BUFFALO CITY ECONOMIC ENTITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

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

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

Mr. V.G.M. Mavuso Acting Municipal Manager	Date

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Statement of Financial Position

Figures in Rand	Note(s)	2009	2008
Assets			
Current Assets			
Cash and cash equivalents	4	695,870,441	610,167,364
Current tax receivable	5	122,107	57,640
Inventories	6	64,213,171	34,180,907
Operating lease asset	7	43,915,640	41,033,452
Trade and other receivables from non-exchange transactions	8	35,671,748	31,442,405
Trade and other receivables from exchange transactions	9	264,772,865	304,131,910
VAT	10	36,850,603	29,226,137
Long term receivables	14	17,806	196,290
		1,141,434,381	**1,050,436,105**
Non-Current Assets			
Deferred tax	11	42,119	44,754
Intangible assets	12	11,089,917	7,501,701
Investment property	13	201,198,657	-
Long term receivables	14	93,106	114,605
Non - current Investments	15	3,709,525	5,637,090
Property, plant and equipment	16	12,767,176,507	6,589,023,529
Investment in associate	25	3,626,888	2,437,801
		12,986,936,719	**6,604,759,480**
Total Assets		**14,128,371,100**	**7,655,195,585**
Liabilities			
Current Liabilities			
Borrowings	17	41,319,522	23,313,157
Consumer deposits	18	28,308,327	25,028,033
Finance lease obligation	19	1,070,232	1,418,359
Provisions	20	101,369,866	89,917,743
Trade and other payables	21	301,165,740	260,386,988
Unspent conditional grants and receipts	22	310,016,439	152,062,432
		783,250,126	**552,126,712**
Non-Current Liabilities			
Borrowings	17	536,989,896	511,500,649
Finance lease obligation	19	579,030	1,385,401
Provisions	20	71,613,709	37,497,688
Retirement benefit obligation	23	233,792,235	213,729,532
		842,974,870	**764,113,270**
Total Liabilities		**1,626,224,996**	**1,316,239,982**
Net Assets		**12,502,146,104**	**6,338,955,603**
Net Assets			
Revaluation reserve	24	4,972,249,020	182,038,156
Accumulated surplus		7,529,897,084	6,156,917,447
Total Net Assets		**12,502,146,104**	**6,338,955,603**

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2009

Statement of Financial Performance

Figures in Rand	Note(s)	2009	2008
Revenue	28	2,073,266,981	1,813,308,169
Other income		98,392,497	88,440,716
Operating expenses		(2,210,558,737)	(1,756,433,550)
Operating (deficit) surplus		**(38,899,259)**	**145,315,335**
Investment revenue	37	120,800,673	111,967,017
Fair value adjustments	38	61,762	(485,036)
Share of surplus of associate accounted for under the equity method		1,189,087	(755,245)
Gain/(Loss) on disposal of assets		3,383,856	6,664,486
Finance costs	40	(84,867,833)	(80,416,193)
Surplus before taxation		**1,668,286**	**182,290,364**
Taxation	41	(2,635)	14,012
Surplus for the year		**1,665,651**	**182,304,376**

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2009

Statement of Changes in Net Assets

Figures in Rand		Revaluation reserve	Capital replacement reserve	Insurance reserve	COID reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2007		**189,258,468**	**38,029,759**	**21,667,079**	**7,360,372**	**256,315,678**	**1,047,429,496**	**1,303,745,174**
Changes in net assets								
Changes in accounting policy	60		(38,029,759)	(21,667,079)	(7,360,372)	(67,057,210)	67,057,210	-
Net income (expenses) recognised directly in net assets		-	(38,029,759)	(21,667,079)	(7,360,372)	(67,057,210)	67,057,210	-
Surplus for the year		-	-	-	-	-	182,304,376	182,304,376
Total recognised income and expenses for the year		-	(38,029,759)	(21,667,079)	(7,360,372)	(67,057,210)	249,361,586	182,304,376
Assets take on		-	-	-	-	-	4,875,242,219	4,875,242,219
Interest reallocated		-	-	-	-	-	(31,379,251)	(31,379,251)
Insurance transactions		-	-	-	-	-	2,139,895	2,139,895
Adjustment of agricultural assets		-	-	-	-	-	77,350	77,350
Write off transfers		(677,010)	-	-	-	(677,010)	677,010	-
Asset disposals		(92,115)	-	-	-	(92,115)	92,115	-
Offsetting depreciation		(6,451,187)	-	-	-	(6,451,187)	6,451,187	-
Insurance claims processed		-	-	-	-	-	6,703,316	6,703,316
VAT correction		-	-	-	-	-	122,524	122,524
Total changes		(7,220,312)	(38,029,759)	(21,667,079)	(7,360,372)	(74,277,522)	5,109,487,951	5,035,210,429
Opening balance as previously reported		182,038,156	-	-	-	182,038,156	6,173,216,155	6,355,254,311
Adjustments								
Correction of Error	49	-	-	-	-	-	(16,298,708)	(16,298,708)
Balance at 01 July 2008 as restated		**182,038,156**	**-**	**-**	**-**	**182,038,156**	**6,156,917,447**	**6,338,955,603**
Changes in net assets								
Surplus for the year		-	-	-	-	-	1,665,651	1,665,651
Assets take on - Grap 17		-	-	-	-	-	1,400,087,026	1,400,087,026
Interest reallocated		-	-	-	-	-	(36,752,771)	(36,752,771)
Coid transactions		-	-	-	-	-	1,115,186	1,115,186
Insurance transactions		-	-	-	-	-	7,109,836	7,109,836
Transactions - revaluation reserve		4,790,210,864	-	-	-	4,790,210,864	-	4,790,210,864
BCDA grants adjusted		-	-	-	-	-	575	575
VAT adjustment		-	-	-	-	-	(245,866)	(245,866)
Total changes		4,790,210,864	-	-	-	4,790,210,864	1,372,979,637	6,163,190,501
Balance at 30 June 2009		**4,972,249,020**	**-**	**-**	**-**	**4,972,249,020**	**7,529,897,084**	**12,502,146,104**

Cash Flow Statement

Figures in Rand	Note(s)	2009	2008
Cash flows from operating activities			
Cash receipts from customers		2,027,098,004	1,989,861,579
Cash paid to suppliers and employees		(1,669,315,468)	(1,810,260,327)
Cash generated from operations	46	357,782,536	179,601,252
Interest income		120,800,673	111,967,017
Finance costs		(84,867,833)	(69,674,010)
Insurance transactions		7,109,877	-
Coid transactions		1,115,186	-
Taxes on surpluses	5	(64,467)	(95,785)
Net cash from operating activities		**401,875,972**	**221,798,474**
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(366,574,722)	(292,559,115)
Sale of property, plant and equipment	16	4,994,019	7,423,737
Purchase of other intangible assets	12	(2,402,910)	(4,241,061)
Movement in long term receivables	14	199,983	702,551
Movement in non-current investments		1,927,565	27,467,051
Fair value adjustment - Investments		61,762	-
Net cash from investing activities		**(361,794,303)**	**(261,206,837)**
Cash flows from financing activities			
Proceeds from borrowings		43,495,612	15,875,305
Movement in Consumer deposits		3,280,294	1,839,887
Repayment of finance lease liability		(1,154,498)	-
Net cash from financing activities		**45,621,408**	**17,715,192**
Total cash movement for the year		**85,703,077**	**(21,693,171)**
Cash at the beginning of the year		610,167,364	631,860,535
Net increase (decrease) in cash and cash equivalents	4	**695,870,441**	**610,167,364**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, except for financial instruments that have been measured at fair value.
The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).
Assets, liabilities, revenues and expenses have not been offset except where offsetting is required or permitted by a Standard of GRAP.
The accounting policies are applied consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

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

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

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables classified as loans and receivables

The economic entity assesses its loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the economic entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical loss ratios.These annual loss ratios are applied to balances in the portfolio and scaled to the estimated recovery period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to adjust stock to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The adjustment is made to an allowance account for obsolete inventory.

Fair value estimation

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

A provision is recognised when BCM has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Contributions are made to or from the provisions to reflect the current best estimate. Expenditure relating to provisions is charged to the provision when incurred.

Post retirement benefits

Payments to defined contribution retirement benefit plans are charged to the Statement of Financial Performance as they fall due.

1.1 Significant judgements and sources of estimation uncertainty (continued)
Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed on a regular basis on defined benefits contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

The economic entity provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 40% of the medical aid membership fee, and the Council for the remaining 60%. The medical aid contributions are charged to the Statement of Financial Performance as they fall due.The additional cost effect of defined benefit retirement funds is immaterial and the costs thereof are charged to the Statement of Financial Performance as they fall due. Buffalo City Municipality's net obligation in respect of post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods whereby that benefit is discounted to determine its present value. The actuarial valuation is performed by an independent qualified actuary on a regular basis using the projected unit credit method. When the calculation results in a benefit to the municipality, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. The actuarial gain is transacted in full in the Statement of Financial Performance and not calculated and accounted for according to the "corridor" method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Statement of Financial Performance on a straight-line basis over the average period until the benefits become vested. When the benefits become vested, the expense is recognised immediately in the Statement of Financial Performance.

Effective interest rate

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

1.2 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value The economic entity has adopted the fair value model for Investment Property.

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

1.3 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, except for land and buildings which are revalued. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on cost less any applicable residual value, using the straight line method, over the estimated useful lives of the assets for all items of PPE except for office furniture and fittings, which are depreciated using the diminishing balance method.

