BUFFALO CITY METROPOLITAN MUNICIPALITY
Annual Financial Statements
FOR THE YEAR ENDED 30 JUNE 2011

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 Metropolitan Municipality.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act.

Mr. A. Fani
Acting City Manager

29 August 2011
Date

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Mr. A. Fani **Acting City Manager**	**Date**

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The statements and notes set out below comprise the annual financial statements:

BUFFALO CITY METROPOLITAN MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Cash and cash equivalents	4	736,941,437	558,293,844
Inventories	5	142,414,055	96,790,994
Trade and other receivables from exchange transactions	6	298,507,262	283,121,342
Trade and other receivables from non-exchange transactions	7	135,496,369	123,948,525
VAT receivable	8	38,470,843	51,059,163
Operating lease asset	9	59,991,691	56,403,185
Long term receivables	10	11,880	10,776
		1,411,833,537	**1,169,627,829**
Non-Current Assets			
Intangible assets	11	15,689,658	12,070,563
Investment property	12	201,198,657	201,198,657
Long term receivables	10	70,451	82,330
Non current investments	13	819,965	4,410,946
Property, plant and equipment	14	11,385,532,500	11,372,925,419
Investments in associate	15	12,088,092	32,323,291
		11,615,399,323	**11,623,011,206**
Total Assets		**13,027,232,860**	**12,792,639,035**
Liabilities			
Current Liabilities			
Borrowings	16	45,000,220	29,905,379
Consumer deposits	17	33,454,333	30,375,105
Finance lease obligation	18	760,066	834,147
Provisions	19	116,829,323	119,308,428
Trade and other payables	20	375,237,674	338,008,903
Unspent conditional grants and receipts	21	346,141,548	267,286,313
		917,423,164	**785,718,275**
Non-Current Liabilities			
Borrowings	16	645,786,508	506,805,746
Finance lease obligation	18	716,951	861,800
Provisions	19	49,055,625	33,207,701
Retirement benefit obligation	22	280,763,820	261,331,883
		976,322,904	**802,207,130**
Total Liabilities		**1,893,746,068**	**1,587,925,405**
Net Assets		**11,133,486,787**	**11,204,713,630**
Net Assets			
Revaluation reserve	23	16,047,826	16,620,963
Accumulated surplus		11,117,438,961	11,188,092,663
Total Net Assets		**11,133,486,787**	**11,204,713,630**

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	27	453,306,422	427,047,214
Service charges	28	1,463,110,204	1,285,863,698
Rental of facilities and equipment		14,107,440	12,848,130
Public contributions and donations		1,192,709	2,777,749
Fines		7,320,910	8,256,637
Licences and permits		15,052,975	14,116,593
Government grants & subsidies	29	901,582,926	802,651,054
Public contributions - PPE		9,029,317	9,101,628
Other revenue		120,137,261	119,803,960
Interest received - investment	35	53,729,383	86,923,698
Dividends received	35	-	85,643
Total Revenue		**3,038,569,547**	**2,769,476,004**
Expenditure			
Employee related costs	32	(858,017,016)	(783,247,583)
Remuneration of councillors	33	(23,277,825)	(19,691,051)
Depreciation and amortisation	37	(481,807,185)	(480,578,280)
Reversal of impairments		71,221,655	50,502,903
Finance costs	38	(91,546,171)	(108,121,128)
Debt impairment	34	(92,152,237)	(24,317,321)
Repairs and maintenance		(193,362,359)	(174,692,231)
Bulk purchases	42	(771,252,978)	(593,724,187)
Contracted services	40	(5,907,804)	(8,344,994)
Grants and subsidies paid	41	(20,872,084)	(22,900,085)
General Expenses	31	(620,948,448)	(593,225,378)
Total Expenditure		**(3,087,922,452)**	**(2,758,339,335)**
(Loss) gain on disposal of assets and liabilities		(5,608,074)	1,076,212
Actuarial adjustments		500,202	(7,891,109)
Fair value adjustments	36	330,911	(3,087,502)
Income from equity accounted investments		(20,235,199)	32,323,291
Fair value movements in trade and other payables		(1,290,683)	241,801
(Deficit) surplus for the year		**(75,655,748)**	**33,799,362**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	17,194,100	12,329,608,031	12,346,802,131
Adjustments			
Prior year adjustments - note 47	-	(1,242,616,375)	(1,242,616,375)
Balance at 01 July 2009 as restated	**17,194,100**	**11,086,991,656**	**11,104,185,756**
Changes in net assets:			
Surplus / (Deficit) for the year	-	33,799,362	33,799,362
Take on of properties at deemed cost	-	145,560,842	145,560,842
Offset Depreciation	(573,137)	573,137	-
Total changes	(573,137)	179,933,341	179,360,204
Opening balance as previously reported	16,620,963	11,266,924,997	11,283,545,960
Adjustments			
Prior year adjustments - note 47	-	(78,832,335)	(78,832,335)
Balance at 01 July 2010 as restated	**16,620,963**	**11,188,092,662**	**11,204,713,625**
Changes in net assets:			
Property take on	-	4,428,910	4,428,910
Offset Depreciation	(573,137)	573,137	-
Net income (losses) recognised directly in net assets	(573,137)	5,002,047	4,428,910
Surplus / (Deficit) for the year	-	(75,655,748)	(75,655,748)
Total changes	(573,137)	(70,653,701)	(71,226,838)
Balance at 30 June 2011	**16,047,826**	**11,117,438,961**	**11,133,486,787**
Note(s)	23	47	

