	290,829,603
Total Revenue		10,389,469,702	9,778,973,997
Expenditure			
Employee related costs	27	2,728,383,864	2,537,963,820
Remuneration of councillors	28	53,387,900	53,728,390
Bad debts	29	1,186,534,247	1,233,671,323
Depreciation		402,733,881	410,942,203
Repairs and maintenance		766,768,449	586,962,990
Interest paid	30	180,080,453	164,522,303
Bulk purchases	31	3,298,074,075	3,034,559,805
Contracted services	32	488,823,319	334,199,322
Grants and subsidies paid	33	51,105,596	83,957,174
Collection costs		57,119,623	48,370,196
General expenses	34	866,777,531	689,571,228
Loss on disposal of property, plant and equipment		25,154,592	25,758,264
Total Expenditure		10,104,943,530	9,204,207,018
Net surplus / (deficit) for the year	25	284,526,172	574,766,979
Share of surplus/(deficit) of entities accounted for under the equity method		(2,266,960)	1,594,283
Surplus for the year		282,259,212	576,361,262

Refer to Appendix E(1) for comparison with the approved budget

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Statement of Changes in Net Assets

Note(s)	Capital replacement reserve	Capitalisation reserve	Government grant reserve	Donations and public contributions reserve	Housing Development Fund	Accumulated surplus (deficit)	Net Assets
Figures in Rand							
Balance at 01 July 2006	189,134,543	948,767,704	026,907,329	10,235,996	112,128,148	083,282,393	370,456,113
Changes in net assets							
Correction of errors		(15,685)	(80,195,846)	(4,206,816)		84,418,347	-
Transfer to CRR	255,970,174					(255,970,174)	-
Net income (expenses) recognised directly in equity	255,970,174	(15,685)	(80,195,846)	(4,206,816)		(171,551,827)	-
Surplus for the year						576,361,262	576,361,262
Total recognised income and expenses for the year	255,970,174	(15,685)	(80,195,846)	(4,206,816)		404,809,435	576,361,262
Short fall on reserves					(29,675,448)		(29,675,448)
Asset disposal		(24,425,821)	(42,057,528)	(117,713)		66,601,062	-
PPE purchases	(338,456,333)					338,456,333	-
Capital grants used to purchase PPE			363,233,784			(363,233,784)	-
Donated/contributed PPE				4,207,067		(4,207,067)	-
Offsetting of depreciation		(94,319,726)	(69,852,110)	(4,644,858)		168,816,694	-
Other adjustments						29,030,297	29,030,297
Total changes	(82,486,159)	(118,761,232)	171,128,300	(4,762,320)	(29,675,448)	640,272,970	575,716,111
Balance at 01 July 2007	106,648,384	830,006,472	198,035,629	5,473,676	82,452,700	723,555,363	946,172,224
Changes in net assets							
Capitalisation adjustment						(1,994,803)	(1,994,803)
Transfer to CRR	599,442,696					(599,442,696)	-
Net income (expenses) recognised directly in equity	599,442,696	-	-	-	-	(601,437,499)	(1,994,803)
Surplus for the year						282,259,212	282,259,212
Total recognised income and expenses for the year	599,442,696	-	-	-	-	(319,178,287)	280,264,409
Asset disposal		(1,298,434)	(775,901)	(65,638)		2,139,973	-
PPE purchases					(69,556,271)	69,556,271	-
Capital grants used to purchase PPE			254,240,350			(254,240,350)	-
Donated/contributed PPE	(706,091,080)			2,717,951		703,373,129	-
Shortfall on reserves						100,834,467	100,834,467
Offsetting of depreciation		(62,698,817)	(102,905,164)	(338,427)		165,942,408	-
Other Adjustments		(128,492,184)	314,892,774	(3,381,204)		(183,019,386)	-
Total changes	(106,648,384)	(192,489,435)	465,452,059	(1,067,318)	(69,556,271)	285,408,225	381,098,876
Balance at 30 June 2008	-	637,517,037	663,487,688	4,406,358	12,896,429	008,963,588	327,271,100

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Cash Flow Statement

Figures in Rand	Note(s)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		10,010,443,586	8,919,660,993
Cash paid to suppliers and employees		(9,821,045,243)	(8,115,833,800)
Cash generated from operations	35	189,398,343	803,827,193
Interest income		788,967,237	592,685,756
Finance costs		(180,080,453)	(164,522,303)
Net cash from operating activities		798,285,127	1,231,990,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase and other movements of property, plant and equipment	11	1,276,710,983	1,264,973,583
Proceeds from sale of property, plant and equipment	11	6,497,487	54,428,841
Proceeds from financial assets		(3,710,646)	24,343,587
Movement of investment in municipal entities		2,220,883	-
Sale of long-term receivables		-	228,437,662
Net cash from investing activities		(1,271,703,259)	(957,763,493)
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in long-term receivables		42,442,911	-
Repayment of long-term liabilities		(73,630,715)	(128,480,311)
Movement in long-term liabilities		(5,681,530)	1,796,850
Movement in short-term portion of long-term receivables		(70,641,204)	14,473,192
Net cash from financing activities		(63,988,944)	(80,121,169)
Total cash movement for the year		(537,407,076)	194,105,984
Cash at the beginning of the year		2,846,504,882	2,652,398,898
Total cash at end of the year	19	2,309,097,806	2,846,504,882

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1. Basis of preparation

The annual financial statements are prepared on an accrual basis of accounting and are in accordance with historical cost convention.

These annual financial statements have been prepared in accordance with the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) and Generally Recognised Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005. These accounting policies are not consistent with all the accounting policies of the previous financial year, due to reasons mentioned later on in this note.

These standards are summarized as follows:

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

GAMAP 6, 7 and 8 have been complied with to the extent that the requirements in these standards relate to the municipality's separate financial statements.

Accounting policies for material transactions, events or conditions not covered by the above GRAP and or 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 (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. The municipality elected to utilise all of the exemptions included in this General Notice and the annexure thereto, issued in terms of Clause 2 (2). Details of the exemptions applicable to the municipality are set out in Appendix G to the annual financial statements and have been provided in the notes to the annual financial statements.

Compliance with aspects or parts of the standards which had been exempted by the Minister of Finance in terms of General Notice 552 of 2007, which are not specifically included in the accounting policies which follows (and/or which relate to the annual financial statements as a whole), are the following:

- Identification and impact of GRAP standards that have been issued but are not yet effective (GRAP 3.30 – 31) (details are set out in Appendix G to the annual financial statements);
- Changes in accounting policies (GRAP 3.14, 19);
- Business combinations (IFRS 3/AC 140);

Furthermore, over and above the aforementioned exemptions, this municipality assumes that SAICA Circular 09/2006 is also exempt, due to the references made in the above-mentioned annexure to the General Notice. The municipality elects to utilise this exemption.

The progress made towards achieving full compliance with the standards referred to in section 122(3) of the MFMA is measured against the municipality's implementation plan, as set out in Appendix G to the annual financial statements. This appendix also includes an explanation of the extent to which the information in the annual financial statements would need to be adjusted for full compliance with these standards.

A summary of the significant accounting policies adopted in the preparation of these annual financial statements, which have been consistently applied except where an exemption has been granted are disclosed below.

Apart from those issues involving estimates, management has made no judgments in the process of applying the accounting policies which would give a significant effect on the amounts of items recognized in the financial statements.

Custom Section - End

These accounting policies are consistent with the previous year.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with certain of the accounting standards and aspects or parts of these standards. Due to the fact that the municipality deviated from the GAAP accounting standards in the previous financial year (and received an audit qualification in that regard), no change in accounting policy in this regard are disclosed in terms of GRAP 3.