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

Item	Estimated useful life
Infrastructure assets	

1.3 Property, plant and equipment (continued)

• Electricity	5 - 60 years
• Roads	5 - 100 years
• Water	10 - 150 years
• Sewerage	15 - 80 years
Community	
• Buildings	20 - 30 years
• Recreational facilities	20 years
Other	
• Other properties	20 - 30 years
• Office Equipment	3 - 5 years
• Furniture and Fittings	3 - 7 years
• Landfill sites	1 - 50 years
• Motor Vehicles	4 - 20 years
• Plant and Equipment	3 - 20 years
Investment property	30 years

The residual value and the useful life of each asset are reviewed at each financial period-end.

Residual values have been determined for all movable assets based on a percentage of the cost or fair value as follows:

10%	Office furniture and Equipment
20%-30%	Trucks and specialised vehicles
35%	Other vehicles
40%	Buses
40%	Fire engines

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

The depreciation charge for each period is recognised in surplus or deficit.

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

The economic entity uses the straight line depreciation method for all depreciation except for furniture, fittings and equipment for which the diminishing balance method is applied.

1.4 Intangible assets

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

An intangible asset is recognised when:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other

1.4 Intangible assets (continued)
intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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

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

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

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

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Investment in Municipal Entities

Investments in municipal entities under the ownership control of Buffalo City Municipality are carried at cost in Buffalo City Municipality's separate annual financial statements.

1.6 Investment in associate

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

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

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

Where Buffalo City Municipality or its Entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Municipality's or its Municipal Entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where Buffalo City Municipality is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

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

1.7 Financial instruments

Classification

The economic entity classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the economic entity becomes a party to the contractual provisions of the instruments.

1.7 Financial instruments (continued)

The economic entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the economic entity's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the economic entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the economic entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the economic entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated at fair value through profit and loss

The economic entity designated shares acquired upon demutualisation as financial instruments designated at fair value through profit and loss. There is no specific intention on the part of the economic entity to keep these shares until maturity and a decision to sell may be taken at any time. This designation was done specifically with the intention of selling these shares.

Trade and other receivables

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the

1.7 Financial instruments (continued)
Statement of Financial Performance on a straight-line basis over the average period until the benefits become vested. When the benefits become vested, the expense is recognised immediately in the Statement of Financial Performance. Receivables are tested for impairment based on historical payment trends and known financial difficulties regarding debtors.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the economic entity's accounting policy for borrowing costs.

1.7 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified at fair value through surplus or deficit is recognised in surplus or deficit,
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the economic entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the economic entity has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the economic entity has transferred its rights to receive 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 economic entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the economic entity could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the economic entity's continuing involvement is the amount of the transferred asset that the economic entity may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the economic entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The economic entity assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The economic entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Tax

Current tax assets and liabilities

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

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

1.8 Tax (continued)

Deferred tax assets and liabilities

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

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

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

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

1.9 Leases

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

Finance leases - lessor

The economic entity recognises finance lease receivables on the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the economic entity's net investment in the finance lease.

Finance leases – lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if available otherwise the municipality's incremental borrowing rate is used.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases - lessor

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

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

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

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

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

1.10 Inventories

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

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

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of assets

The economic entity assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the economic entity also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

1.12 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the economic entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact on the funds up to the statement of financial position date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor method), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the economic entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.13 Provisions and contingencies (continued)

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

Contingent assets and contingent liabilities are not recognised.

1.14 Government grants

Grants related to income are presented as a credit in the income statement (separately).

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

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income for the period in which it becomes receivable.

Government grants are measured at face value as it is expected that these funds will be utilised within the financial year that they are received.

1.15 Revenue from exchange transactions

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the economic entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the economic entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the economic entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

Service revenue is recognised by reference to the stage of completion of the transaction at statement of financial position date. Stage of completion is determined by services performed to date .

Contract revenue comprises:
- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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

Royalties are recognised on the accrual basis in accordance with the substance of the relevant agreements.

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

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

Accounting Policies

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity; and
- the amount of the revenue can be measured reliably.

1.17 Grants, transfers and donations

Grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.18 Investment income

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

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:
- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

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

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

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

1.20 Comparative figures

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

1.21 Unauthorised expenditure

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

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

Accounting Policies

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure 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 Buffalo City 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.

1.24 Use of Estimates

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

1.25 Presentation of Currency

These annual financial statements are presented in South African Rand.

1.26 Offsetting

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

1.27 Revaluation reserve

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

1.28 Investments

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

1.29 Conditional Grants and receipts

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

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- IFRS7 Financial Instruments Disclosure
- IPSAS20 Related Party Disclosures
- IPSAS21 Impairment of Non-Cash Generating Assets
- IAS32 Financial Instruments: Disclosure and Presentation
- IAS36 Impairments
- IAS39 Financial Instruments: Recognition and Measurement
- GRAP4 Foreign Exchange Transactions
- GRAP5 Borrowing Costs
- GRAP6 Consolidated Annual Fianancial Statements
- GRAP7 Investments in Associates
- GRAP9 Revenue from Exchange Transactions
- GRAP12 Inventories
- GRAP13 Leases
- GRAP16 Investment Property
- GRAP17 Property, Plant & Equipment
- GRAP19 Provisions, Contingent Liabilities and Contingent Assets
- GRAP100 Non-Curent Assets Held for Sale
- GRAP101 Agriculture
- GRAP102 Intangible Assets

GRAP 16 : Investment Property

During the year, the economic entity changed its accounting policy with respect to the treatment of investment property. The changes are as follows:

Transfer of PPE to Investment Property		
Investment Property	201,198,657	-

GRAP 101 : Agricultural Assets

During the year, the economic entity changed its accounting policy with respect to the treatment of agriculture assets.The changes are as follows:

Transfer Agricultural Assets to PPE		
PPE	1,051,500	1,051,500

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

GRAP 4: The Effects of Changes in Foreign Exchange Rates

The initial application of GRAP 4 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application on the initial adoption of the Standard except for the acquisition of foreign operations.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

3. New standards and interpretations (continued)

GRAP 5: Borrowing Costs

This Standard allows entities, in the exceptionally rare cases, to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This applies when it is inappropriate to capitalise borrowing costs.

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of an entity directly to the nature of the expenditure to be funded i.e. capital or current. In such cases, an entity shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires that the Standard will only apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires that the Standard will only apply to borrowing costs incurred on qualifying assets where the commencement date for capitalisation is on or after the effective date of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 6: Consolidated and Separate Financial Statements

GRAP 6 includes specific guidance on whether control exists and on power conditions to determine whether control exits in a public sector context – public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

The initial application of GRAP 6 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate annual financial statements. For consolidated annual financial statements the result of initially adopting the Standard shall be recognised in the economic entity as an adjustment to the opening balance of accumulated surplus or deficit and comparative information need not be restated for the economic entity.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 7: Investments in Associates

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The investor must exercise judgement in the context of all available information to determine if it has significant influence over an investee.

An investor accounts for investments in associates in the consolidated annual financial statements using the equity method.

The initial application of GRAP 7 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

3. New standards and interpretations (continued)

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 8: Interests in Joint Ventures

GRAP 8 uses a different definition for joint venture and joint control – contractual arrangement has been replaced by binding arrangement (public sector amendment) – public entities need to review current arrangements to determine whether they fall within the scope of GRAP 8 as a result of the public sector amendment.

Applying the definition of joint control as defined in this Standard may result in the identification of other entities that are also jointly controlled ventures in addition to those identified by complying with applicable legislation.

GRAP 8 incorporates guidance adopted from SIC13 on Non-monetary Contributions by ventures issued by the IASB i.e. provisions for accounting for non-monetary contributions to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity that is accounted for using either the equity method or proportionate consolidation. (Par.57-62).

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity or proportionate consolidation method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 9: Revenue from Exchange Transactions

The definition of revenue in terms of GRAP 9 incorporates the concept of service potential. Revenue is the gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Entities may derive revenue from exchange or non-exchange transactions.

An exchange transaction is one in which the entity receives resources or has liabilities extinguished, and directly gives approximately equal value to the other party in exchange.

Non-exchange revenue transaction is a transaction where an entity receives value from another entity without directly giving approximately equal value in exchange.

An entity recognises revenue when it is probable that economic benefits or service potential will flow to the entity, and the entity can measure the benefits reliably.

GRAP 9 clarifies that this Standard only applies to revenue from exchange transactions.

Other than terminology difference, no effect on initial adoption of Standard on GRAP 9.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

3. New standards and interpretations (continued)

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 12: Inventories

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:
- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 13: Leases

GRAP 13 incorporates additional guidance on the concept of substance and legal form of a transaction, to illustrate the difference between lease and other contracts and on operating lease incentives.

In certain circumstances, legislation may prohibit the entering into certain types of lease agreements. If the entity has contravened these legislative requirements, the entity is still required to apply the requirements of GRAP 13.

Other than the abovementioned requirements, there is no other impact on the initial adoption of GRAP13.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, the recognition requirements of the Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 14: Events after the reporting date

An event, which could be favourable or unfavourable, that occurs between the reporting date and the date the annual financial statements are authorised for issue.

GRAP 14 requires the date of authorisation for issue is the date on which the annual financial statements have received approval from management to be issued to the executive authority or municipal council.