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		2,042,670,183	1,832,569,989
Grants		911,804,952	814,530,430
Interest income		53,729,383	86,923,698
Dividends received		-	85,643
		3,008,204,518	2,734,109,760
Payments			
Employee costs		(881,294,842)	(802,938,632)
Suppliers		(1,594,865,424)	(1,456,628,038)
Finance costs		(91,546,171)	(108,121,128)
		(2,567,706,437)	(2,367,687,798)
Net cash flows from operating activities	43	**448,706,357**	**310,547,720**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(530,900,151)	(566,257,235)
Proceeds from sale of property, plant and equipment	14	1,275,864	3,078,847
Purchase of other intangible assets	11	(5,412,257)	(7,382,036)
Proceeds from sale of financial assets		341,686	-
Purchase of non current investments		-	(701,421)
Movement in non current investments		3,590,981	-
PPE transfers		107,188,440	165,608,468
Net cash flows from investing activities		**(423,915,437)**	**(405,653,377)**
Cash flows from financing activities			
Repayment of borrowings		154,075,603	(41,598,293)
Finance lease payments		(218,930)	419,418
Net cash flows from financing activities		**153,856,673**	**(41,178,875)**
Net increase/(decrease) in cash and cash equivalents		**178,647,593**	**(136,284,532)**
Cash and cash equivalents at the beginning of the year		558,293,844	694,578,376
Cash and cash equivalents at the end of the year	4	**736,941,437**	**558,293,844**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

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 / Held to maturity investments and/or loans and receivables

The municipality assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management 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, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note number 5.

Fair value estimation

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors i.e. production estimates, supply demand, together with economic factors such as exchange rates, inflation, interest.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 22.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

Accounting Policies

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

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

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Accounting Policies

1.3 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revalutation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life (years)
Land - landfill sites	1 to 50
Buildings	30
Plant and machinery	3 to 30
Motor vehicles	4 to 15
Office equipment	3 to 5
Electricity	10 to 60
Community	
• Buildings	30
• Recreation	20 to 30
Other properties	5 to 50
Leased Assets	5
Roads	5 to 100
Wastewater network	5 to 80
Water network	10 to 150

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. 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.

1.3 Property, plant and equipment (continued)

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

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

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited to revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit.
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit. If a revaluation is necessary, all assets of that class are revalued.

1.5 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, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

1.5 Intangible assets (continued)

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

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

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

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

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

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

1.6 Investments in associate

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

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

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

Where Buffalo City Metro or its Entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Metro'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 Metro is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

Buffalo City Metro 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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

1.7 Financial instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

1.7 Financial instruments (continued)

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Non current investment (shares)	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.7 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 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 - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the incremental borrowing rate.

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

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

1.8 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

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

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

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

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value 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.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.10 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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.

Useful life is either:

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

Identification

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

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

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

At each reporting date a review is carried out to determine whether there are any indications that any assets or cash generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised in profit for the period in respect of assets carried at historic cost, and against revaluation surpluses in respect of assets carried at revalued amounts.

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

Identification

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

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

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

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

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

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

1.12 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise of expense adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by a municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.12 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); or until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.13 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

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. Contingencies are disclosed in note 45.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

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

1.14 Revenue from exchange transactions (continued)

Rendering of services

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- the amount of the revenue can be measured reliably.

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

1.15 Revenue from non-exchange transactions (continued)

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

Bequests

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

1.15 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.16 Investment income

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

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.10 and 1.11. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

1.20 Fruitless and wasteful expenditure (continued)

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.

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’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.

1.23 Presentation of currency

These annual financial statements are presented in South African Rand.

1.24 Offsetting

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

1.25 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.

1.26 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.

1.27 Conditional grants and receipts

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

1.28 Budget information

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

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

Notes to the Annual Financial Statements

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 withdrawal of the following new or revised standards as per Directive 5 as issued by the Accounting Standard Board and for the adoption of the following new or revised standards.

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measurement withdrawn.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- IAS 19 Employee Benefits withdrawn.
- Policy for Financial Instruments based on GRAP 104 adopted.
- Policies for Impairments based on GRAP 21 and GRAP 26 adopted.
- Policy for Employee Benefits based on GRAP 25 adopted.
- Policy for Non - exchange Transactions based on GRAP 23 adopted.

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2011 or later periods:

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 municipality.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

3. New standards and interpretations (continued)

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

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

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

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

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

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

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

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The impact of this amendment is currently being assessed.

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 municipality. 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 municipality'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 not 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 effective date of the standard is for years beginning on or after 01 April 2013.

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

It is unlikely that the standard will have a material impact on the municipality'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 municipality 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.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

The effective date of the standard is for years beginning on or after 01 April 2012.

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

It is unlikely that the standard will have a material impact on the municipality'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 flow to the municipality; 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 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.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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 effective date of the standard is for years beginning on or after 01 April 2012.

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

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

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

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

A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

The effective date of the standard is for years beginning on or after 01 April 2012.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, a municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

The effective date of the standard is for years beginning on or after 01 April 2012.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

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

The effective date of the standard is for years beginning on or after 01 April 2013.

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

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,415,962	2,699,760
Bank balances	41,589,816	54,469,209
Short-term deposits	693,935,659	501,124,875
	736,941,437	**558,293,844**

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

No restrictions exist with regard to the use of cash.

No portion is past due or impaired.