It does, however, constitute a change in the accounting framework.

1.1 Use of estimates

The preparation of financial statements in conformity with Generally Recognised Accounting Practice and Generally Accepted Municipality Accounting Practice, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.1 Use of estimates (continued)

process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.2 Presentation of currency

These annual financial statements are presented in South African Rand.

1.3 Going concern assumption

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

1.4 Comparatives Information

1.4.1 Current year comparatives

Budgeted amounts have been included in the annual financial statements for the annual financial year only. See appendix E.

1.4.2 Prior year comparatives

When the presentation or classification of items in the annual financial statements are amended, prior period comparative amounts are reclassified either on the face of the financial statements or in the notes. The nature and reason for the reclassification is disclosed.

1.5 Offsetting

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

1.6 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the utilisation of the Housing Development Fund:

- The fund is utilised for housing developments in accordance with the national housing policy and also from housing projects approved by the MEC for housing
- Any contributions to or from the fund are shown as transfers in the Statement of Change in Net Assets.

1.7 Reserves

The Ekurhuleni Metropolitan Municipality creates and maintains Funds and Reserves in terms of specific requirements.

1.7.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the net surplus of the year or the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised. The amount transferred to the CRR is based on the Municipality's need to finance future capital projects included in the Integrated Development Plan, subject to affordability in the budget process.

Interest earned on the CRR investment is recorded as interest earned in the Statement of Financial Performance.

The CRR may only be utilised for the purpose of purchasing / construction of items of property, plant and equipment and may not be used for the maintenance of these items.

Profit made from the disposal of PPE is recorded in the Statement of Financial Performance.

1.7.2 Capitalisation Reserve

On the implementation of GAMAP/GRAP, the balance of certain legislated 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, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

The balance on the Capitalisation Reserve 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 Capitalisation Reserve to the accumulated surplus/deficit.

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.7.3 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 a directive 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 facility budgetary control by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.7.4 Donations and Public Contributions Reserve

When items of property, plant and equipment are financed from public contributions and donations, 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 a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions 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 future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

The Municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (adapt to specific circumstances). The balance of the Self-Insurance Reserve is determined based on 5% of the insurance risk carried by the Municipality (state basis of determining balance of self-insurance reserve) and past claims history in terms of a Council Resolution XX and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The Municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

Premiums are calculated on past claims experienced and are charged to the various Clusters.

The balance of the self-insurance fund is fully cash backed and is invested in fixed and negotiable deposits.

The Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993) is to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is 0.75% of the salary expense. CJMM is an exempt employer in terms of Section 84 (1) (a)(ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status CJMM is mandated to establish its own fund and administers this fund in terms of the COID Act.

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

1.8 Borrowing costs

Borrowing costs are recognised as an expense in the period in the Statement of Financial Performance.

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Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.9 Provisions

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Non-current provisions are discounted to the present value using a discount rate based on the average cost of borrowing to the Municipality.

Provisions are reviewed annually and those estimated to be settled within the next twelve months are treated as current liabilities. All other provisions are treated as long term liabilities. Long term liabilities are discounted to the date of the annual financial statements applying the average cost of borrowings interest rate

- **1.9.1 Leave Provision**

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

- **1.9.2 COID Provision**

The provision for COID pension and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 7% per annum and medical aid payments escalated at 10% per annum over member's expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 14%.

- **1.9.3 Landfill Rehabilitation Provision**

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the discount rate of 14%. The carrying amount of provision increases in each period to reflect the passage of time and these increases are recognised as an interest expense.

1.10 EMPLOYEE BENEFITS

Retirement Funds

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.

The municipality contributes to defined contribution and defined benefit funds. These funds are multi employer funds.

Defined Contribution Funds

Where an employee has rendered services to the municipality during the year, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

Defined Benefit Plans

The municipality does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds.

To the extent that a surplus or deficit is in place, based on available information, this may affect the amount of future contributions once these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the municipality will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

This policy is in line with exemptions granted by National Treasury as per the General Notice 552 of 2007.

Medical Aid: Continued Members

The municipality 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 municipality is associated, a member (subject to the applicable 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 the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

These contributions are charged to the operating account when paid.

Accrued Leave Pay

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

1.11 Property, plant and equipment

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.11 Property, plant and equipment (continued)

Property, plant and equipment, is stated at cost less accumulated depreciation. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an infinite life.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Assets are capitalised in terms of the approved asset management policy.

Depreciation

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets.

For items of property, plant and equipment that have significant residual values, these residual values are subtracted from the cost of these property, plant and equipment items to determine the depreciable amounts of these items.

Depreciation is calculated on a monthly basis. Incomplete construction is stated at historic cost. Depreciation only commences when the asset is brought into use.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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

The classification, measurement and disclosure of non-current assets held for sale as required by IFRS 5.6 – 29 (in so far as it relates to non-current assets held for sale) and IFRS 5.38 – 42 had not been performed for the current or previous financial years as these requirements have been exempted in terms of General notice 552 of 2007.

This policy is in line with exemptions granted by National Treasury as per the General Notice 552 of 2007.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.11 Property, plant and equipment (continued)

The annual depreciation rates are based on the following estimated useful lives:

Item	Average useful life
Land	
• Landfill sites	15 years
Motor vehicles	
• Specialised vehicles	10 years
• Other vehicles	5 years
Infrastructure	
• Roads and paving	30 years
• Pedestrian Malls	30 years
• Electricity	20 - 30 years
• Water infrastructure	15 - 20 years
• Sewerage infrastructure	15 - 20 years
• Housing	30 years
Community	
• Buildings	30 years
• Recreational Facilities	20 - 30 years
• Security	5 years
Other property, plant and equipment	
• Buildings	30 years
• Furniture and fittings	7 - 10 years
• Watercraft	15 years
• Office equipment	3 - 7 years
• Specialised plant and equipment	10 - 15 years
• Other items of Plant and Equipment	2 - 5 years
• Bins and containers	5 years

1.12 LAND AND BUILDINGS

Land and buildings are stated at cost.

1.13 FINANCIAL ASSETS, INVESTMENTS, LIABILITIES AND FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS

Recognition

Financial assets and financial liabilities are initially recognised on the statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

Derecognition

Financial assets

A financial asset is derecognised where the rights to receive cash from the asset have expired, or the municipality has transferred the asset and the transfer qualifies for derecognition. A transfer qualifying for derecognition occurs when the municipality transfers the contractual rights to receive the cash flows of the financial asset. Where the municipality has transferred its rights to the cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Measurement

Financial Instruments are measured at cost in the current and prior financial years.

This policy is in line with exemptions granted by National Treasury as per the General Notice 552 of 2007.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.13 FINANCIAL ASSETS, INVESTMENTS, LIABILITIES AND FINANCIAL INSTRUMENTS (continued)

Categorisation

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

A financial asset is any asset that is cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Fixed deposits.
- Investments in municipal bonds
- Investments in RSA Government Stock
- Long term receivables
- Consumer debtors
- Other debtors
- Call investment deposits
- VAT receivable
- Bank balances and cash.

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows into one of the four categories allowed by this standard:

Type of financial asset	Classification in terms of IAS 39.09
Fixed deposit	Held to maturity
Investments in municipal bonds	Held to maturity
Investments in RSA Government Stock.	Held to maturity
Long term receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other debtors	Loans and receivables
VAT receivable	Loans and receivables
Call Investment Deposits	Held to maturity
Bank balances and cash	Available for sale

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long term liabilities
- Creditors
- Consumer deposits
- Unspent conditional grants
- Current portion of long term liabilities

There are two main categories of financial liabilities, classified based on how they are measured.