3. New standards and interpretations (continued)

Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

An entity shall adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

An entity shall not adjust the amounts recognised in its annual financial statements to reflect non-adjusting events after the reporting date.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 16: Investment Property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 July 2009.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 17: Property, Plant and Equipment

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material because of the initial take-on and the valueing of all asets.

GRAP 19: Provisions, Contingent Liabilities and Contingent Assets

GRAP 19 exclude from its scope those provisions and contingent liabilities arising from social benefits for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits.

For the purpose of GRAP 19, social benefits refers to goods, services and other benefits provided in the pursuit of the social policy objective of a government. This Standard includes guidance on the accounting of these social benefits.

Outflow of resources embodying service potential also needs to be considered in when assessing if a present obligation that arises from past events exists or not.

GRAP 19 give specific guidance regarding restructuring by way of transfers that will take place under a government directive and will not involve binding agreements. An obligation exists only when there is a binding transfer agreement.

Additional disclosure for each class of provision regarding reductions in the carrying amounts of provisions that result from payments or other outflows of economic benefits or service potential made during the reporting period and reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the entity.

If an external valuation is use to measure a provision the information relating to the valuation can usefully be disclosed.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. However, where items have not been recognised as a result of transitional provisions under the Standard on Property, Plant and Equipment, the recognition requirements of the Standard on Provisions, Contingent Liabilities and Contingent Assets would not apply to such items until the transitional provisions in that Standard expire.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 101: Agriculture

GRAP 101 excludes guidance on accounting for non-exchange revenue from government grants related to a biological asset as GRAP 23 on Revenue from Non-Exchange Transactions will provide such guidance.

Recognition requirement includes the concept of the probable flow of service potential.

Biological assets acquired at no or for a nominal value shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs.

Additional disclosure is required of biological assets for which the entity’s use or capacity to sell is subject to restrictions imposed by regulations that have a significant impact on their total fair value less estimated point-of-sale costs.

In the reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period it is also required to disclose increases or decreases due to transfers.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires any adjustments required to the previous carrying amounts of assets and net assets shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit in the period that the Standard initially adopted. Comparative information is not required to be restated on initial adoption of this Standard.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

GRAP 102: Intangible Assets

GRAP 102 excludes guidance on accounting for intangible assets acquired as part of an entity combination and in-process research and development costs acquired in an entity combination.

Recognition requirement includes the concept of the probable flow of service potential.

GRAP 102 distinguishes between impairment loss of cash generating and non-cash-generating assets.

Intangible assets acquired at no or for a nominal cost shall be measured on acquisition date at its fair value.

In GRAP 102 the identifiability criterion in the definition of an intangible asset has been expanded to include contractual rights arising from binding arrangements, and to exclude rights granted by statute.

Additional guidance included in GRAP 102 to explain that distinction should be made between assets associated with the item of property, plant and equipment and the intangible asset.

Guidance on web site costs has been included in GRAP 102 from SIC Interpretation 32 Intangible Assets – Web Site Costs.

Guidance on intangible assets that may be acquired in exchange for non-monetary assets, where the exchange transaction lacks commercial substance has not been included in GRAP 102 as guidance to be included in GRAP 23.

GRAP 102 does not state “gains shall not be classified as revenue” as GRAP term “income” has a broader meaning than the term “revenue”.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard. Where entities have, on initial adoption of the Standard, accumulated and retained sufficient information about costs and the future economic benefits or service potential related to intangible assets that may have been expensed previously, those intangible assets should be recognised in accordance with the Standard.

The effective date of the standard is for years beginning on or after 01 July 2008.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

IPSAS 21: Impairment of Non Cash-Generating Assets

The method of measurement of value in use of a non-cash-generating asset under this Standard is different to that applied to a cash generating asset.

Asset should be measured by reference to the present value of the remaining service potential of the asset.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset, may be the depreciated replacement cost approach, restoration cost approach and service units approach.

This Standard does not require entities to apply an impairment test to property, plant and equipment carried at revalued amounts.

This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The effective date of the standard is for years beginning on or after 01 July 2009.

The economic entity has adopted the standard for the first time in the 2009 annual financial statements.

The impact of the standard is not material.

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

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

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

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

It is unlikely that the standard will have a material impact on the economic entity's annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

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

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

3. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the economic entity's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

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

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

It is unlikely that the standard will have a material impact on the economic entity's annual financial statements.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation

3. New standards and interpretations (continued)

surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

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

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

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

It is unlikely that the standard will have a material impact on the economic entity's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,662,314	1,234,812
Bank balances	105,521,090	81,830,252
Short-term deposits	588,686,215	527,102,300
Other cash and cash equivalents	822	-
	695,870,441	**610,167,364**

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

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

No retrictions exist with regard to the use of cash.

No portion is past due or impaired.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

The economic entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2009	30 June 2008	30 June 2007	30 June 2009	30 June 2008	30 June 2007
STANDARD BANK - Primary Account - 081-221-495	175,020,838	122,622,759	300,128,298	100,171,241	78,248,742	231,338,901
STANDARD BANK - Collection Account - 081-245-882	982,668	1,323,052	132,876	982,668	1,326,452	132,876
STANDARD BANK - Prism Account - 081-246-048	-	-	-	4,027,788	1,902,467	1,375,314
STANDARD BANK - Market Account - 081-246-072	2,259,486	443,616	590,463	(1,170,843)	(1,178,254)	(1,123,458)
STANDARD BANK - Inter Authority Account - 081-246-250	1,477,656	1,474,866	830,344	1,477,656	1,474,866	838,642
FIRST NATIONAL BANK - Operating Account - 620 - 987 - 17899	34,080	55,979	26,090	32,580	55,979	24,213
Total	**179,774,728**	**125,920,272**	**301,708,071**	**105,521,090**	**81,830,252**	**232,586,488**

5. Tax paid

Balance at beginning of the year	57,640	(38,145)
Balance at end of the year	(122,107)	(57,640)
	(64,467)	**(95,785)**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

6. Inventories

Unsold water	1,443,060	1,300,306
Workshop stores	295,271	168,459
Consumable stores	29,901,202	12,206,313
Water	16,142,396	9,773,565
Electricity store	14,146,344	9,309,991
Diesel	696,301	1,032,820
Petrol	588,933	856,933
RDP houses	1,748,604	40,637
	64,962,111	34,689,024
Inventories (write-downs)	(748,940)	(508,117)
	64,213,171	**34,180,907**

Carrying value of stock is disclosed at cost.

Figures in Rand	2009	2008

7. Operating lease asset (accrual)

	-	-
Current assets	43,915,640	41,033,452
	43,915,640	**41,033,452**

Municipality as lessor: Operating leases minimum future receivables		
No later than one year	1,134,312	1,110,150
Later than one year no later than 5 years	3,532,220	3,670,168
Later than 5 years	161,498,762	162,451,386
	166,165,294	**167,231,704**

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

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

8. Trade and other receivables from non-exchange transactions

Prepayments	20,262	-
Other debtors	4,009,321	5,004,881
Accrued income	31,642,165	26,437,524
	35,671,748	**31,442,405**

Trade and other receivables pledged as security

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

No security is held for any accounts receivable.

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

Credit quality of trade and other receivables

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

Trade receivables

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

Fair value of trade and other receivables

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

Trade and other receivables past due but not impaired

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

Trade and other receivables impaired

As of 30 June 2009, trade and other receivables of R 341,487,413 (2008: R 241,971,477) were impaired and provided for.

The amount of the provision was R 341,487,413 as of 30 June 2009 (2008: R 241,971,477).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	241,971,477	199,181,892
Provision for impairment	131,551,928	69,985,338
Amounts written off as uncollectable	(32,035,992)	(27,222,601)
Other	-	26,848

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

8. Trade and other receivables from non-exchange transactions (continued)

	341,487,413	**241,971,477**

Amounts totalling R 32 065 992 (2008: R 27 222 601) were written off as uncollectable against the doubtful receivable allowance. This represents 1.55% (2008: 1.36%) of the total operating income for the year.

9. Trade and other receivables from exchange transactions

	2009	2008
Gross balances		
Rates	117,240,072	109,243,095
Electricity	87,712,989	68,117,944
Water	154,053,324	134,126,489
Sewerage	80,960,180	76,637,556
Refuse	95,662,096	86,821,051
Housing rental	890,169	1,488,905
Sundries	69,741,448	69,668,347
	606,260,278	**546,103,387**
Less: Provision for bad debts		
Rates	(105,320,830)	33,886,264
Electricity	(49,405,977)	(34,228,799)
Water	(86,773,409)	(72,773,533)
Sewerage	(45,602,332)	(39,760,617)
Refuse	(53,883,461)	(52,783,505)
Housing rental	(501,404)	(729,763)
Sundries	-	(75,581,524)
	(341,487,413)	**(241,971,477)**
Net balance		
Rates	11,919,242	143,129,359
Electricity	38,307,012	33,889,145
Water	67,279,915	61,352,956
Sewerage	35,357,848	36,876,939
Refuse	41,778,635	34,037,546
Housing rental	388,765	759,142
Sundries	69,741,448	(5,913,177)
	264,772,865	**304,131,910**
Rates		
Current (0 -30 days)	23,090,848	26,189,151
31 - 60 days	6,657,845	6,158,027
61 - 90 days	4,373,331	4,853,761
91 - 120 days	7,065,240	2,767,332
121 - 365 days	25,999,931	22,521,649
> 365 days	50,052,877	46,753,175
	117,240,072	**109,243,095**
Electricity		
Current (0 -30 days)	64,794,252	51,429,743
31 - 60 days	3,575,073	1,556,261
61 - 90 days	2,334,294	764,090
91 - 120 days	1,429,150	505,904
121 - 365 days	5,298,207	3,666,108
> 365 days	10,282,012	10,195,838
	87,712,988	**68,117,944**
Water		
Current (0 -30 days)	29,225,782	29,544,826
31 - 60 days	8,535,057	6,834,051
61 - 90 days	6,720,897	5,376,786
91 - 120 days	8,122,721	2,946,777