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

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

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

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
STANDARD BANK - Primary Account - 081-221-495	105,075,417	124,060,031	175,020,838	35,563,034	51,217,667	100,171,241
STANDARD BANK - Collection Account - 081-245-882	-	-	982,668	-	-	982,668
STANDARD BANK - Market Account - 081-246-072	1,875,348	1,270,839	2,259,486	(1,034,384)	(1,268,510)	(1,170,843)
STANDARD BANK - Inter Authority Account - 081-246-250	1,477,381	1,477,695	1,477,656	1,477,381	1,477,695	1,477,656
STANDARD BANK - Prism Account - 081-246-048	-	-	-	5,583,785	3,042,357	4,027,788
Total	**108,428,146**	**126,808,565**	**179,740,648**	**41,589,816**	**54,469,209**	**105,488,510**

Figures in Rand	2011	2010

5. Inventories

Electricity store (Electrical maintenance parts)	13,359,942	9,554,252
Workshop store (Mechanical maintenance parts)	273,535	261,007
General stores (Chiselhurst,Mdantsane,KWT)	42,476,991	33,451,283
Water store (Water maintenance parts)	25,607,572	23,512,928
Fuel (Diesel, Petrol)	1,665,217	1,583,138
Unsold water (Treated water in pipelines & reservoirs)	2,248,008	1,601,331
Housing stock (RDP Houses)	57,616,450	27,751,826
	143,247,715	97,715,765
Inventories (write-downs)	(833,660)	(924,771)
	142,414,055	**96,790,994**

Carrying value of stock is disclosed at cost.

Correction of error 2010: Refer to note no.47

Adjustment in the amount of R 5 371 337 was effected in respect of housing stock.

Inventory pledged as security

No inventory was pledged as security.

6. Trade and other receivables from exchange transactions

Gross balances		
Electricity	139,979,839	127,739,703
Water	206,324,587	181,668,441
Sewerage	104,226,939	90,261,814
Refuse	120,366,826	108,291,103
Housing rental	1,787,303	1,649,954
	572,685,494	**509,611,015**
Less: Allowance for debt impairment		
Electricity	(22,906,765)	(21,509,435)
Water	(116,636,096)	(93,941,300)
Sewerage	(59,669,501)	(48,645,001)
Refuse	(73,811,148)	(61,380,956)
Housing rental	(1,154,722)	(1,012,981)
	(274,178,232)	**(226,489,673)**
Net balance		
Electricity	117,073,074	106,230,268
Water	89,688,491	87,727,141
Sewerage	44,557,438	41,616,813
Refuse	46,555,678	46,910,147
Housing rental	632,581	636,973
	298,507,262	**283,121,342**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

Electricity		
Current (0 -30 days)	106,168,253	94,050,207
31 - 60 days	5,759,741	5,260,521
61 - 90 days	2,888,653	3,505,986
91 - 120 days	2,727,449	3,292,757
121 - 365 days	7,827,991	11,066,320
> 365 days	14,607,751	10,563,913
	139,979,838	**127,739,704**
Water		
Current (0 -30 days)	34,163,595	34,531,383
31 - 60 days	10,367,866	10,832,480
61 - 90 days	8,813,104	5,473,560
91 - 120 days	7,049,696	5,839,549
121 - 365 days	41,917,612	42,606,229
> 365 days	104,012,714	82,385,240
	206,324,587	**181,668,441**
Sewerage		
Current (0 -30 days)	16,151,628	14,070,805
31 - 60 days	5,763,142	4,068,926
61 - 90 days	4,469,396	2,668,651
91 - 120 days	3,249,900	2,183,596
121 - 365 days	17,825,006	18,741,925
> 365 days	56,767,868	48,527,911
	104,226,940	**90,261,814**
Refuse		
Current (0 -30 days)	11,417,703	12,152,202
31 - 60 days	5,890,441	4,486,223
61 - 90 days	4,469,824	3,414,844
91 - 120 days	3,276,519	2,883,833
121 - 365 days	19,235,621	23,026,753
> 365 days	76,076,718	62,327,248
	120,366,826	**108,291,103**
Housing rental		
Current (0 -30 days)	82,873	63,357
31 - 60 days	46,223	50,225
61 - 90 days	50,253	34,353
91 - 120 days	37,665	27,561
121 - 365 days	245,780	193,280
> 365 days	1,324,509	1,281,179
	1,787,303	**1,649,955**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

Summary of debtors by customer classification

Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	110,526,721	90,635,371
31 - 60 days	29,573,810	26,528,549
61 - 90 days	24,453,756	17,235,052
91 - 120 days	18,757,969	14,968,502
121 - 365 days	114,899,732	134,239,604
> 365 days	361,343,597	288,287,111
	659,555,585	571,894,189
Less: Allowance for debt impairment	(333,031,412)	(275,138,818)
	326,524,173	**296,755,371**
Industrial/ commercial		
Current (0 -30 days)	103,808,701	90,541,092
31 - 60 days	8,561,426	9,243,364
61 - 90 days	4,652,230	5,674,463
91 - 120 days	4,044,789	5,062,932
121 - 365 days	13,934,019	14,861,052
> 365 days	23,539,068	24,196,136
	158,540,233	149,579,039
Less: Allowance for debt impairment	(80,052,203)	(72,135,201)
	78,488,030	**77,443,838**
National and provincial government		
Current (0 -30 days)	11,939,521	10,334,665
31 - 60 days	2,289,947	1,318,065
61 - 90 days	771,919	446,602
91 - 120 days	661,589	414,127
121 - 365 days	1,693,047	974,797
> 365 days	556,168	473,114
	17,912,191	**13,961,370**
Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	226,274,943	191,511,128
31 - 60 days	40,425,183	37,089,978
61 - 90 days	29,877,905	23,356,117
91 - 120 days	23,464,347	20,445,561
121 - 365 days	130,526,798	150,075,453
> 365 days	385,438,833	312,956,361
	836,008,009	735,434,598
Less: Allowance for debt impairment	(413,083,615)	(347,274,019)
	422,924,394	**388,160,579**
Ageing of allowance for debt impairment (including rates & other receivables (billing))		
31 - 60 days	(27,387,363)	(23,680,510)
61 - 90 days	(20,241,764)	(14,911,974)
91 - 120 days	(15,896,690)	(13,053,697)
121 - 365 days	(88,429,650)	(95,817,350)
> 365 days	(261,128,148)	(199,810,488)
	(413,083,615)	**(347,274,019)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