Any other financial liabilities are classified as financial liabilities that are not measured at fair value through profit or loss.

In accordance with IAS 39.09 the financial liabilities of the municipality are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the instruments are held for trading.

Type of financial liability	Classification in terms of IAS 39.09
Long term liabilities (Current & non-current)	Financial liability that is not measured at fair value through profit or loss
Consumer deposits	Financial liability that is not measured at fair value through profit or loss
Creditors	Financial liability that is not measured at fair value through profit or loss
Unspent conditional grants	Financial liability that is not measured at fair value through profit or loss

Impairment of financial assets

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis or group, based on expected cash flows (see provision for bad debt policy in policy) .

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment of financial assets. If there is evidence then the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39 as an expense in the Statement of Financial Performance.

Separate classes of loans and receivables were assessed for impairment using the following methodologies:

Study Loans:

Amounts outstanding for Study Loans are in terms of the old policy on Study Loans for Staff in terms of which the council granted an advance to the member for the cost of the course enrolled for. Should the candidate fail, the cost was recovered from the staff member. If

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.13 FINANCIAL ASSETS, INVESTMENTS, LIABILITIES AND FINANCIAL INSTRUMENTS (continued)

the candidate passed the course, the advance was expensed in the Statement of Financial Performance. It is a condition of the policy that the staff member receiving such a bursary has to stay in the service of the Municipality for the same period of the study course paid for by the Municipality. Should the employee leave the service of the Municipality such employee is required to repay the Municipality pro rata in respect of each month or part thereof from the date of termination of service to the date when the bursary period would have expired. Study Loans are therefore assessed at every Statement of Financial Position date and the portion of the loan that expired during the year is expensed. The balance of these loans up to the date of termination of the contract is considered to be fully recoverable.

Sale-of-Erven Loans:

Sale-of-Erven Loans are assessed individually for impairment to ensure that no objective evidence exists that these loans are irrecoverable. These loans consist mainly of long-term loans to public and employees of the municipality. If the employees are still in the employ of the municipality, management is of the opinion that these loans are fully recoverable. Should this not be the case, a provision for doubtful debt is made.

Sundry Deposits:

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

Sundry Debtors:

Sundry Debtors are those Suspense Control Accounts classified as financial instruments with debit balances as at year-end. Sundry Debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Insurance Claims:

Insurance Claims are in respect of expenditure incurred for assets replaced by the municipality and the settlement from the insurers is awaited. These are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Government Subsidy Claims:

Government subsidy claims are individually assessed for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Disposal of investments

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are perceived to be receivable within 12 months from the reporting date are classified as current.

Provision for bad debts is made on an annual basis. The amount to be provided will be determined by analysing the payment level trends and expensing an amount equalling the expected non-payment as contribution to the bad debt provision through the Statement of Financial Performance.

TRADE CREDITORS

Trade creditors are stated at cost.

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 three 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 comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

1.14 INVESTMENTS IN MUNICIPAL ENTITIES

Municipal controlled entities are those entities which the municipality owns or over whose financial and operating policies it has the power to the exercise beneficial control.

The municipality accounts for these entities acquired and disposed of are, respectively, included from the effective dates of acquisition, and to the effective dates of disposal. These results are processed to revenue or expenditure in the Statement of Financial Performance.

Increase in the capitalisation of the entities are recognised at fair value in the Investment values in the municipality's accounts, and credited

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.14 INVESTMENTS IN MUNICIPAL ENTITIES (continued)

to the Revaluation Reserve.

To the extent that the assets and liabilities are revalued, the investment is adjusted and the revaluation is taken directly to the Revaluation Reserve in the Statement of Changes in Net Assets.

A change in accounting policy was effected to the method of accounting for the post acquisition results of the entities. In the previous financial year, the result were processed to a revaluation and not the Statement of Financial Performance. The financial statements were restated accordingly.

1.15 INVENTORIES

Inventories consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of costs, determined on the first in first out basis, and net realisable value.

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

Redundant, damaged and slow-moving inventories are identified and written down with regard to their estimated net realisable values. Consumables are written down with regard to their age, condition and utility. A provision for obsolete stock is raised for identified inventory but which have not yet been authorised for write down / write off.

Repaired / upgraded stock is shown at cost plus the cost of repair / upgrade.

The municipality had not accounted for any immovable capital assets as inventory for the previous and current year under review, as this requirement have been exempted in terms of General notice 552 of 2007. These immovable capital assets have been accounted for in terms of GAMAP17 for both these financial years, as required by the above-mentioned General notice.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.16 REVENUE RECOGNITION

Revenue from Exchange Transactions

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners. Revenue for the current and prior financial year was initially recognised at cost. The requirement of GAMAP 9.12 and SAICA circular 9/06 that the initial measurement of revenue be recognised at fair value through discounting all future receipts using an imputed rate of return have been exempted in terms of General notice 552 of 2007.

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. There are areas within the Municipality where an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced.

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment. Interest may be transferred from the accumulated surplus to the CRR or the Housing Development Fund.

Income in respect of housing rental and instalments is accrued monthly in terms of the agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met.

Dividends are recognised when the municipality's right to receive payment is established.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- The municipality 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 municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from Non-Exchange Transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognised net of revenue.

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 cash is received but the RSC4 returns are not submitted this cash is recognised as income for the year. This income is split between the Regional Establishment Levy and Regional Services Levy on a pro-rata basis based on the ratio between the Regional Establishment Levy and Regional Services Levy on the total amount declared for the year. RSC levies income had been replaced with an increase in the equitable share grant received from National Treasury.

Revenue from spot fines is recognised when paid by the offender. Revenue from the issuing of summons is only recognised when notified by the public prosecutor of the amount actually collected.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use. Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.

Revenue 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 virtually certain.

Service charges relating to electricity and water are based on consumption. Meter readings are made on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly where meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.16 REVENUE RECOGNITION (continued)

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not containers are emptied during the month.

Revenue from the sale of electricity pre-paid meter cards is recognised at the point of sale and not when prepaid electricity is consumed.

Revenue from the sale of goods is recognised when the risks and rewards of ownership are passed to the purchaser.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Interest and rentals are recognised on a time proportion basis.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Revenue from Regional Service Levies, both that based on turnover as well as that based on remuneration, is recognised on the receipt basis. Whilst provisional estimates are prepared when a registered levy payer does not submit a levy declaration, these provisional estimates cannot be recognised as Regional Service Levies due to uncertainty as to the reason why a registered levy payer has not submitted a declaration, as well as the basis of determining provisional estimates, which are deliberately inflated to encourage submission of declarations by registered levy payers.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the consideration received or receivable.

Contributed property, plant and equipment is recognised when ownership of the items of property, plant and equipment is transferred to the municipality.

1.17 CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality 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 current liability is recognised.

This policy is in line with exemptions granted by National Treasury as per the General Notice 552 of 2007.

1.18 Leases

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

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease payments are expensed as they become due.

No finance leases have been entered into by the municipality.

This policy is in line with exemptions granted by National Treasury as per the General Notice 552 of 2007.

1.19 GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

1.19 GRANDS-IN-AID (continued)

transfers, the municipality 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.

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

1.20 VALUE ADDED Tax

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

1.21 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, 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.

1.22 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 unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 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.

1.24 FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance

1.25 SEGMENTAL INFORMATION

The principal segments have been identified on a primary basis by service operation and on a secondary basis by the classification of income and expenditure. The primary basis is representative of the internal structure for both budgeting and management purposes.

This policy is in line with exemptions granted by National Treasury as per the General Notice 552 of 2007.