Notes to the Annual Financial Statements

Figures in Rand	2009	2008
9. Trade and other receivables from exchange transactions (continued)		
121 - 365 days	29,238,833	21,263,343
> 365 days	72,210,034	68,160,706
	154,053,324	**134,126,489**
Sewerage		
Current (0 -30 days)	11,579,392	15,353,713
31 - 60 days	4,655,729	3,613,552
61 - 90 days	2,802,044	3,129,542
91 - 120 days	3,838,422	1,847,526
121 - 365 days	17,101,812	14,332,065
> 365 days	40,982,779	38,361,159
	80,960,178	**76,637,557**
Refuse		
Current (0 -30 days)	9,900,940	11,420,264
31 - 60 days	4,891,685	3,975,655
61 - 90 days	3,294,561	3,127,011
91 - 120 days	4,008,821	1,948,935
121 - 365 days	17,979,325	14,277,794
> 365 days	55,586,765	52,071,392
	95,662,097	**86,821,051**
Housing rental		
Current (0 -30 days)	61,093	715,184
31 - 60 days	39,891	40,274
61 - 90 days	30,903	34,004
91 - 120 days	26,363	19,772
121 - 365 days	157,508	181,381
> 365 days	574,412	498,289
	890,170	**1,488,904**
Sundries		
Current (0 -30 days)	6,004,187	9,935,428
31 - 60 days	2,891,661	2,428,225
61 - 90 days	2,271,439	2,619,382
91 - 120 days	2,774,361	2,005,942
121 - 365 days	14,771,553	15,132,004
> 365 days	41,028,247	37,547,366
	69,741,448	**69,668,347**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	73,890,054	84,211,885
31 - 60 days	24,901,223	20,205,547
61 - 90 days	17,166,415	16,963,190
91 - 120 days	24,780,012	10,219,828
121 - 365 days	91,878,883	76,851,581
> 365 days	244,003,727	226,769,933
	476,620,314	435,221,964
Less: Provision for bad debts	(273,833,416)	(187,999,499)
	202,786,898	**247,222,465**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

9. Trade and other receivables from exchange transactions (continued)

Industrial/ commercial		
Current (0 -30 days)	63,806,799	56,046,223
31 - 60 days	5,282,897	3,597,955
61 - 90 days	3,756,155	2,075,641
91 - 120 days	2,432,998	1,608,618
121 - 365 days	16,455,531	12,610,494
> 365 days	25,896,626	26,075,537
	117,631,006	102,014,468
Less: Provision for bad debts	(67,653,997)	(53,971,978)
	49,977,009	**48,042,490**

National and provincial government		
Current (0 -30 days)	6,959,741	4,330,202
31 - 60 days	1,062,821	802,543
61 - 90 days	904,900	865,745
91 - 120 days	554,068	213,743
121 - 365 days	2,212,755	1,912,269
> 365 days	816,772	742,454
	12,511,057	**8,866,956**

Total		
Current (0 -30 days)	144,656,492	144,588,309
31 - 60 days	31,246,941	24,606,045
61 - 90 days	21,827,470	19,904,576
91 - 120 days	27,265,079	12,042,188
121 - 365 days	110,547,170	91,374,344
> 365 days	270,717,125	253,587,925
	606,260,277	546,103,387
Less: Provision for bad debts	(341,487,413)	(241,971,477)
	264,772,864	**304,131,910**

Less: Provision for debt impairment		
Current (0 -30 days)	(81,480,468)	(64,065,244)
31 - 60 days	(17,600,423)	(10,902,627)
61 - 90 days	(12,294,730)	(8,819,465)
91 - 120 days	(15,357,564)	(5,335,740)
121 - 365 days	(62,267,756)	(40,486,812)
> 365 days	(152,486,472)	(112,361,589)
	(341,487,413)	**(241,971,477)**

Reconciliation of bad debt provision		
Balance at beginning of the year	241,971,477	199,181,892
Contributions to provision	131,551,928	69,985,338
Bad debts written off against provision	(32,035,992)	(27,222,601)
Other	-	26,848
	341,487,413	**241,971,477**

Consumer debtors pledged as security

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

No security is held for any of the accounts receivable.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counter party default rates. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

9. Trade and other receivables from exchange transactions (continued)

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

No portion is past due or impaired.

10. VAT

VAT is payable on the receipt basis. Only once payment has been received is VAT paid to SARS

	2009	2008
Net VAT receivable	36,850,603	29,226,137

11. Deferred tax

Deferred tax asset

	2009	2008
Deferred tax	42,119	44,754

Reconciliation of deferred tax asset (liability)

	2009	2008
At beginning of the year	44,754	58,766
Increase (decrease) in tax losses available for set off against future taxable income	(2,635)	(14,012)
	42,119	**44,754**

Notes to the Annual Financial Statements

Figures in Rand

12. Intangible assets

	2009			2008		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	17,724,626	(6,634,709)	11,089,917	27,044,377	(19,542,676)	7,501,701

Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Disposals	Transfers	Other changes, movements	Amortisation	Total
Computer software, other	7,501,701	2,402,910	(15,455,572)	15,216,918	3,732,911	(2,308,951)	11,089,917

Reconciliation of intangible assets - 2008

	Opening Balance	Additions	Amortisation	Total
Computer software, other	6,302,574	4,241,061	(3,041,934)	7,501,701

13. Investment property

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	201,198,657	-	201,198,657	-	-	-

No Investment Properties were pledged as security.

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

Management deemed it impracticable to apply the changes retrospectively in repect of the adoption of Investment Properties as there is no reliable and accurate basis and/or indices to determine equivalent retrospective values and no reliable and accurate method is available to determine and/or apply asset conditional assessments retrospectively. Therefore the transfer to Investment Properties is done from 2009 which is the earliest reliable date for restatement.

The transfers represent land and properties identified as Investment Properties, transferred from Property, Plant and Equipment to Investment Property.

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

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

There are no restrictions on investment properties.

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

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

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

Rental income from investment properties for the 2008/09 financial year in respect of monthly and annual leases amounted to R1 370 836 and R50 264 respectively.

14. Long term receivables

	2009	2008
Sporting bodies and other loans	93,106	114,605
	93,106	114,605
Current portion of sporting bodies and other loans	17,806	18,547
Current portion of motor vehicle loans	-	177,743
	110,912	**310,895**

Sporting bodies:Loans were granted to sporting bodies before the implementation of the MFMA. No new loans has been issued and the remaining loans are redeemable up to 2016.

Motor vehicle loans: All loans are being phased out with the last being redeemed during the 2008/09 financial period.

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

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

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

The credit quality of long term receivables that are neither past nor due nor impaired can be assessed by reference to external credit

Figures in Rand	2009	2008

14. Long term receivables (continued)
ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

No portion is past due or impaired

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

15. Non - current Investments

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

Fair value of investments are as at face value and Sanlam shares as at quoted market value at 30 June 2009.

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

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

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

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

No portion is past due or impaired.

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

	2009	2008
Fixed deposits long-term	2,280,770	4,270,097
Listed shares Sanlam (Aquired upon demutualisation)	1,428,755	1,366,993
	3,709,525	**5,637,090**

16. Property, plant and equipment

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	3,397,443,126	-	3,397,443,126	106,400,245	-	106,400,245
Buildings	1,380,902,904	-	1,380,902,904	269,800,473	(164,204,511)	105,595,962
Plant and equipment	57,171,284	(21,509,042)	35,662,242	40,058,098	(22,133,540)	17,924,558
Furniture and fittings	31,579,340	(11,536,143)	20,043,197	29,108,495	(9,867,534)	19,240,961
Vehicles	198,989,756	(78,572,430)	120,417,326	190,520,919	(94,840,207)	95,680,712
Office equipment	20,775,693	(13,190,794)	7,584,899	16,630,580	(12,318,915)	4,311,665
Community assets - Buildings	10,228,226	-	10,228,226	113,420,823	(42,381,106)	71,039,717
Other properties	231,917,177	(13,099,661)	218,817,516	184,966,144	(12,997,067)	171,969,077
Electricity	1,742,445,353	(48,110,695)	1,694,334,658	1,515,891,527	(13,203,605)	1,502,687,922
Recreational Facilities	3,051,829	-	3,051,829	37,892,441	(6,729,095)	31,163,346
Leases	5,879,022	(3,819,549)	2,059,473	5,510,568	(2,934,830)	2,575,738
General	7,068,687	-	7,068,687	4,080,785	-	4,080,785
Sewerage	1,311,511,186	(37,793,407)	1,273,717,779	1,171,631,535	(34,877,085)	1,136,754,450
Water	1,456,229,902	(25,066,404)	1,431,163,498	1,394,510,153	-	1,394,510,153
Heritage	3,420,758	-	3,420,758	3,524,502	-	3,524,502
Roads	3,270,543,136	(109,282,747)	3,161,260,389	1,943,615,509	(22,051,773)	1,921,563,736
Total	**13,129,157,379**	**(361,980,872)**	**12,767,176,507**	**7,027,562,797**	**(438,539,268)**	**6,589,023,529**