Consumer debtors pledged as security

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

No security is held for any of the accounts receivable.

Credit quality of consumer debtors

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

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R 274,178,232 (2010: R 226,489,673) were impaired and provided for.

Amounts totaling R 22 705 198 (2010: R 13 563 915) were written off as uncollectable against the debt impairment allowance account.This represents 0.75% (2010: 0.49%) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(226,489,673)	(236,166,583)
Allowance for impairment	(70,373,256)	(3,862,395)
Amounts written off as uncollectible	22,705,198	13,563,915
Other	(20,501)	(24,610)
	(274,178,232)	**(226,489,673)**

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Trade and other receivables from non-exchange transactions

Property rates	163,748,374	149,281,040
Other receivables (billing)	99,574,142	76,542,544
Prepaid expenses	714,038	-
Accrued income	5,967,552	14,377,939
Other debtors	4,397,646	4,531,348
Impairment property rates	(138,905,383)	(120,784,346)
	135,496,369	**123,948,525**

Property rates age analysis		
Current (0-30days)	35,854,916	31,203,231
31-60 days	9,601,229	9,337,327
61-90 days	6,910,197	6,301,127
91-120 days	5,332,890	4,512,062
121-365 days	29,901,827	37,381,350
> 365 days	76,147,315	60,545,942
	163,748,374	**149,281,039**

Other receivables (billing)		
Current (0-30days)	22,435,978	5,439,943
31-60 days	2,996,542	3,054,276
61-90 days	2,276,478	1,957,596
91-120 days	1,790,227	1,706,204
121-365 days	13,572,961	17,060,596
> 365 days	56,501,959	47,323,930
	99,574,145	**76,542,545**

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 renegotiated in the last year.

Trade and other receivables impaired

As of 30 June 2011, trade and other receivables from non-exchange transactions of R 138,905,383 (2010: R 120,784,346) were impaired and provided for.

Amounts totaling R 3 657 943 (2010: R 5 863 101) were written off as uncollectable against the debt impairment allowance account.This represents 0.12% (2010: 0.21%) of the total operating income for the year.

Figures in Rand	2011	2010

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

Reconciliation of allowance for impairment of non-exchange transactions

Opening balance	(120,784,346)	(105,320,830)
Allowance for impairment	(21,778,980)	(20,454,926)
Amounts written off as uncollectible	3,657,943	5,863,101
Other	-	(871,691)
	(138,905,383)	**(120,784,346)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

8. VAT receivable

VAT	38,470,843	51,059,163

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

9. Operating lease asset (accrual)

Current assets	59,991,691	56,403,185

Municipality as lessor: Operating leases minimum future receivables		
No later than one year	1,118,062	1,046,685
Later than one year no later than 5 years	5,047,272	5,011,918
Later than 5 years	160,041,529	161,278,182
	166,206,863	**167,336,785**

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.

Correction of error 2010: Refer note no.47

Adjustment in the amount of R 1 287 117 was effected in respect of rental income for Jet Stores.

10. Long term receivables

Financial assets at amortised cost		
Sporting bodies and other loans	82,331	93,106

Non-current assets		
Financial assets at amortised cost	70,451	82,330

Current assets		
Financial assets at amortised cost	11,880	10,776

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Long term receivables (continued)

	2011	2010
	82,331	**93,106**

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

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

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

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

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.

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

11. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	18,811,073	(9,965,085)	8,845,988	18,243,071	(8,569,721)	9,673,350
Intangible assets under development	6,843,670	-	6,843,670	2,397,213	-	2,397,213
Total	**25,654,743**	**(9,965,085)**	**15,689,658**	**20,640,284**	**(8,569,721)**	**12,070,563**

Reconciliation of intangible assets - 2011

	Opening balance	Additions	WIP Transfers	Amortisation	Total
Computer software	9,673,350	568,000	-	(1,395,364)	8,845,987
Intangible assets under development	2,397,213	4,844,257	(397,800)	-	6,843,670
	12,070,563	**5,412,257**	**(397,800)**	**(1,395,364)**	**15,689,657**

Reconciliation of intangible assets - 2010

	Opening balance	Additions	WIP Transfers	Amortisation	Total
Computer software	4,624,125	6,984,236	-	(1,935,011)	9,673,350
Intangible assets under development	6,465,791	397,800	(4,466,378)	-	2,397,213
	11,089,916	**7,382,036**	**(4,466,378)**	**(1,935,011)**	**12,070,563**

12. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	201,198,657	-	201,198,657	201,198,657	-	201,198,657

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property	201,198,657	201,198,657

Reconciliation of investment property - 2010

	Opening balance	**Total**
Investment property	201,198,657	201,198,657

Pledged as security

Carrying value of assets 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.