1.26 RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the Ekurhuleni Metropolitan Municipality to disclose information that enables the user of its financial statements to evaluate the nature and extend of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Accounting Policies

Credit Risk

- Each class of financial instrument is disclosed separately
- Maximum exposure to credit risk not covered by collateral is specified
- Financial instruments covered by collateral is specified

Liquidity Risk

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial (where applicable) that shows the remaining contractual maturities is disclosed in Appendix A to the annual financial statements.

The entire IFRS 7/IAS 144 has been exempted in terms of General notice 552 of 2007. However, according to the afore-mentioned General notice, this standard is to be replaced by IAS 32 (AC 125) issued August 2006 and effective for financial statements covering periods beginning on or after 1 January 1998. Thus the old IAS 32/ AC 125 is still applicable. The requirements of the latter standard have been applied for both the previous and current financial years.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Notes to the Annual Financial Statements

Figures in Rand

	2008	2007
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2. HOUSING DEVELOPMENT FUND

The Housing Development Fund is represented by the following assets and liabilities

Property, plant and equipment	11	216,217,895	223,686,171
Housing rental debtors	18	20,173,628	49,264,861
Sub-total		236,391,523	272,951,032
Calculated cash deficit		(223,448,638)	(190,446,297)
Creditors (payments in advance)		(46,457)	(52,036)
Total Housing Development Fund Assets and Liabilities		12,896,428	82,452,699

3. LONG-TERM LIABILITIES

Non current portion of long-term liabilities - At fair value through surplus or deficit

Bank loans	554,485,672	574,378,738
Development Bank Southern Africa	302,471,524	337,100,683
Stock loans	270,867,833	270,951,733
Current portion	(73,629,483)	(54,604,893)
Total	1,054,195,546	1,127,826,261

Non-current liabilities

At fair value (FV adjustments through P&L)	1,054,195,546	1,127,826,261
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Refer to Appendix A for more detail on long-term liabilities.

R 343 019 478 (R 310 234 859: 2007) of long-term investments has been invested specifically for the repayment of long-term liabilities. See note 36 for more detail.

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Notes to the Annual Financial Statements

Figures in Rand 2008 2007

4. PROVISIONS

Reconciliation of provisions - 2008

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Interest	Total
COID provision	37,513,271	-	(1,418,588)	(20,584,744)	-	15,509,939
Leave and bonus provision	160,828,306	-	-	(4,670,461)	-	156,157,845
Landfill rehabilitation provision	231,810,000	16,331,036	-	(76,957,035)	21,679,416	192,863,417
Workmen's compensation provision	32,292,827	11,748,520	(27,436,726)	-	-	16,604,621
	462,444,404	28,079,556	(28,855,314)	(102,212,240)	21,679,416	381,135,822

Reconciliation of provisions - 2007

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
COID provision	-	37,513,271	-	-	37,513,271
Leave and bonus provision	198,487,236	123,152,225	(160,811,155)	-	160,828,306
Landfill rehabilitation provision	37,306,340	14,964,447	102,582,178	76,957,035	231,810,000
Workmen's compensation provision	(33,521,118)	43,308,894	22,505,051	-	32,292,827
	202,272,458	218,938,837	(35,723,926)	76,957,035	462,444,404

Non-current liabilities	208,373,356	269,323,271
Current liabilities	172,762,466	193,121,133
	381,135,822	462,444,404

EMM has established a provision to rehabilitate its landfill sites to their original form, or in the event that this is physically impossible, to rehabilitate them to ensure they are safe and can cause no unreasonable threat to the environment. The provision amounts to R 192million at the balance sheet date.

5. CREDITORS

Trade payables	1,072,276,190	768,271,199
Payments received in advance	263,505,181	420,363,964
Other payables	83,945,235	72,005,580
Retentions	101,793,815	78,361,755
Total Creditors	1,521,520,421	1,339,002,498

6. CONSUMER DEPOSITS

Electricity and water deposits	337,898,451	294,376,857
Guarantees held in lieu of electricity and water deposits	73,041,732	74,178,631

7. VAT

Net VAT receivable	54,467,245	27,316,881
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VAT is payable on the payments basis. Only once payment is received from debtors and payments made to suppliers, is VAT paid over to SARS.

8. RETIREMENT BENEFITS

8.1.1. Post-Retirement Benefit Plan

FUND NAME	Date of Actuarial Valuation	Defined Contribution/ Benefit	Calculated Contingent Liability
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Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Notes to the Annual Financial Statements

Figures in Rand

2008

2007

8. Retirement benefits (continued)

JOINT MUNICIPAL PENSION FUND	31-12-2004	Benefit	R 76 million
MUNICIPAL GRATUITY FUND	30-06-2006	Contribution	No liability
MUNICIPAL EMPLOYEES PENSION FUND	29-02-2004	Benefit	No liability
SALA PROVIDENT FUND	30-06-2004	Contribution	No liability
SALA PENSION FUND	01-07-2005	Benefit	R7 million
GERMISTON MUNICIPAL RETIREMENT FUND	30-06-2004	Contribution	R61 million
SAMWU NATIONAL PROVIDENT FUND	30-06-2005	Contribution	No liability
GREATER BENONI PROVIDENT FUND	No valuation	Contribution	No liability
MEU	No valuation	Contribution	No liability
NATIONAL FUND FOR MUNICIPAL WORKERS	30-06-2005	Contribution	No liability

"Defined benefit accounting" is not applied to these funds as sufficient information is not available to allow the municipality to so account. The reasons for this are as follows:

1. Actuarial valuations have not been completed for the funds in question as at the reporting date.
2. Information as to the municipality's share of obligations, arising in respect of multi employer funds, is not available.

The municipality has based estimates of unfunded liabilities, in respect of these funds, on the latest available actuarial valuations. It has also taken into account the current level of contribution in relation to total contribution from all sources, and an estimate of the inherent risk which may apply.

Any unfunded liability which may arise, on the basis of applying the relevant policies, is the subject of increased contributions to meet future obligations. As the extent of these obligations cannot be reasonably assessed, no additional contributions have been made in the current year nor have any amounts been provided for at the reporting date. On the basis of management's estimates the possible contingent liability is set out in note 38 "

Ekurhuleni Metropolitan Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2008	2007
9. UNSPENT CONDITIONAL GRANTS AND RECEIPTS		
Conditional Grants from other spheres of Government:		
Financial management grant	1,826,524	4,676,065
Indigent burials	-	30
Bontle ke Botho	665,994	3,494
UEM Danida	494,767	1,959,210
20 Prioritised township programme	370,483	-
Principal Job Evaluation Committee - PJEC	3,929	5,676
Environment & Tourism	921,004	1,345,542
HIV/Aids grant	1,244	6,645,933
Transformation	-	20,001
Electricity	-	52,006
Demilitarisation project	61,035	1,068,839
WASP	109,125	10,535,440
Township initiatives	614,721	2,072
Tembisa train disaster	4,308	141,584
Lethabong Housing Institute	2,000,000	2,000,000
SRAC	-	69,684
Consolidated Metropolitan Transport Fund (CMTF)	2,007,925	2,007,925
International Council for Local Environment Initiatives (ICLEI)	173,070	193,984
Public Transport Infrastructure Fund	29,507,683	18,714,052
LGSETA	-	5,020,376
Department of Water Affairs and Forestry (DWAF)	582,545	836,289
Zonki Trust	725,181	725,181
Integrated National Electrification Programme (INEP)	3,412,538	393,178
Local Economic Development (LED) grant	1,514,193	1,514,193
Local Economic Development (LED) grant - Industrial Hives	838,348	838,348
Local Economic Development (LED) grant - Street Trading Facilities	3,300,000	3,300,000
Provincial Housing Board (PHB)	60,284,859	39,571,315
Restructuring grant	3,392,025	12,049,483
Rondebult Water - Public Contribution	961,041	1,467,011
Mayoral Golf Day	1,159,632	598,000
Community Nursery - Slovo Park	200,000	-
Accreditation Capacity Enhancement	3,523,000	-
Community Care Centres	2,795,000	-
PHB Interest	27,405,596	19,977,100
Gautrans grant	1,184,381	-
Municipal Infrastructure Grant	17,344,795	-
Other Conditional Receipts		
Total Conditional Grants and Receipts	167,384,946	135,732,011

See Note 23 for reconciliation of grants from National/Provincial Government.