Notes to the Annual Financial Statements

Figures in Rand

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Disposals	Asset Take-on	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	106,400,245	-	(15,000)	-	3,291,057,881	-	-	-	3,397,443,126
Buildings	105,595,962	6,572,094	-	-	1,275,797,047	-	(7,062,199)	-	1,380,902,904
Plant and equipment	17,924,558	17,031,556	-	5,077,201	-	-	(4,371,073)	-	35,662,242
Furniture and fittings	19,240,961	2,453,099	-	-	-	-	(1,650,863)	-	20,043,197
Vehicles	95,680,712	14,484,407	(1,595,163)	-	-	21,817,151	(9,969,781)	-	120,417,326
Office equipment	4,311,665	4,163,813	-	-	-	-	(890,324)	(255)	7,584,899
Community assets - Buildings	71,039,717	7,821,990	-	-	(65,503,256)	-	(3,130,225)	-	10,228,226
Other properties	171,969,077	4,546,175	-	-	(2,595,299)	46,366,017	(1,468,454)	-	218,817,516
Electricity	1,502,687,922	92,821,867	-	133,731,960	-	-	(34,907,091)	-	1,694,334,658
Recreational facilities	31,163,346	3,425,009	-	-	(31,060,404)	1,418,500	(1,894,622)	-	3,051,829
Leases	2,575,738	368,454	-	-	-	-	(884,719)	-	2,059,473
General	4,080,785	4,039,402	-	-	-	(1,051,500)	-	-	7,068,687
Sewerage	1,136,754,450	63,608,146	-	108,237,169	-	-	(34,881,986)	-	1,273,717,779
Water	1,394,510,153	61,719,746	-	-	-	-	(25,066,401)	-	1,431,163,498
Heritage	3,524,502	-	-	-	-	(103,744)	-	-	3,420,758
Roads	1,921,563,736	83,518,964	-	1,248,782,270	-	-	(92,604,581)	-	3,161,260,389
	6,589,023,529	**366,574,722**	**(1,610,163)**	**1,495,828,600**	**4,467,695,969**	**68,446,424**	**(218,782,319)**	**(255)**	**12,767,176,507**

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Disposals	Asset Take-on	Other changes, movements	Depreciation	Total
Land	106,492,360	-	(92,115)	-	-	-	106,400,245
Buildings	103,277,633	8,689,646	-	-	-	(6,371,317)	105,595,962
Plant and equipment	21,949,227	4,758,549	-	3,086,990	(7,061,604)	(4,808,604)	17,924,558
Furniture and fittings	610,662	840,346	-	19,922,735	-	(2,132,782)	19,240,961
Vehicles	47,736,532	30,549,232	(667,137)	26,937,745	-	(8,875,660)	95,680,712
Office equipment	11,915,716	4,425,463	-	219,517	(11,470,191)	(778,840)	4,311,665
Community assets - Buildings	61,349,709	12,235,958	-	-	-	(2,545,950)	71,039,717
Other properties	187,170,744	3,440,986	-	-	(16,445,586)	(2,197,067)	171,969,077
Electricity	174,412,862	59,169,565	-	1,281,087,730	-	(11,982,235)	1,502,687,922
Recreational facilities	20,359,234	3,134,772	-	8,906,100	-	(1,236,760)	31,163,346
Leases	2,006,517	-	-	1,565,140	-	(995,919)	2,575,738
General	1,746,809	2,256,626	-	77,350	-	-	4,080,785
Sewerage	411,071,323	50,775,207	-	709,925,416	-	(35,017,496)	1,136,754,450
Water	178,266,452	47,518,383	-	1,176,872,337	-	(8,147,019)	1,394,510,153
Heritage	559,356	355,382	-	2,609,764	-	-	3,524,502
Roads	194,529,651	64,409,002	-	1,687,033,592	-	(24,408,509)	1,921,563,736
	1,523,454,787	**292,559,117**	**(759,252)**	**4,918,244,416**	**(34,977,381)**	**(109,498,158)**	**6,589,023,529**

Proceeds on disposal of property, plant and equipment

Carrying value of property, plant and equipment	1,610,163	759,252
Gain on disposal of assets	3,383,856	6,664,486
	4,994,019	**7,423,738**

Borrowing costs capitalised

Capital work in progress	1,073,020	151,220

Capitalisation rates used during the year were between 5% and 8% on specific borrowings for capital projects and 11% being the weighted average cost of funds borrowed generally by the economic entity.

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

16. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Leases	2,059,473	2,575,738

Revaluations

The effective date of the revaluations was 01 July 2009. Revaluations were performed by the economic entity.

Land and buildings are re-valued every 4 years.

As land and buildings were identified and revalued during 2009, no historical cost is available and therefore no disclosure could be made of what the carrying value under the cost model would have amounted to.

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

No assets were pledged as security.

17. Borrowings

Held at amortised cost		
Annuity loans	560,149,418	516,653,806
Local Registered Stock Loans	18,160,000	18,160,000
	578,309,418	**534,813,806**

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

No terms attached to the borrowings were re-negotiated.

Non-current borrowings		
At amortised cost	536,989,896	511,500,649

Notes to the Annual Financial Statements

Figures in Rand	2009	2008
17. Borrowings (continued)		
Current borrowings		
At amortised cost	41,319,522	23,313,157
	578,309,418	**534,813,806**

18. Consumer deposits		
Electricity	12,905,502	10,293,807
Water	15,402,825	14,734,226
	28,308,327	**25,028,033**

19. Finance lease obligation		
Minimum lease payments due		
- within one year	1,115,085	1,777,295
- in second to fifth year inclusive	603,584	1,438,400
- later than five years	-	1,755
	1,718,669	3,217,450
less: future finance charges	(69,407)	(413,690)
Present value of minimum lease payments	**1,649,262**	**2,803,760**
Present value of minimum lease payments due		
- within one year	1,070,232	1,520,510
- in second to fifth year inclusive	579,030	1,281,528
- later than five years	-	1,722
	1,649,262	**2,803,760**
Non-current liabilities	579,030	1,385,401
Current liabilities	1,070,232	1,418,359
	1,649,262	**2,803,760**

It is the economic entity's policy to lease certain equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 9% (2008: 14%).

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

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

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

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

20. Provisions

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision landfill sites - non current	37,497,688	34,116,021	-	-	71,613,709
Provision performance bonuses - current	1,615,636	1,391,822	(59,501)	-	2,947,957
Provision landfill sites current	88,302,107	98,421,909	-	(88,302,107)	98,421,909
	127,415,431	**133,929,752**	**(59,501)**	**(88,302,107)**	**172,983,575**

Reconciliation of provisions - 2008

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision landfill sites - non current	-	6,382,327	-	31,115,361	37,497,688
Provision performance bonuses - current	1,547,026	1,055,044	(986,434)	-	1,615,636
Provision landfill sites current	119,417,468	-	-	(31,115,361)	88,302,107
	120,964,494	**7,437,371**	**(986,434)**	**-**	**127,415,431**

	2009	2008
Cashflow movements in provisions - refer note 45		
Closing balance	172,983,575	1,615,636
Opening balance	(127,415,431)	(1,547,026)
Landfill sites capitalised as PPE - Included in additions above	(46,366,018)	(1,055,044)
	(797,874)	**(986,434)**

	2009	2008
Non-current liabilities	71,613,709	37,497,688
Current liabilities	101,369,866	89,917,743
	172,983,575	**127,415,431**

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

The future value of the Rehabilitation of landfill sites obligation was calculated by inflating the non current rehabilitation cost to an estimated future cost which were discounted to present present value .
Assumptions used:
Interest rate used is the borrowing rate of BCM at DBSA 9.35% 2009 (13.18% 2008).

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

Performance bonuses are paid to employees subject to certain conditions. The provision is a calculation of the amount due to employees at the reporting date.

Performance bonuses are measured at face value as it is expected that these would normally be paid shortly after the financial year end once performance evaluations have been completed.

21. Trade and other payables

	2009	2008
Trade payables	166,584,084	148,292,318
Retention monies	26,709,375	21,985,845
Accrued leave pay	37,287,224	35,214,192
Accrued bonus	56,425	59,024
Deposits received	3,259,977	2,109,033
Receipts in advance	38,300,789	37,447,766
Other Creditors	28,967,866	15,278,810
	301,165,740	**260,386,988**

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Figures in Rand	2009	2008

21. Trade and other payables (continued)

The entity did not default on any of the accounts payable in respect of capital or interest portions.
No terms attached to the accounts payable were re-negotiated.

22. Unspent conditional grants and receipts

Unspent conditional grants and receipts are detailed on the relevant annexure F.

Conditional grants from Government

	2009	2008
National grants	203,275,916	85,469,968
Provincial grants	86,590,409	48,781,427
Other conditional grants	20,150,114	17,811,037
	310,016,439	**152,062,432**

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

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

23. Retirement benefits

Carrying value

Balance at beginning of year	(213,729,777)	(172,705,000)
Interest cost	(22,632,724)	(10,742,000)
Current service cost	(8,400,986)	(2,976,000)
Actual Employer Benefit Payments	10,971,252	-
Actuarial losses recognised in the year	-	(27,306,531)
	(233,792,235)	**(213,729,531)**

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

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2009 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

BCM opted not to recognise the actuarial loss applying the "Corridor" method.