No Investment Properties were pledged as security.

The total direct operating expenses (including repairs and maintenance) for all municipal properties was R 90 047 723 (2010: R 88 459 390), which includes investment properties.

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

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

There are no restrictions on investment properties.

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

The 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 in respect of monthly and annual leases amounted to R 4 513 255 (2010: R 4 046 127).

13. Non current investments

These investments are classified financial assets as Amortised cost except for listed shares in Sanlam which are classified as financial assets at fair value.

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.

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Figures in Rand	2011	2010

13. Non current investments (continued)

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.

Sanlam shares	-	1,968,141
Fixed deposits long term	819,965	2,442,804
	819,965	**4,410,945**

14. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	3,141,740,575	-	3,141,740,575	3,138,465,575	-	3,138,465,575
Buildings	1,289,882,448	(84,783,618)	1,205,098,830	1,273,249,316	(42,390,059)	1,230,859,257
Plant and equipment	58,322,785	(23,320,298)	35,002,487	46,916,115	(17,220,760)	29,695,355
Furniture and fittings	33,568,003	(10,428,345)	23,139,658	32,055,653	(8,416,539)	23,639,114
Motor vehicles	226,838,716	(93,330,678)	133,508,038	210,895,596	(87,125,097)	123,770,499
Office equipment	30,098,986	(12,528,550)	17,570,436	24,802,838	(9,988,773)	14,814,065
Electricity	1,670,384,682	(268,063,819)	1,402,320,863	1,584,817,182	(181,528,187)	1,403,288,995
Other properties	423,287,429	(26,088,053)	397,199,376	400,412,415	(18,611,653)	381,800,762
Capital work in progress	624,802,215	-	624,802,215	463,326,952	-	463,326,952
Recreational facilities	37,950,719	(967,226)	36,983,493	38,285,814	(483,613)	37,802,201
Leases	2,835,076	(338,046)	2,497,030	1,972,202	(213,511)	1,758,691
Roads	2,350,798,942	(455,682,474)	1,895,116,468	2,293,139,461	(298,220,373)	1,994,919,088
Wastewater network	1,277,039,789	(284,011,663)	993,028,126	1,188,381,813	(195,737,902)	992,643,911
Water network	1,449,147,880	(179,162,918)	1,269,984,962	1,436,788,401	(110,537,972)	1,326,250,429
Heritage	3,420,757	-	3,420,757	3,420,757	-	3,420,757
Community buildings	217,928,484	(13,809,298)	204,119,186	213,374,417	(6,904,649)	206,469,768
Total	**12,838,047,486**	**(1,452,514,986)**	**11,385,532,500**	**12,350,304,507**	**(977,379,088)**	**11,372,925,419**

Notes to the Annual Financial Statements

Figures in Rand

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	WIP Transfers	Depreciation	Impairment reversal	Total
Land	3,138,465,575	3,275,000	-	-	-	-	-	3,141,740,575
Buildings	1,230,859,257	16,633,132	-	-	-	(42,393,559)	-	1,205,098,830
Plant and equipment	29,695,355	12,060,275	(221,748)	-	-	(6,531,395)	-	35,002,487
Furniture and fittings	23,639,114	1,532,603	(17,403)	-	-	(2,014,656)	-	23,139,658
Motor vehicles	123,770,499	23,685,752	(3,537,531)	-	-	(10,410,682)	-	133,508,038
Office equipment	14,814,065	5,601,282	(157,500)	-	-	(2,687,411)	-	17,570,436
Electricity	1,403,288,995	16,749,758	(2,268,535)	-	-	(86,671,010)	71,221,655	1,402,320,863
Other properties	381,800,762	22,875,014	-	-	-	(7,476,400)	-	397,199,376
Capital work in progress	463,326,952	263,359,135	-	-	(101,883,872)	-	-	624,802,215
Recreational facilities	37,802,201	-	-	(335,095)	-	(483,613)	-	36,983,493
Leases	1,758,691	862,874	-	-	-	(124,535)	-	2,497,030
Roads	1,994,919,088	58,603,805	(607,054)	-	-	(157,799,371)	-	1,895,116,468
Wastewater network	992,643,911	88,747,976	(74,167)	-	-	(88,289,594)	-	993,028,126
Water network	1,326,250,429	12,359,478	-	-	-	(68,624,945)	-	1,269,984,962
Heritage	3,420,757	-	-	-	-	-	-	3,420,757
Community buildings	206,469,768	4,554,067	-	-	-	(6,904,649)	-	204,119,186
	11,372,925,419	**530,900,151**	**(6,883,938)**	**(335,095)**	**(101,883,872)**	**(480,411,820)**	**71,221,655**	**11,385,532,500**