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

10. OTHER LONG-TERM LIABILITIES

City of Johannesburg	(14,527,148)	(39,233,268)
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Ekurhuleni Metropolitan Municipality

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2007

11. PROPERTY, PLANT AND EQUIPMENT

	2008			2007		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	1,199,045,631	-	1,199,045,631	-	-	-
Infrastructure	8,236,573,314	(4,354,169,188)	3,882,404,126	7,742,391,048	(4,240,934,846)	3,501,456,202
Community	1,481,505,729	(902,280,299)	579,225,430	1,373,246,639	(826,694,039)	546,552,600
Other property, plant and equipment	2,509,062,396	(1,202,167,039)	1,306,895,357	2,166,885,460	(1,211,533,659)	955,351,801
Investment property	-	-	-	22,411,240	-	22,411,240
Heritage	415,779	-	415,779	415,779	-	415,779
Total	13,426,602,849	(6,458,616,526)	6,967,986,323	11,305,350,166	(6,279,162,544)	5,026,187,622

Ekurhuleni Metropolitan Municipality

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Disposals	Transfers	Reclassifications	Depreciation	Total
Land	-	8,341,169	-	1,199,045,631	(8,341,169)	-	1,199,045,631
Infrastructure	3,501,456,202	1,156,166,928	-	(251,459,385)	(308,437,044)	(215,322,575)	3,882,404,126
Community	546,552,600	124,179,646	-	(367,165)	(55,159,817)	(35,979,834)	579,225,430
Other property, plant and equipment	955,351,801	181,167,790	(31,652,079)	(40,889,953)	394,349,270	(151,431,472)	1,306,895,357
Investment property	22,411,240	-	-	-	(22,411,240)	-	-
Heritage	415,779	-	-	-	-	-	415,779
	5,026,187,622	1,469,855,533	(31,652,079)	906,329,128	-	(402,733,881)	6,967,986,323

Ekurhuleni Metropolitan Municipality

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2007

	Opening Balance	Additions	Additions through business combinations	Disposals	Transfers	Other changes, movements	Depreciation	Total
Infrastructure	2,577,224,868	727,030,654	183,807,661	(167,779,512)	231,154,447	119,488,445	(169,470,361)	3,501,456,202
Community	505,340,475	74,966,599	341,394	(424,424)	-	399,456	(34,070,900)	546,552,600
Other property, plant and equipment	936,061,373	231,166,330	(204,472,032)	(326,003,655)	231,810,000	294,190,727	(207,400,942)	955,351,801
Investment property	-	-	22,411,240	-	-	-	-	22,411,240
Heritage	2,504,041	-	(2,088,262)	-	-	-	-	415,779
	4,021,130,757	1,033,163,583	1	(494,207,591)	462,964,447	414,078,628	(410,942,203)	5,026,187,622

Ekurhuleni Metropolitan Municipality

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11. Property, plant and equipment (continued)

Movable assets held for sale

The municipality intends to dispose of movable assets which had become obsolete in terms of a Council resolution. The carrying value amounts to R 90 891.19.

PRIOR YEAR ADJUSTMENTS

1 Property, plant and equipment

The municipality, in response to prior periods audit findings embarked on a full verification process of its movable assets and vehicles. Correction of assets which had not been accounted for correctly in the past necessitated that the comparative amounts had to be adjusted to conform to the accounting statements and to achieve fair presentation. This is disclosed hereunder and in note 40 but is not reflected on the face of the statement of financial position and the statement of financial performance. The effect of the adjustments is listed below:

	2006/2007
Property, plant and equipment as originally stated	5,026,187,627.51
Net amount of adjustments relating to the recognition of Land	828,358,602.63
Net amount of adjustments relating to the recognition of Landfill sites	153,083,938.49
Net amount of adjustments relating to the recognition of the rehabilitation provision (see XX.2 below)	-85,058,436.42
Net amount of adjustments relating to the recognition of vehicles	-33,745,912.62
Net amount of adjustments relating to the recognition of other movable assets	43,690,935.54
Property, plant and equipment - Restated as at 30 June 2007	5,932,516,755.12

The above adjustment resulted in an adjustment in depreciation and concurrently increased the surplus for the year ended 30 June 2007 as follow:

Depreciation as originally stated	410,942,202.91
Net decrease in depreciation due to above adjustments (Decrease in surplus)	-13,911,940.45
Depreciation - Restated for the year ending 30 June 2007	397,030,262.46

Increase in surplus	13,911,940.45
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2 Provision for Landfill Sites Rehabilitation

The provision for the landfill sites were previously calculated on the total size of the properties in total and not on the actual size of land used. Interest on the provision to account for the passage in time due to discounting, had not been accounted for. This necessitated that the provision had to be re-calculated and that the appropriate comparative amounts be restated as follow:

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11. Property, plant and equipment (continued)

2006/2007

Amount previously recognised as provision for landfill site rehabilitation	231,810,000.00
Decrease in provision due to recalculation	-105,683,593.67
Provision for Landfill Site Rehabilitation	126,126,406.33

The above adjustment resulted in an adjustment in interest expense and concurrently decreased the surplus for the year ended 30 June 2007 as follow:

Interest Expense as originally stated	164,522,303.02
Increase in interest expense due to the passage of time	17,657,696.89
Interest Expense - Restated for the year ending 30 June 2007	182,179,999.91
Decrease in Surplus	17,657,696.89

3 Correction of Reserves

It was found that assets funded from the reserves were excluded in the balances as at 30 June 2007. The corrections of the assets necessitated that the comparative amounts had to be restated. The changes to the reserves had been effected directly in the Statement of changes in equity and had no effect on the surplus for the year ending 30 June 2007.

Refer to Appendices B and C for detailed analysis of fixed assets.