The principal actuarial assumptions used were as follows:		
Discount rate	10.82 %	8.22 %
Medical aid inflation rate	9.67 %	6.22 %
Net effective discount rate	1.05 %	1.88 %
Post -Retirement subsidy	60.00 %	60.00 %
Retirement age	-	-
Males	63	65
Females	63	60
Mortality during employment - SA 85-90 Ultimate Table adjusted for female lives	-	-
Mortality post retirement - PA901 Ultimate table rated down one year	-	-
Number of eligible members	2,148.00	2,027.00
Number of pensioners	512.00	-
1% change in the assumed medical inflation:	-	-
Projected liability increase/(decrease) - 2009	37,918,000	(30,866,000)
Projected liability increase/(decrease) - 2008	32,401,000	(26,446,000)
Projected liability increase/(decrease) - 2007	24,870,012	(20,434,460)

The best estimates for benefit payments in the next annual period is expected to be R12 031 410 (2008: R10 970 986).

24. Revaluation reserve

The balance of the revalutation reserve is reflected below:

Revaluation Reserve	4,972,249,020	182,038,156

25. Investment in associate

Name of company	Listed / Unlisted	% holding 2009	% holding 2008	Carrying amount 2009	Carrying amount 2008	Fair value 2009	Fair value 2008
East London Industrial Development Zone (Pty) Ltd	Unlisted	26.00 %	26.00 %	3,626,888	2,437,801	3,626,888	2,437,801

The carrying amounts of Associates are shown net of impairment losses.

Movements in carrying value

Opening balance	2,437,801	3,193,046
Share of surplus/deficit	1,189,087	(755,245)
	3,626,888	**2,437,801**

Investment in associate at 30 June 2009 of R 3,626,888 (2008: R 2,437,801).

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

25. Investment in associate (continued)

Fair value

There is no active market for the shares of the associate and therfore thefair value for these shares cannot be measured reliabily. Management accepted face vaslue as fair value.

Summary of groups interest in associate

Total assets	(13,949,568)	(13,705,028)
Total liabilities	(1,064,823,966)	(1,078,152,043)
Revenue	5,405,816	16,574,814
Surplus (deficit)	244,541	4,332,822

Associates with different reporting dates

The financial statement of EL IDZ are prepared for the accounting period 01 April 2008 to 31 March 2009 and the interim result for the quarter ending 30 June 2009 are also prepared.

26. Contingent liabilities

Guarantees by the Council in respect of building society and commercial bank housing loans for officials amount to R 502 776 (2008: R 743 676).

Guarantees by the Council in respect of the Department of Labour for COID amount to R 4 251 742 (2008: R 3 786 624).

Claims of approximately R3.3 million have been instituted against Council officials due to alleged assault, unlawful arrest and various other charges. Legal advice has been sought for each case and Council will defend the claims where so advised.

Flood damage to Vincent Park Centre has resulted in a possible claim of approximately R31 million. Although no court action has commenced Council's attorney's have been briefed and Council would defend the matter. Council's attorney's have also been instructed to investigate the possibility of recourse through it's Insurers. At present the matter is dormant as we have not heard from the claimants. If not interrupted the matter will prescribe in 2009.

Cancellation of a contract by Mtha Building Contractor/ Joe Angaviwe JV in the amount of R14 million. Council is defending this matter. At present the matter is dormant as we have not heard from the claimant.

Improvement claim of approximately R2,6 million by Van Loggenberg for improvements not authorised at Bridle Drift Dam. Council is disputing the matter.

The cancellation of a contract to lay a bulk sewer pipe due to non-performance by RJW Ikusasan JV resulted in Council being sued in the amount of R2,5 million. Council is defending the claim.

During July 2009, Council and the suspended CFO reached an agreement, whereby the CFO took an early retirement, based on an exit settlement. According to the exit settlement, the municipality has to make a once-off payment to the amount of R2 809 702 to the Cape Retirement Fund. This payment is with regards to future retirement fund contributions that would have been made on behalf of the CFO if he remained as an employee of the municipality.

During the course of a disciplinary hearing in July 2009, three senior officials agreed on an exit settlement of R725 076 based on a four month's salary at salary levels as at 1 July 2009.

The Buffalo City Development Agency has been cited as a first respondent in a court case brought by an unsuccessful bidder over the decision to award the tender to the value of R34,5 million for the sale and development of Marina Glen "A" site, which was awarded in June 2007. The legal representative has stated that they are not in a position to speculate the outcome of the case but, nevertheless, is of the opinion that the agency has a reasonable prospect of success. The legal costs for this exercise are estimated at R500 000.00.

The Buffalo City Development Agency has a long outstanding liability resulting from unpaid output VAT on grants received from BCM (Buffalo City Municipality) and IDC (Industrial Development Corporation). The estimated possible liability for interest and penalties in favour of the South African Revenue Services are as foliows:

IDC Grant		
Grant : R 1 969 670 - 10% penalty	22,457	-
Grant : R 1 969 670 - interest	18,858	-
Grant : R 1 969 670 - 10% penalty	-	25,062
Grant : R 1 969 670 - interset	-	60,312
	41,315	**85,374**

Figures in Rand	2009	2008

26. Contingent liabilities (continued)

BCM Grant		
Grant : R 500 000 - 10% penalty	7,000	-
Grant : R 500 000 - interset	7,700	-
Grant : R 875 169 - 10% penalty	-	12,252
Grant : R 875 169 - interest	-	26,138
Grant : R 877 193 - 10% penalty i.r.o. 2006/07	-	12,281
Grant : R 877 193 - interest - i.r.o. 2006/07	-	38,848
	14,700	**89,519**

27. Financial liabilities by category

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

2009

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other financial liabilities	536,989,896	-	-	536,989,896
Trade and other payables	195,551,949	-	-	195,551,949
	732,541,845	**-**	**-**	**732,541,845**

2008

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Total
Other financial liabilities	511,500,649	-	-	511,500,649
Trade and other payables	163,571,133	-	-	163,571,133
	675,071,782	**-**	**-**	**675,071,782**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

28. Revenue

Rendering of services	1,424,090,587	1,203,492,673
Rental Income	12,750,386	12,723,945
Dividends received	165,458	76,585
Public contributions, donated and contributed property, plant and equipment	26,534,109	16,090,508
Fines	7,057,719	7,688,107
Licences and permits	12,250,278	11,099,426
Government grants	590,418,444	562,136,925
	2,073,266,981	**1,813,308,169**

29. Property Rates

Rates received

Residential	190,185,828	173,393,899
Commercial	138,890,179	122,094,659
State	31,220,338	27,363,349
Municipal	3,013,960	2,584,116
Less: Income forgone	(90,372)	(137,150)
	363,219,933	**325,298,873**

Valuations

Residential	6,527,952,440	6,449,553,267
Commercial	4,063,029,130	4,045,406,648
State	1,212,190,890	1,201,489,900
Municipal	264,006,880	256,644,045
	12,067,179,340	**11,953,093,860**

Valuations on land and buildings are performed every 4 years. The last valuations came into effect as follows: East London 1994, King William's Town 1990, Bisho 1995, R293 Townships 1998, Amatole 1991. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September. Ratepayers are also given an option of paying their rates monthly on application. Interest at a standard rate as amended from time to time, is paid on any rate which remains unpaid after 30 September, except in cases where the owner has applied to pay by installment.

The new general valuation will be implemented on 01 July 2009.

30. Service charges

Sale of electricity	609,711,288	465,117,518
Sale of water	181,116,508	169,287,311
Sewerage and sanitation charges	10,106,572	6,863,624
Refuse removal	253,027,911	229,386,097
Other service charges	6,635,198	7,263,300
	1,060,597,477	**877,917,850**

31. Government grants and subsidies

Grants and subsidies - unconditional	358,975,160	283,117,681
Government grants PPE	143,657,876	147,379,925
Government grants - operating projects	34,047,605	98,151,287
Government grants - housing projects	53,737,803	33,488,032
	590,418,444	**562,136,925**

32. Other income

Other income	98,392,497	88,440,716

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

33. General expenses

Advertising	2,304,312	398,806
Assessment rates & municipal charges	1,692,358	1,209,668
Auditors remuneration	3,006,765	2,830,095
Bank charges	3,641,734	3,975,725
Cleaning	3,306,887	2,736,324
Computer expenses	3,636,085	691,625
Consulting and professional fees	37,416,701	26,897,119
Consumables	297,469	359,434
Donations	10,667,489	3,427,729
Entertainment	1,291,617	866,259
Insurance	16,534,994	15,829,414
Community development and training	125,091	1,033,200
Conferences and seminars	1,790,120	1,735,573
IT expenses	2,160,610	1,926,365
Machine rental, hired plant and operating leases	19,645,784	14,685,013
Marketing	132,400	57,925
Horticulture	1,376	-
Levies	5,504,004	4,913,257
Magazines, books and periodicals	219,949	326,614
Packaging	82,784,426	129,996,077
Pest control	93,612,932	76,661,679
Fuel and oil	25,989,320	21,706,838
Postage and courier	4,317,467	3,866,177
Printing and stationery	5,681,165	5,509,663
Promotions	616,108	1,093,609
Royalties and license fees	915,682	1,258,424
Security (Guarding of municipal property)	13,102,421	12,546,210
Software expenses	505,155	501,015
Stores and materials	4,547,257	13,892,603
Subscriptions and membership fees	2,642,290	2,358,352
Telephone and fax	14,733,287	12,747,475
Training	2,481,429	1,842,913
Travel - local	3,524,710	2,983,539
Travel - overseas	1,767,831	1,563,578
Refuse	16,459,778	13,300,726
Title deed search fees	16,255	8,809
Assets expensed	745,221	1,074,166
Electricity	29,192,734	26,875,915
Water	3,981,601	3,790,535
Departmental fire service charges	67,913	67,248
Uniforms	3,003,805	2,609,623
SA Cities network contribution	221,380	308,809
BCMET	342,876	420,548
Essential users cost	9,936,756	8,878,679
DWAF	6,390,717	5,108,757
Disconnections	6,496,249	3,204,343
Chemicals	8,381,905	6,390,065
Other expenses	99,298,575	60,880,554
	555,132,990	**505,347,074**