Notes to the Annual Financial Statements

Figures in Rand

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	WIP Transfers	Depreciation	Impairment reversal	Total
Land	3,139,223,224	-	(757,649)	-	-	-	-	3,138,465,575
Buildings	1,271,702,233	1,547,083	-	-	-	(42,390,059)	-	1,230,859,257
Plant and equipment	32,637,274	3,910,813	-	-	-	(6,852,732)	-	29,695,355
Furniture and fittings	23,806,437	2,020,458	-	(157,117)	-	(2,030,664)	-	23,639,114
Motor vehicles	120,442,971	15,927,370	(1,024,558)	-	-	(11,575,284)	-	123,770,499
Office equipment	10,232,000	7,012,571	-	(63,313)	-	(2,367,193)	-	14,814,065
Electricity	1,372,665,635	63,990,626	-	-	-	(83,870,169)	50,502,903	1,403,288,995
Other properties	405,624,667	1,704,307	-	(23,891,637)	-	(1,636,575)	-	381,800,762
Capital work in progress	381,120,567	219,495,561	-	-	(137,289,176)	-	-	463,326,952
Recreational facilities	15,926,900	22,358,914	-	-	-	(483,613)	-	37,802,201
Leases	479,209	1,397,050	-	-	-	(117,568)	-	1,758,691
Roads	1,963,031,619	187,516,849	-	-	-	(155,629,380)	-	1,994,919,088
Wastewater network	1,056,118,784	24,828,872	-	-	-	(88,303,745)	-	992,643,911
Water network	1,394,420,268	8,311,797	-	-	-	(76,481,636)	-	1,326,250,429
Heritage	3,420,757	-	-	-	-	-	-	3,420,757
Community buildings	207,139,453	6,234,964	-	-	-	(6,904,649)	-	206,469,768
	11,397,991,998	**566,257,235**	**(1,782,207)**	**(24,112,067)**	**(137,289,176)**	**(478,643,267)**	**50,502,903**	**11,372,925,419**

Proceeds on disposal of PPE		
Carrying value of PPE	6,883,938	1,782,207
Net gain/(loss) on disposal of assets	(5,608,074)	1,296,640
	1,275,864	**3,078,847**

Correction of error 2010: Refer note no.47

Adjustment in the amount of R 142 764 was effected in respect of leases.

Adjustment in the amount of R 1 242 616 375 was effected in respect of electricity, roads and other assets.

Figures in Rand	2011	2010

14. Property, plant and equipment (continued)

Pledged as security

No assets were pledged as security.

Assets subject to finance lease (Net carrying amount)

	2011	2010
Leases	2,497,030	1,758,691

Revaluations

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

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 municipality. The municipality has taken all reasonable steps to ensure the completeness of the fixed asset register by using the best international and local methodology and practice for asset verification, within the limits of the available organisational, human and financial capacity. 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.

15. Investments in associate

Name of entity	Listed / Unlisted	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
East London Industrial Development Zone (Prop)Ltd		26.00 %	26.00 %	12,088,092	32,323,291
				12,088,092	32,323,291

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

Movements in carrying value

	2011	2010
Opening balance	32,323,291	32,323,291
Share of surplus/ (deficit)	(20,235,199)	-
	12,088,092	**32,323,291**

Investment in associate at 30 June 2011 amounted to R 12,088,092 (2010: R 32,323,291).

Fair value

There is no active market for the shares of the associate and therefore the fair value for these shares can not be measured reliabily. Management accepted face value as fair value.

Principal activities, country of incorporation and voting power

Legal name	Principal activity	Country of incorporation	Proportion of voting power
East London Industrial Development Zone (Prop)Ltd	Development of East London's industrial development zone.	SA	26%

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

15. Investments in associate (continued)

Summary of controlled entity interest in associate (26%)

Total equity	12,088,092	32,323,291
Total liabilities	(383,702,742)	(398,219,907)
Revenue	4,796,979	5,975,904
Surplus (deficit)	(20,235,199)	32,323,291

Associate with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2010 to 31 March 2011 and the quarter ending 30 June 2011.

Note: 2010 - An adjustment was made to the disclosure summary of groups interest to reflect BCMM's 26% holding.

Note: 2010 - An adjustment in the amount of R 32 323 291 was made in respect of BCMM's 26% holding.

16. Borrowings

Held at amortised cost		
Annuity loans	690,786,728	526,711,125
Local registered stock issues	-	10,000,000
	690,786,728	**536,711,125**

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

No terms attached to the borrowings were re-negotiated.

Non-current liabilities		
At amortised cost	645,786,508	506,805,746
Current liabilities		
At amortised cost	45,000,220	29,905,379
	690,786,728	**536,711,125**

17. Consumer deposits

Electricity	16,695,945	14,334,781
Water	16,758,388	16,040,324
	33,454,333	**30,375,105**

Guarantees held in lieu of Electricity and Water Deposits amounted to R11 257 675 (2010: R10 551 212).

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Finance lease obligation

Minimum lease payments due		
- within one year	1,002,799	988,222
- in second to fifth year inclusive	1,020,719	962,345
	2,023,518	1,950,567
less: future finance charges	(546,501)	(254,620)
Present value of minimum lease payments	**1,477,017**	**1,695,947**
Present value of minimum lease payments due		
- within one year	760,066	834,147
- in second to fifth year inclusive	716,951	861,800
	1,477,017	**1,695,947**
Non-current liabilities	716,951	861,800
Current liabilities	760,066	834,147
	1,477,017	**1,695,947**

The average lease term was 3-5 years and the average effective borrowing rate was 7.65% (2010: 8.5%).

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

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

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

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

After the initial period the leases shall automatically be renewed on a monthly basis unless cancelled by either party.

All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased asset.

There are no restrictions imposed on the lease arrangements.

19. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Landfill sites	143,591,556	22,293,392	-	165,884,948
Salaries and skills	8,924,573	-	(8,924,573)	-
	152,516,129	**22,293,392**	**(8,924,573)**	**165,884,948**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Performance bonusses	2,947,958	-	(2,947,958)	-
Landfill sites	170,035,618	-	(26,444,062)	143,591,556
Salaries and skills	-	8,924,573	-	8,924,573
	172,983,576	**8,924,573**	**(29,392,020)**	**152,516,129**

	2011	2010
Non-current liabilities	49,055,625	33,207,701
Current liabilities	116,829,323	119,308,428
	165,884,948	**152,516,129**

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.