Ekurhuleni Metropolitan Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2008	2007		
12. INVESTMENTS IN MUNICIPAL ENTITIES				
Name of company	% holding 2008	% holding 2007	Carrying amount 2008	Carrying amount 2007
Brakpan Bus Company	100.00 %	100.00 %	2,423,925	1,661,016
Ekurhuleni Development Company	100.00 %	100.00 %	13,888	80,422
East Rand Water Care Company	97.00 %	97.00 %	354,098,770	352,316,610
Pharo Park	93.50 %	93.50 %	1,249,349	3,039,986
Pharo Park Phase 2	92.60 %	92.60 %	3,718,019	5,107,735
Lethabong Housing Institute	100.00 %	100.00 %	19,542,543	21,052,707
Rand Airport	20.00 %	20.00 %	4,000,000	4,000,000
			385,046,494	387,258,476
Refer to the related parties note 39 for, inter-entity transactions.				
The municipality has a 20% shareholding (R4 mil) in the Rand Airport Holdings (PTY) LTD where the value of the investment is carried at cost. The Ekurhuleni Metropolitan Municipality resolved to sell the shares in the Rand Airport Holdings (Pty) Ltd. After a market valuation of the shares have been determined, it will be offered to the existing shareholders in terms of the shareholders agreement.				
13. OTHER INVESTMENTS				
Held to maturity				
Investments			342,138,052	343,859,465
Policies			35,960,401	30,528,342
Total			378,098,453	374,387,807
Non-current assets				
Held to maturity *			244,101,833	339,454,088
Current assets				
Held to maturity			133,996,620	34,933,719
			378,098,453	374,387,807
The total investments pledged as collateral for repayment of long term loans (Note 3)			343,019,478	310,234,859
14. RECEIVABLES				
Long-term receivables				
Housing selling scheme loans			5,364,138	16,423,821
Other loans and receivables			37,705,824	126,065,495
Consumer arrangements			47,189,850	1,247,324,996
Loans and receivables (impairments)			(5,037,526)	(1,262,149,115)
			85,222,286	127,665,197
Non-current assets				
Long term receivables			85,222,286	127,665,197
15. INVENTORIES				
Electricity stock			102,371,645	18,359,213
Sewerage			-	2,242
Cleansing			41,429	14,156
Consumable stores			6,236,495	1,478,836
Maintenance materials			-	45,412,535
Water			13,488,959	8,105,302
Food and beverage			-	18,720
Fleet and transport			2,658,322	3,478,493
Fuel (Diesel, Petrol)			7,077,296	4,980,767
Stores, materials and fuels			-	555,750
Less: Provision for obsolescence			(2,147,342)	-
			129,726,804	82,406,014

Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2008

Notes to the Annual Financial Statements

Figures in Rand	2008	2007
16. CURRENT PORTION OF LONG-TERM RECEIVABLES		
Consumer debtors	76,604,541	-
Property loans	156,366	6,119,703
	76,760,907	6,119,703
17. OTHER DEBTORS		
Sundry debtors	84,511,546	-
Interest debtors	11,759,671	-
Staff loans	1,923,442	-
	98,194,659	-
18. CONSUMER DEBTORS		
Gross Balances		
Assessment rates	1,166,863,737	1,502,283,684
Electricity	856,520,886	915,051,966
Water	1,650,904,707	1,841,128,657
Refuse	443,316,084	543,958,513
Regional services levies	29,445,789	50,723,881
Housing rental	20,173,628	16,062,347
Sewerage	448,457,086	478,949,519
Consumer arrangements	(123,794,391)	-
Other	1,550,123,948	1,591,863,106
Total	6,042,011,474	6,940,021,673
Less Provision for bad debts		
Assessment rates	(875,147,803)	(1,186,804,110)
Electricity	(642,390,665)	(723,864,807)
Water	(1,238,178,530)	(1,469,655,813)
Refuse	(332,487,063)	(429,727,225)
Regional services levies	(29,445,789)	(50,713,881)
Housing rental	(20,173,628)	(16,062,347)
Sewerage	(336,342,815)	(376,035,860)
Other (specify)	(1,171,973,355)	(1,165,611,796)
Total	(4,646,139,648)	(5,418,475,839)
Net Balance		
Assessment rates	291,715,934	315,479,574
Electricity	214,130,221	191,187,159
Water	412,726,177	371,472,844
Refuse	110,829,021	114,231,288
Regional services levies	-	10,000
Sewerage	112,114,271	102,913,659
Consumer arrangements	(123,794,391)	-
Other (specify)	378,150,593	426,251,310
Total	1,395,871,826	1,521,545,834
Assessment rates		
Current (0 -30 days)	130,123,291	185,228,139
31 - 60 days	54,806,117	51,458,182
61 - 90 days	39,146,299	36,639,823
91 - 120 days	942,788,030	1,228,957,540
Total	1,166,863,737	1,502,283,684
Electricity		
Current (0 -30 days)	117,909,220	120,151,731
31 - 60 days	43,584,985	64,096,323
61 - 90 days	28,675,220	25,663,654
91 - 120 days	666,351,461	705,140,258

Ekurhuleni Metropolitan Municipality

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Figures in Rand	2008	2007
Total	856,520,886	915,051,966
Water		
Current (0 -30 days)	227,304,446	241,751,073
31 - 60 days	84,022,783	128,964,892
61 - 90 days	55,279,858	51,636,510
91 - 120 days	1,284,297,620	1,418,776,182
Total	1,650,904,707	1,841,128,657
Refuse		
Current (0 -30 days)	61,038,041	71,424,967
31 - 60 days	22,562,630	38,102,471
61 - 90 days	14,844,295	15,255,924
91 - 120 days	344,871,118	419,175,151
Total	443,316,084	543,958,513
Regional services levies		
Current (0 -30 days)	3,050,375	6,173,689
31 - 60 days	1,788,045	3,752,904
61 - 90 days	1,526,714	2,323,595
91 - 120 days	23,080,655	38,473,693
Total	29,445,789	50,723,881
Housing rental		
Current (0 -30 days)	436,065	503,154
31 - 60 days	562,903	586,961
61 - 90 days	475,459	492,288
91 - 120 days	18,699,201	14,479,944
Total	20,173,628	16,062,347
Sewerage		
Current (0 -30 days)	61,745,714	62,888,902
31 - 60 days	22,824,220	33,548,809
61 - 90 days	15,016,399	13,432,674
91 - 120 days	348,870,753	369,079,134
Total	448,457,086	478,949,519
Consumer arrangements		
91 - 120 days	(123,794,391)	-
Other		
Current (0 -30 days)	102,626,147	105,389,493
31 - 60 days	53,508,685	54,949,478
61 - 90 days	49,396,027	50,726,081
91 - 120 days	1,344,593,089	1,380,798,054
Total	1,550,123,948	1,591,863,106
Reconciliation of bad debt provision		
Balance at beginning of the year	6,680,624,954	5,828,361,501
Contributions to provision	1,186,532,689	1,233,671,323
Bad debt written off against provision	(3,215,980,470)	(381,407,870)
Total	4,651,177,173	6,680,624,954

19. BANK BALANCES AND CASH

Primary Bank Account
 ABSA Bank - Public Sector Gauteng East Branch
 Account number - 4053835084

Cash and cash equivalents consist of:

Ekurhuleni Metropolitan Municipality

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Figures in Rand	2008	2007
19. Bank balances and cash (continued)		
Cash on hand	446,131	832,310
Bank balances	2,308,651,675	2,845,672,572
	2,309,097,806	2,846,504,882

Ekurhuleni Metropolitan Municipality

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Figures in Rand	2008	2007
20. REVENUE		
Rendering of services	7,216,832,242	6,933,345,062
Rental facilities and equipment	44,579,884	38,811,838
Interest received (trading)	437,810,429	301,856,153
Income from agency services	139,250,305	117,584,664
Fines	77,793,871	83,056,009
Licences and permits	23,439,253	28,232,263
Government grants	2,062,157,752	1,917,879,478
	10,001,863,736	9,420,765,467
21. PROPERTY RATES		
Rates received		
Residential	1,419,628,972	1,381,325,974
Commercial	688,627,869	657,285,964
State	41,443,014	43,306,904
Small holdings and farms	66,619,249	41,893,550
Less: Income forgone	(567,057,897)	(546,804,180)
Total Assessment Rates	1,649,261,207	1,577,008,212
Valuations		
Residential, commercial and state	14,925,324,109	14,369,940,000
Commercial	7,492,122,552	7,229,031,000
State	424,084,950	418,889,000
Municipal	733,320,608	756,729,000
Small holdings and farms	1,303,867,059	1,321,066,000
Total Property Valuations	24,878,719,278	24,095,655,000
22. SERVICE CHARGES		
Sale of electricity	3,300,056,379	3,118,331,982
Sale of water	1,297,565,146	1,328,756,542
Solid waste	404,660,429	372,798,683
Sewerage and sanitation charges	489,766,279	382,560,818
Fresh produce market	16,163,547	12,018,219
Other service charges	21,322,631	26,854,358
Total service charges	5,529,534,411	5,241,320,602
23. GOVERNMENT GRANTS AND SUBSIDIES		
Ambulance subsidy	83,202,000	56,672,250
Department of Transport and Public Transport Infrastructure	2,206,369	8,985,948
Equitable share	1,396,748,353	1,191,331,605
National Government	29,285,637	24,215,756
Projects and campaigns	3,615,266	4,890,380
Provincial grants: capital projects	457,340,829	549,754,064
Provincial health subsidies	77,228,715	65,157,211
SETA	12,530,583	16,872,264
Total government grants and subsidies	2,062,157,752	1,917,879,478
Ambulance subsidy		
Current-year receipts	83,202,000	56,672,250
Conditions met - transferred to revenue	(83,202,000)	(56,672,250)
Conditions still to be met - transferred to liabilities	-	-