Figures in Rand	2009	2008

34. Employee related costs

Basic	422,602,416	367,645,409
Medical aid - company contributions	27,745,700	24,315,260
UIF	4,496,707	3,989,936
WCA	-	1,099
Leave pay provision charge	12,951,233	14,177,143
Short term benefit contributions	299,155	227,370
Group Life contributions	4,165,342	4,235,420
Overtime payments	45,690,006	34,569,897
Long-service awards	8,413,079	6,308,929
13th Cheques	31,972,455	28,652,974
Car allowance	11,711,025	10,674,319
Housing benefits and allowances	5,797,708	4,824,010
Other allowances	13,632,707	11,211,632
Transitional allowance	11,689,574	2,828,399
Pension Fund contributions	70,312,164	61,546,254
	671,479,271	**575,208,051**

Remuneration of Municipal Manager

Annual Remuneration	495,590	670,320
Performance Bonuses	59,500	-
Other	389,893	446,880
	944,983	**1,117,200**

Remuneration of Chief Finance Officer

Annual Remuneration	594,713	536,256
Performance Bonuses	-	74,561
Other	396,475	357,504
	991,188	**968,321**

Remuneration of other Directors

Annual Remuneration	3,568,406	3,782,743
Performance Bonuses	82,566	420,601
Other	2,307,165	2,521,829
	5,958,137	**6,725,173**

Remuneration of the Chief Executive Officer (BCDA)

Annual Remuneration	517,423	468,914
Travel Allowance	114,000	114,000
13th Cheque	52,619	48,692
UIF	1,497	1,472
Cellphone allowance	18,000	18,000
Reimbursive travel	5,922	1,063
	709,461	**652,141**

Remuneration of Senior Management (BCDA)

Annual Remuneration	912,898	674,405
Travel Allowance	60,000	60,000
13th Ceque	86,221	54,538
UIF	3,992	3,318
Cellhone allowance	25,600	12,800
Reimbursive Travel	210	1,815
	1,088,921	**806,876**

35. Remuneration of councillors

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

35. Remuneration of councillors (continued)

Executive Mayor	309,259	341,000
Mayoral Committee Members	2,411,970	2,174,524
Speaker	290,305	272,800
Councillors	9,020,342	8,072,159
Councillors' pension contribution	1,429,990	1,222,658
Councillors medical aid	752,439	738,889
Councillors housing subsidy	756,432	783,928
Other	4,420,522	4,610,455
BCDA Directors	32,200	58,675
	19,423,459	**18,275,088**

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of Council.

The Excectutive Mayor have the use of a Council owned vehicle for official duties.

The Executive Mayor has one full-time bodyguard and an official driver at the cost of Council.

36. Debt impairment

Contributions to bad-debt provision	131,526,600	69,985,338
Bad debts written off	6,582,455	-
	138,109,055	**69,985,338**

37. Investment revenue

Interest revenue		
Bank	13,839,832	12,082,926
Interest charged on trade and other receivables	35,005,957	30,599,542
Interest on investments	71,867,812	69,151,699
Interest on land sales	-	21,064
Interest on motor vehicle loans	87,072	111,786
	120,800,673	**111,967,017**

38. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L)	61,762	(485,036)

39. Depreciation and amortisation

Property, plant and equipment	218,782,322	109,498,152
Intangible assets	2,308,951	3,041,934
	221,091,273	**112,540,086**

40. Finance costs

Non-current borrowings	62,235,109	69,674,193
Other interest paid	22,632,724	10,742,000
	84,867,833	**80,416,193**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

41. Taxation

Major components of the tax expense (income)

Deferred		
Other deferred tax	2,635	(14,012)

42. Auditors' remuneration

Expenses	3,077,950	2,830,095

43. Contracted Services

Specialist Services	-	8,141,123
Other Contractors	4,493,097	7,044,211
	4,493,097	**15,185,334**

44. Grants and subsidies paid

Other subsidies		
Sundry Grants - in - Aid	4,582,947	4,225,713

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

45. Bulk purchases

Electricity	363,693,695	267,937,804
Water	103,053,306	90,795,230
	466,747,001	**358,733,034**

46. Cash generated from operations

Surplus before taxation	1,668,286	182,290,364
Adjustments for:		
Depreciation and amortisation	221,091,273	112,540,086
Impairment	138,109,055	69,985,338
Surplus on sale of non-current assets and disposal groups	(3,383,856)	(6,664,486)
Nett contributions	-	9,957,281
Income from equity accounted investments	(1,189,087)	755,245
Interest received	(120,800,673)	(111,967,017)
Finance costs	84,867,833	69,674,010
Fair value adjustments	(61,762)	485,036
Impairment - PPE	255	-
Movements in operating lease assets and accruals	(2,882,188)	-
Movements in retirement benefit assets and liabilities	20,062,703	13,718,000
Movements in provisions	(797,873)	(986,433)
Changes in working capital:		
Inventories	(30,032,264)	(9,340,943)
Trade and other receivables from non-exchange transactions	(4,229,343)	(45,098,979)
Trade and other receivables from exchange transactions	(98,750,009)	(42,919,608)
VAT	(7,869,797)	(11,377,237)
Trade and other payables	40,778,747	71,331,816
Unspent conditional grants and receipts	121,201,236	(122,781,221)
	357,782,536	**179,601,252**

47. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment		
• Community	13,746,067	19,583,951
• Infrastructure	151,139,399	16,540,796
• Other	18,014,544	11,910,567
	182,900,010	**48,035,314**

Operating leases – as lessee (expense)

Minimum lease payments due		
- within one year	4,943,652	5,260,075
- in second to fifth year inclusive	6,303,103	11,048,144
	11,246,755	**16,308,219**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

48. Related parties

Buffalo City Development Agency (BCDA) (a Section 21 company registration no 2004/016829/08):
The BCDA was incorporated on 18 June 2004 as a Municipal entity of BCM. BCDA is 100% controlled by BCM. BCM Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2005.

One of the envisaged corner-stones of the Agency's business model is the asset base of unutilised or underutilised public land and infrastructure that falls within the Agency's demarcated area, namely the extended waterfront and CBD area of East London.

In Buffalo City, this asset-base constitutes a resource of significant value that could be used as leverage to unlock beneficial synergies with other significant prospective investors, private and public.

Buffalo City Municipality has issued grants of R 1 000 000 (VAT exclusive) to the development agency during the current financial year (2008: R 997 693 (VAT exclusive)).
BCDA has paid consumer accounts of R 19 732 during the current financial year (2008: R 17 731).

There is no outstanding balances to BCM from BCDA or visa versa at 30 June 2009.

Key management personnel information:

Annual Remuneration of the Chief Executive Officer (BCDA), 1 officer, was R 709 461 (2008: R 652 143)

Annual Remuneration of Senior Management (BCDA), 3 officers, was R 1 088 921 (2008: R 806 876)

No remuneration was paid to family of key personel

There is no share based payments.

There is no post- employment benefits for key personel.

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

49. Correction of errors

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

	2009	2008
Corrections included:		
Accrued income included under other debtors was overstated due to more information relating to subsidies coming to attention during 2009	-	2,751,336
VAT on grant to BCDA previously accounted for @ 0% subject to VAT @ standard rate	-	245,332
Reversing creditor incorrect accrued	-	2,075,000
Borrowing cost expensed - should have been capitalised in terms of IAS 23 which were applicable	-	151,220
Credit accruals not meeting the definition of a liability adjusted	-	3,280,512
Debit accruals not meeting the definition of an asset adjusted	-	(649,475)
Finance leases incorrectly calculated in 2008 adjusted	-	(189,476)
Deposits received from unknown sources adjusted to surplus	-	3,302,737
RDP housing not stated as inventory in prior year	-	40,637
Actuarial losses i.r.o. the 2008 financial year allocated	-	(27,306,531)
	-	**(16,298,708)**

	2009	2008
Financial Period 2008		
Corrections summarised:		
VAT (input VAT understated during 2008)	-	245,331
Trade and othe payables	-	5,355,513
Accrued income understated 2008	-	2,751,336
PPE	-	151,220
Trade and other receivables	-	(649,475)
Lease liabilities	-	(189,476)
Deposits other	-	3,302,737
Inventory	-	40,637
Retirement benefit obligation	-	(27,306,531)
Net effect on Accumulated surplus	-	**(16,298,708)**

50. Risk management

Capital risk management

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

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

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

Financial risk management

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

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

Liquidity risk

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

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

Interest rate risk

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

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

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables	16.00 %	300,444,613	-	-	-	-
Cash in current banking institutions	7.00 %	107,183,404	-	-	-	-
Call investment deposits	11.00 %	588,686,215	-	-	-	-
Trade and other payables	24.00 %	(195,551,950)	-	-	-	-
Long term borrowings	11.00 %	(42,389,754)	(28,107,530)	(58,359,375)	(33,074,563)	(111,256,350)

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

Sensitivity analysis of Market risk

Effect of a 1% change in the prime rate	%	Value 30/06/2009	Discounted value at current rate	Discounted value current rate (-1%)	Discounted value at current rate (+1%)
Amortisation of financial instruments					
Trade and other receivables	16.00 %	300,444,613	258,981,120	261,233,130	256,767,606
Trade and other payables	24.00 %	(195,551,950)	(157,313,707)	(158,592,680)	(156,055,198)
Cash and cash equivalents					
Cash in current banking institutions	7.00 %	107,183,404	100,140,781	101,085,506	99,213,552
Call investment deposits	11.00 %	588,686,215	529,214,180	534,025,218	524,489,054
Payments on Long term borrowings					
1 Year	11.00 %	-	-	-	-
2 Years (+ 21 periods)	11.00 %	-	-	-	-

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the prime rate could occur. The method used to

Figures in Rand	2009	2008

50. Risk management (continued)

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

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The economic entity 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.