Assumptions used:
- Interest rate used is BCMM's borrowing rate at 7.65% (2010: 8.5%).

- 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.

2.5% Salga increase in respect of salaries provided R2 603 823 i.r.o 2010.

OSD allowance to qualifing medical employees R6 320 750 i.r.o 2010.

20. Trade and other payables

	2011	2010
Trade payables	199,613,500	198,517,626
Payments received in advance	61,987,656	48,144,282
Retention monies	26,632,133	11,951,293
Fair value adjustments	(1,466,592)	(241,801)
Accrued leave pay	47,651,203	42,291,760
Deposits received	5,956,009	4,263,218
Other creditors	34,863,765	33,082,525
	375,237,674	**338,008,903**

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.

20. Trade and other payables (continued)

Bank guarantees to the amount of R3 206 740 (2010: R3 266 740) were held in lieu of market buyers.

Correction of error 2010: Refer note no.47

Adjustment in the amount of R 6 408 961 was effected in respect of retention monies.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	179,419,659	172,313,402
Provincial grants	149,238,925	78,164,768
Other conditional grants	17,482,964	16,808,143
	346,141,548	**267,286,313**

All conditions for the funding were complied with and no funds were withheld.

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

Correction of error 2010: Refer note no.47

Adjustment in the amount of R 816 129 was effected in respect of Government grants.

22. Retirement benefit obligations

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

Carrying value		
Balance at beginning of year	261,331,883	233,792,235
Interest cost	22,491,081	21,622,200
Current service cost	10,173,937	9,637,626
Actual employer benefit payments	(12,732,880)	(11,611,287)
Actuarial (gain) / loss recognised in the year	(500,202)	7,891,109
Net liability	**280,763,820**	**261,331,883**

The municipality 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 2011 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

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

The best estimates for benefit payments in the next annual period is expected to be R13 631 796 (2011: R12 732 880).

22. Retirement benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2011	2010
Discount rates used	8.81 %	9.16 %
Medical aid inflation rate	7.06 %	7.84 %
Net effective discount rate	1.63 %	1.22 %
Post retirement subsidy	60.00 %	60.00 %
Retirement age		
Males	63	63
Females	63	63
Number of elegible members	2,556	2,378
Number of pensioners	524	529
1% change in the assumed medical inflation:		
Projected liability increase/(decrease) - 2011	42,114,160	(36,499,296)
Projected liability increase/(decrease) - 2010	43,165,000	(35,058,000)
Projected liability increase/(decrease) - 2009	37,918,000	(30,866,000)
	123,200,366	**(102,420,263)**

Mortality during employment - SA 85-90 Ultimate table adjusted for female lives.

Mortality post retirement - PA901 Ultimate table rated down one year.

23. Revaluation reserve

	2011	2010
Opening balance	16,620,963	17,194,100
Depreciation transfer to income	(573,137)	(573,137)
	16,047,826	**16,620,963**

24. Financial assets by category

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

2011

	Financial assets amortised	**Total**
Other financial assets	82,331	82,331
Trade and other receivables	298,507,262	298,507,262
Other receivables from non-exchange transactions	134,782,331	134,782,331
Cash and cash equivalents	736,941,436	736,941,436
Non-current investments	12,908,057	12,908,057
	1,183,221,417	**1,183,221,417**

24. Financial assets by category (continued)

2010

	Financial assets amortised	Financial assets at fair value	Total
Other financial assets	93,106	-	93,106
Trade and other receivables	283,121,343	-	283,121,343
Other receivables from non-exchange transactions	123,948,525	-	123,948,525
Cash and cash equivalents	558,293,844	-	558,293,844
Non-current investments	2,442,805	1,968,141	4,410,946
	967,899,623	**1,968,141**	**969,867,764**

25. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	690,786,728	690,786,728
Trade and other payables	261,109,399	261,109,399
	951,896,127	**951,896,127**

2010

	Financial liabilities at amortised cost	Total
Other financial liabilities	536,711,125	536,711,125
Trade and other payables	243,551,443	243,551,443
	780,262,568	**780,262,568**

Trade and other payables adjusted with retention monies not included in 2010.

26. Revenue

	2011	2010
Property rates	453,306,422	427,047,214
Service charges	1,463,110,204	1,285,863,698
Rental of facilities & equipment	14,107,440	12,848,130
Public contributions and donations - Operating projects	1,192,709	2,777,749
Fines	7,320,910	8,256,637
Licences and permits	15,052,975	14,116,593
Government grants & subsidies	901,582,926	802,651,054
Public contributions and donations - PPE	9,029,317	9,101,628
	2,864,702,903	**2,562,662,703**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. Revenue (continued)

The amounts included in revenue arising from exchanges of goods or services are as follows:

Service charges	1,463,110,204	1,285,863,698
Rental of facilities & equipment	14,107,440	12,848,130
Licences and permits	15,052,975	14,116,593
	1,492,270,619	**1,312,828,421**

The amounts included in revenue arising from non-exchange transactions are as follows:

Taxation revenue		
Property rates	453,306,422	427,047,214
Public contributions and donations - Operating projects	1,192,709	2,777,749
Fines	7,320,910	8,256,637
Transfer revenue		
Government grants and subsidies	901,582,926	802,651,054
Public contributions and donations - PPE	9,029,317	9,101,628
	1,372,432,284	**1,249,834,282**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