Ekurhuleni Metropolitan Municipality

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Figures in Rand	2008	2007
Department of Transport and Public Transport Infrastructure		
Balance unspent at beginning of year	18,714,052	-
Current-year receipts	13,000,000	27,700,000
Conditions met - transferred to revenue	(2,206,369)	(8,985,948)
Conditions still to be met - transferred to liabilities	29,507,683	18,714,052
This grant was for roads infrastructure / Queen Nandi Drive. No funds have been withheld.		
Equitable share		
Current-year receipts	1,396,748,353	1,191,331,605
Conditions met - transferred to revenue	(1,396,748,353)	(1,191,331,605)
Conditions still to be met - transferred to liabilities	-	-
This grant is used to subsidise the provision of basic services to indigent community members.		
National Government		
Balance unspent at beginning of year	35,546,430	27,791,869
Current-year receipts	11,096,684	31,970,317
Transfer between grants	52,006	-
Conditions met - transferred to revenue	(29,285,637)	(24,215,756)
Conditions still to be met - transferred to liabilities	17,409,483	35,546,430
Projects and campaigns		
Balance unspent at beginning of year	2,070,687	1,843,105
Current-year receipts	3,019,681	5,117,962
Conditions met - transferred to revenue	(3,615,266)	(4,890,380)
Conditions still to be met - transferred to liabilities	1,475,102	2,070,687
Provincial grants: capital projects		
Balance unspent at beginning of year	(7,877,774)	29,459,347
Current-year receipts	556,208,191	512,416,943
Transfer between grants	(52,006)	-
Conditions met - transferred to revenue	(457,340,829)	(549,754,064)
Conditions still to be met - transferred to liabilities	90,937,582	(7,877,774)
These grants are provided to finance Capital Projects in respect of Social Services and Housing.		
Provincial health subsidies		
Current-year receipts	77,228,715	65,157,211
Conditions met - transferred to revenue	(77,228,715)	(65,157,211)
Conditions still to be met - transferred to liabilities	-	-
The Municipality renders health services on behalf of the Provincial Government and is refunded approximately 20% of total expenditure incurred. These funds have been used exclusively to fund clinic services. The conditions of the grant have been met. There was no delay or withholding of the subsidy.		
SETA		
Balance unspent at beginning of year	5,020,376	10,642,731
Current-year receipts	7,510,207	11,344,646
Previous year adjustment	-	(94,737)
Conditions met - transferred to revenue	(12,530,583)	(16,872,264)
Conditions still to be met - transferred to liabilities	-	5,020,376

Ekurhuleni Metropolitan Municipality

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Figures in Rand	2008	2007
24. OTHER INCOME		
Fees earned	476,722	939,256
Discount received	-	7,749,473
Sundry revenue	34,322,418	53,673,418
Tender fees	1,115,739	653,821
Insurance from re-insurance recoveries	534,279	4,362,959
	36,449,158	67,378,927

25. NET SURPLUS / (DEFICIT)

Net surplus / (deficit) for the year is stated after accounting for the following:

Deficit on sale of property, plant and equipment		(25,154,592)	(25,758,264)
Depreciation on property, plant and equipment		402,733,881	410,942,203
Employee costs	2728	2,781,771,764	2,591,692,210
Bad debts provision	29	1,186,534,247	1,233,671,323
Bulk purchases	31	3,298,074,075	3,034,559,805
Consulting and professional fees		61,390,001	24,809,360
Consumables		18,268,305	16,593,104
Contracted Services	32	488,823,319	334,199,322
Grants and subsidies paid	33	51,105,596	83,957,174
Insurance		29,876,405	33,076,124
Repairs and maintenance		766,768,449	586,962,990

26. AUDITORS' REMUNERATION

Fees	8,131,500	8,210,349
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27. EMPLOYEE RELATED COSTS

Basic		1,842,008,774	1,727,672,935
Medical aid - company contributions	8	157,676,943	141,209,033
UIF		15,948,616	14,575,314
WCA		11,270,750	14,598,752
SDL		20,409,352	18,761,133
Other payroll levies		582,882	533,871
Leave pay provision charge		69,424,611	59,817,208
Standby		11,376,982	9,870,206
Post-employment benefits - Pension - Defined contribution plan	8	350,293,387	323,568,169
Overtime payments		248,032,008	225,819,994
Long-service awards		180,179	408,151
Transport allowance		1,179,380	1,129,054
		2,728,383,864	2,537,963,820

Remuneration of the Executive Mayor

Annual Remuneration	802,043	760,930
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Remuneration of the City Manager

Annual Remuneration	1,331,000	993,500
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Remuneration of Deputy City Managers

Annual Remuneration	998,000	903,000
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Remuneration of the Executive Directors

Annual Remuneration	873,060	788,857
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Ekurhuleni Metropolitan Municipality

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28. REMUNERATION OF COUNCILLORS		
Executive Mayor	802,043	760,930
Mayoral Committee Members	5,943,050	6,901,818
Speaker	632,965	587,408
Councillors	46,009,842	45,478,235
Councillors' pension contribution	-	-
Total Councillors' Remuneration	53,387,900	53,728,391
<i>In-kind Benefits:</i>		
The Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor has use of a Council owned vehicle for official duties.		
The Executive Mayor has full-time bodyguards.		
29. BAD DEBTS		
Contributions to bad-debt provision	1,186,534,247	1,233,671,323
	-	-
	1,186,534,247	1,233,671,323
30. FINANCE COSTS		
Non-current borrowings	158,401,038	164,522,303
Other interest paid	21,679,415	-
Total Interest on External Borrowings	180,080,453	164,522,303
31. BULK PURCHASES		
Electricity	2,134,835,048	1,942,498,714
Water	976,311,989	921,818,132
Sewer purification	186,927,038	170,242,959
Total Bulk Purchases	3,298,074,075	3,034,559,805
32. CONTRACTED SERVICES		
Information Technology Services	8,213,173	9,227,949
Specialist services	11,326,338	-
Other contractors	469,283,808	324,971,373
Total Contracted Services	488,823,319	334,199,322
33. GRANTS AND SUBSIDIES PAID		
Other grants		
Grant paid: Sporting Organisations (Marks Park Sports Club)	3,353,795	3,150,000
Grant paid: SPCA	2,100,000	2,000,000
Basic Free Electricity	29,695,392	21,692,087
Bursaries to staff - Paid to Educational Institutions	13,998,410	55,185,371
Bursaries to community members	1,957,999	1,929,716
	51,105,596	83,957,174
Total Grants and Subsidies Paid	51,105,596	83,957,174
34. GENERAL EXPENSES		
Advertising	9,396,247	8,184,542