51. Going concern

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

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

52. Events after the reporting date

The following events arose after the reporting date:

- An agreement between Council and the CFO was finalised whereby the CFO took early retirement with effect from 30 September 2009 based on an exit settlement.
  During the course of a diciplinary hearing 2 senior officials resigned and 1 took early retirement with effect from 01 July 2009. An exit settlement of 4 months remuneration was agreed upon. These two events are indicative of conditions that arose after the reporting date and are therefore considered to be non-adjusting events. Refer to note 26 for detail regarding the amounts payable.

53. Fruitless and wasteful expenditure

	2009	2008
Fruitless and wasteful expenditure	3,368	442,399

2008:

Incident - unauthorised forensic investigation.
Civil case instituted.

2009:

Incident - interest charged by SARS for late payment of tax.

54. Irregular expenditure

	2009	2008
Add: Irregular Expenditure - current year	-	23,390,731

Analysis of expenditure awaiting condonation per age classification

	2009	2008
Prior years	23,390,731	-

Details of Irregular Expenditure not recoverable (not condoned)

Payment made from investment vote whereby supporting documentation - misplaced/missing	880,654
Tender award - irregularities - Neo Solutions	2,278,189
Tender award - Irregularities - Waste Rite	20,231,888
	23,390,731

55. In-kind donations and assistance

	2009	2008
BCM received the services of DR. J Rausch - German Developement Services	476,256	-
FELA donated amount to BCM	54,241	-
FELZOO donated amount to BCM	71,594	-

Figures in Rand	2009	2008

55. Fruitless and wasteful expenditure (continued)

	602,091	**-**

56. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Opening balance	-	-
Current year subscription	2,642,289	2,358,352
Amount paid - current year	(2,642,289)	(2,358,352)
Balance unpaid	**-**	**-**

Contributions to SA CIties Network

Opening balance	-	-
Council subscriptions	219,615	219,615
Amount paid - current year	(219,615)	(219,615)
Balance unpaid	**-**	**-**

Audit fees

Opening balance	-	-
Current year fee	3,077,950	2,830,095
Amount paid - current year	(3,077,950)	(2,830,095)
Balance unpaid	**-**	**-**

PAYE and UIF

Opening balance	-	-
Current year payroll deductions	76,513,646	65,491,943
Amount paid - current year	(76,513,646)	(65,491,943)
Balance unpaid	**-**	**-**

Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and Council contributions	155,612,404	136,804,595
Amount paid - current year	(155,612,404)	(136,804,595)
Balance unpaid	**-**	**-**

VAT

VAT output payables and VAT input receivables are shown in note 10.

All VAT returns have been submitted by the due date throughout the year. VAT is paid over to SARS only once payment is received from debtors.

Councillors' arrear consumer accounts

Arrear Councillors accounts totalling R1 620 were outstanding for more than 90 days at 30 June 2009 for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

57. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	65,719,967	62,542,938
Finance leases taken up	639,302	1,565,218
Used to finance property, plant and equipment & Finance leases i.r.o 2008/09	(66,359,269)	(64,108,156)
Cash set aside for the repayment of long-term liabilities	**2,385,344**	**2,201,454**

57. Utilisation of Long-term liabilities reconciliation (continued)

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

58. Retirement benefit information

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

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

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2008 conducted by S. Neethling from Metropolitan Life Limited. The fund was in a sound financial position and the surplus could be attributed to the reduction of pension increase targets. Although this fund is a defined benefit plan it cannot be accounted as such as it is part of a multi-employer plan. In the event of the fund being under funded Council's liability would be limited to increased monthly contributions.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2008 conducted by E. Du Toit from Alexander Forbes Financial Services who certified that the fund was in a sound financial position in terms of the Pension Fund Act.

The Government Employees Pension Fund's last valuation was at 31 March 2006 conducted by J. Slawski, J. Geldenhuys and R. Maxwell from Alexander Forbes Financial Services. The fund was 96,5% funded at this date. The deficit in the Fund is provided for in the national accounts of Government.

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

The SALA Pension Fund's last valuation was at 30 June 2007 conducted by J.F.Rosslee and M.J.Newman of Genesis Actuarial Solutions. The fund was 110% funded as at valuation date. Although this fund is a defined benefit plan it cannot be accounted as such as it is part of a multi-employer plan. Although the fund is fully funded it was under funded in the previous years and Council was therefore required to make additional monthly contributions. The additional contributions amounted to R85 281 for the 2007/08 financial year. Since the fund is now fully funded Council has applied to revert back to the standard contribution.

The Municipal Employees Pension Fund's last valuation was at 29 February 2008 prepared by P.J. Theunissen from Itakane Consultants and Actuaries (Pty) Ltd. The funding level was 108.2% at this date.

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

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 11 million

An amount of R 107,3 million (2008: R 94,6 million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee's retirement funding. These contributions have been expensed.

59. Change in estimate

Property, plant and equipment

The useful lives and residual values of certain vehicles were estimated in 2008 and have since been reviewed by management during the current period. The effect of this revision has increased /(decreased) the depreciation charges for the current and future periods as indicated in the table below:

Effect on depreciation

	2009	Future years
Change in residual values	1,487,907	(4,689,752)
Change in estimated useful lives	669,151	5,978,584
	2,159,067	**1,288,832**

Notes to the Annual Financial Statements

Figures in Rand	2009	2008

60. Reserves transferred to Accumulated Surplus

Capital replacement reserve - Balance as at 30 June 2007	38,029,759	-
Insurance reserve - Balance as at 30 June 2007	21,667,079	-
COID Reserve - Balance as at 30 June 2007	7,360,372	-
Transfer to Accumulated surplus	(67,057,210)	-
	-	**-**

In terms of GRAP 1, Presentation of Financial Statements, paragraph 144, all reserves and trust fund accounts should be transferred to the opening balance of the Accumulated Surplus in the Statement of Changes in Net Assets. There is no legislative requirement to maintain separate fund accounts, therefore internal funds and reserves should form part of Accumulated Surplus.

61. Traffic fines

Traffic fines issued but not yet recoverred at year end	2,977,877	7,357,982

Due to the uncertainty of the recoverability of outstanding traffic fines Buffalo City Municipality did not include the unpaid fines as Revenue and will only do so when the revenue is receipted.

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2009

Detailed Income statement

Figures in Rand	Note(s)	2009	2008
Revenue			
Property rates	29	363,219,933	325,298,873
Service charges	30	1,060,597,477	877,917,850
Property rates - penalties imposed and collection		273,177	275,950
Rental Income		12,750,386	12,723,945
Dividends received		165,458	76,585
Public contributions, donated and contributed property, plant and equipment		26,534,109	16,090,508
Fines		7,057,719	7,688,107
Licences and permits		12,250,278	11,099,426
Government grants	31	590,418,444	562,136,925
Other income		98,392,497	88,440,716
Interest received - investment	37	120,800,673	111,967,017
Total Revenue		**2,292,460,151**	**2,013,715,902**
Expenditure			
Employee related costs	34	(671,479,271)	(584,018,745)
Remuneration of councillors	35	(19,391,259)	(18,216,413)
Depreciation and amortisation	39	(221,091,273)	(112,540,086)
Impairment		(255)	-
Finance costs	40	(84,867,833)	(80,416,193)
Debt impairment	36	(138,109,055)	(69,985,338)
Collection costs		(12,731,899)	(8,273,792)
Repairs and maintenance		(116,799,690)	(79,908,021)
Bulk purchases	45	(466,747,001)	(358,733,034)
Contracted services	43	(4,493,097)	(15,185,334)
Grants and subsidies paid	44	(4,582,947)	(4,225,713)
General expenses	33	(555,132,990)	(505,347,074)
Total Expenditure		**(2,295,426,570)**	**(1,836,849,743)**
Fair value adjustments	38	61,762	(485,036)
Income from equity accounted investments		1,189,087	(755,245)
Gain/(Loss) on disposal of assets		3,383,856	6,664,486
Taxation	41	(2,635)	14,012
Surplus for the year		**1,665,651**	**182,304,376**
Attributable to:			
Net Asset holders of the controlling entity		1,665,651	182,304,376