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Figures in Rand		2008	2007
Animal Costs		1,021,235	738,749
Assets expensed		237,265	8,505,250
Auditors remuneration	26	8,131,500	8,210,349
Bank charges		3,225,207	5,229,171
Consulting and professional fees		61,390,001	24,809,360
Consumables		18,268,305	16,593,104
Discount allowed		5,354,083	1,146,703
Entertainment		1,602,097	1,477,938
Fleet		90,783,458	71,516,092
Fuel and oil		4,191,504	1,489,508
Gifts		284,402	408,691
IT expenses		33,618,482	26,712,281
Insurance		29,876,405	33,076,124
Laboratory charges		417,913,116	326,668,582
Magazines, books and periodicals		624,349	613,256
Marketing		11,405,779	7,416,694
Postage and courier		14,242,417	15,381,327
Printing and stationery		21,403,104	19,802,668
Productions		226,109	239,592
Refuse		4,341,564	15,559,322
Software expenses		8,965,866	-
Staff welfare		4,574,128	4,115,369
Subscriptions and membership fees		6,367,837	6,984,861
Telecommunication costs (Telephone and fax)		60,459,847	45,415,061
Title deed search fees		292,184	193,983
Training		16,595,033	13,480,181
Travel - local		5,439,483	4,698,555
Travel - overseas		2,992,994	2,845,467
Uniforms		17,447,356	13,811,523
Venue expenses		6,106,174	4,246,925
		866,777,531	689,571,228

35. CASH GENERATED FROM OPERATIONS

Surplus before taxation		282,259,212	576,361,262
Adjustments for:			
Depreciation and amortisation		402,733,881	410,942,203
Deficit on sale of assets		25,154,592	25,758,264
Contribution to bad debt provision		1,186,534,247	1,233,671,323
Income from equity accounted investments		2,266,960	(1,594,283)
Interest received		(788,967,237)	(592,685,756)
Finance costs		180,080,453	164,522,303
Movements in provisions		(81,308,582)	260,171,946
Changes in working capital:			
INVENTORIES		(47,320,790)	(20,499,793)
Other debtors		(98,194,659)	-
Decrease/(increase) in consumer debtors		(1,060,860,239)	(1,528,468,970)
Creditors		182,517,934	170,730,436
(Decrease)/Increase in VAT		(27,150,364)	36,700,193
Unspent conditional grants and receipts		31,652,935	68,218,065
		189,398,343	803,827,193

36. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term liabilities		1,054,195,546	1,127,826,261
Cash set aside for the repayment of long-term liabilities		343,019,478	310,234,859

Refer to note 3

Non-current liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that non-current liabilities can be repaid on redemption date.

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37. COMMITMENTS		
Commitments in respect of capital expenditure:		
Approved but not yet contracted for		
• Infrastructure	1,102,670,222	678,320,972
• Community	93,373,000	39,981,000
• Other	394,303,630	329,396,256
Already contracted and provided for		
• Infrastructure	413,377,850	564,299,970
• Community	186,775,000	104,279,050
• Other	57,736,500	135,265,000
This expenditure will be financed from:		
External Loans	798,246,130	399,829,800
Capital Replacement Reserve	-	659,676,756
Government Grants	499,379,942	779,500,692
Own resources	950,610,130	12,535,000
	2,248,236,202	1,851,542,248

38. CONTINGENCIES

See attached schedule.

39. RELATED PARTIES

See attached schedule.

40. PRIOR YEAR RE-STATEMENTS

Various prior year adjustments would impact on the comparative figures of the statement of financial position and statement of financial performance. The effect that these adjustments would have on the comparatives, is disclosed on the attached schedule.

41. RISK MANAGEMENT

Liquidity risk

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

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

Interest rate risk

Deposit and all attract interest at rate that vary with prime. The municipality policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on profit (loss).

The municipality's income and operating cash are substantially independent of changes in market rates. The municipality has no significant interest bearing assets.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Credit guarantee insurance is purchased when deemed appropriate.

42. POST STATEMENT OF FINANCIAL POSITION EVENTS

CHANGE IN POLITICAL OFFICE BEARERS

Clr. Duma Nkosi resigned as Executive Mayor of the Ekurhuleni Metropolitan Municipality with effect from 15 July 2008. Clr. Ntombi

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42. Post statement of financial position events (continued)

Mekgwe has been appointed as Executive Mayor with effect from 15 July 2008. The new Mayoral Committee has been announced on the 17th July 2008, and the following newly elected councillors will serve as members of the Mayoral Committee: * Speaker - Clr. Patricia Khumalo, * Chief Whip - Clr. Moses Maseko, * MMC for Finance - Clr. Lungile Mtshali, * MMC for Environmental Development - Clr. Makhosazana Maluleke, * MMC for Housing - Clr. Ndosi Shongwe, * MMC for Corporate Services - Clr. Queen Bongiwe Duba, * MMC for Community Safety - Clr. Aubrey Nxumalo, * MMC for Health - Clr. Isaac Bangilizwe, * MMC for Infrastructure Services - Clr. Louis Sibeko, * MMC for City Development - Clr. Mahomed Akoon, * MMC for Economic Development - Clr. Thumbu Isaac Mahlangu, * MMC for Sport, Recreation, Arts and Culture (SRAC) - Clr. Vulindlela Mapekula.

43. COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure's E(1) and E(2).

44. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organized local government

Opening balance	18,669,548	18,669,548
Council subscriptions	6,000,000	6,000,000
Amount paid - current year	(24,669,548)	(6,000,000)
Balance unpaid (included in creditors)	-	18,669,548

Audit Fees

Current year audit fee	8,131,500	8,210,349
Amount paid - current year	(7,333,270)	(8,210,349)
Balance unpaid (included in creditors)	798,230	-

PAYE and UIF

Current year payroll deductions	344,699,120	323,377,034
Amount paid - current year	(344,699,120)	(323,377,034)
Balance unpaid (included in creditors)	-	-

Pension and Medical Aid Deductions

Current year payroll deductions and Council Contributions	678,795,118	620,211,143
Amount paid - current year	(678,795,118)	(620,211,143)
Balance unpaid (included in creditors)	-	-

Councillor's arrear consumer accounts

Opening balance	179,101	63,788
Movement for the year	(172,650)	115,313
Balance unpaid (included in debtors)	6,451	179,101

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2008: -

30 June 2008	<u>Outstanding less than 30 days</u>	<u>Outstanding >30 less than 60 days</u>	<u>Outstanding more than 90 Days</u>	<u>Total</u>
Padi MJ	-	277	951	1,228
Maseko M	-	1,321	3,902	5,223
Total Councillor Arrear Consumer Accounts	-	1,598	4,853	6,451

45. ACTUAL OPERATING EXPENDITURE VERSUS BUDGETED OPERATING EXPENDITURE

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Refer to Appendix E1 for the comparison of actual operating expenditure versus budgeted expenditure.

46. ACTUAL CAPITAL EXPENDITURE VERSUS BUDGETED CAPITAL EXPENDITURE

Refer to Appendix E2 for the comparison of actual capital expenditure versus budgeted expenditure.

47. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

See attached schedule.

48. IN-KIND DONATIONS AND ASSISTANCE

The Municipality received the following in-kind donations and assistance

Description:

- As part of the Municipal Management Technical Assistance Programme, National Treasury has provided the City with one full-time international financial advisor.
Two chartered accountants have been seconded to the municipality as part of the partnership between DLG and SAICA.

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