27. Property rates

Rates received

Residential	228,762,109	217,864,240
Commercial	214,427,174	195,737,092
Municipal	17,989	-
Educational	5,928,365	5,594,575
Agricultural	1,240,196	2,440,219
Public Service Infrastructure	294,466	366,412
Vacant land	19,752,986	21,348,204
Less: Income forgone	(17,116,863)	(16,303,528)
	453,306,422	**427,047,214**

Valuations

Residential	41,134,476,461	40,739,270,300
Commercial	15,241,656,800	16,287,149,800
Rural Communal Land and Special	1,585,704,086	1,530,498,700
Educational	1,509,009,000	1,501,727,000
Agricultural	1,904,328,990	1,883,928,590
Public Service Infrastucture	280,159,400	276,449,400
Vacant land	1,439,978,926	1,515,566,666
	63,095,313,663	**63,734,590,456**

In terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis with consumers having to apply if they want to pay annually with the final date for payment being 30 September 2011 . Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

Tariffs levied c/R		
Agricultural	0.1477	0.1340
Business	1.4768	1.3420
Educational	0.4135	0.3760
Public Service Infrastructure	0.1477	0.1340
Residential	0.5907	0.5370
Vacant Land	1.7721	1.6110

Buffalo City Metropolitan Municipality grants rebates, in terms of the Municipality's rates policy to the following category of owners:

A rebate/discount of up to 75%, where the Municipality does not supply some or all of the following services:

Constructed public roads	15.0 %	15.0 %
Water supply	22.5 %	22.5 %
Refuse removal service	7.5 %	7.5 %
Electricity supply	15.0 %	15.0 %
Sewerage	15.0 %	15.0 %
	75	**75**

- A 40% rebate to senior citizens if they meet certain requirements.
- Properties that were not rated before 2009 qualify for a compulsory phase in period of three years in terms of Section 21 of the MPRA. Discount for 2011 was 50% (2010: 75%).

27. Property rates (continued)

- Impermissible rates (Section 17 of the MPRA):
  Section 17 (1)(a) - First 30% of the market value of public service infrastructure.
  Section 17 (1)(h) - R15 000 on market value of residential properties.
  Section 17 (1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence which is occupied by an office bearer of that community.

28. Service charges

	2011	2010
Discounted interest on service charges	-	(17,313,252)
Sale of electricity	924,517,932	802,484,619
Sale of water	200,157,656	201,621,200
Sewerage and sanitation charges	176,708,703	156,148,752
Refuse removal	157,219,214	139,256,310
Other service charges	4,506,699	3,666,069
	1,463,110,204	**1,285,863,698**

29. Government grants and subsidies

	2011	2010
Government grants operating projects	35,014,109	35,107,371
Government grants housing	103,225,478	78,200,844
Government grant - PPE	223,635,089	231,633,956
Government grants and subsidies - unconditional	539,708,250	457,708,883
	901,582,926	**802,651,054**

Equitable Share

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

Unspent conditional grants and receipts

Conditions still to be met - remaining liabilities (see note 21).

30. Other revenue

	2011	2010
Other income	120,137,261	119,803,960

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
31. General expenses		
Advertising	1,714,326	767,681
Assessment rates & municipal charges	1,977,090	1,578,796
Assets expensed	1,713,523	1,765,637
Auditors remuneration	5,309,522	3,783,357
BCMET	204,840	313,072
Bank charges	5,454,308	4,804,532
Chemicals	11,152,546	9,729,148
Cities network	265,734	241,577
Cleaning	4,050,772	4,068,367
Commission paid	10,291,127	7,423,469
Community development and training	223,851	86,376
Computer expenses	4,130,346	1,526,436
Conferences and seminars	1,689,928	1,467,125
Consulting and professional fees	32,607,115	29,537,496
Consumables	6,730,535	5,255,510
DWAF	4,038,968	9,914,207
Disconnections	5,052,807	7,155,004
Discounted expenditure	(10,413,948)	(24,495,963)
Electricity	36,428,555	33,555,985
Entertainment	1,839,660	1,879,327
Essential user cost	10,471,708	10,161,838
Fuel and oil	25,437,674	24,652,027
Horticulture	-	1,227
IT expenses	2,707,588	2,710,487
Insurance	12,359,957	13,209,586
Lease rentals on operating lease	33,674,920	27,686,929
Levies	7,458,085	6,440,542
Magazines, books and periodicals	2,305,180	2,298,105
Marketing	147,774	137,182
Motor vehicle expenses	3,512,980	2,784,322
Other expenses	75,611,224	121,375,889
Operating and housing projects ex grants	107,286,706	85,939,894
Poor relief	114,703,417	106,172,679
Postage and courier	4,873,147	4,911,170
Printing and stationery	8,313,546	7,279,116
Promotions	520,945	441,650
Refuse	18,128,878	18,671,635
Royalties and license fees	7,729,135	6,355,582
Security (Guarding of municipal property)	19,884,012	15,695,647
Software expenses	559,507	829,370
Subscriptions and membership fees	4,534,166	3,972,247
Telephone and fax	17,710,061	16,685,114
Title deed search fees	21,577	9,702
Training	3,201,590	1,529,096
Travel - local	4,874,020	3,626,066
Travel - overseas	1,450,294	1,109,881
Uniforms	6,103,000	4,341,981
Water	2,905,752	3,839,275
	620,948,448	**593,225,378**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

32. Employee related costs

Basic emoluments	538,615,873	502,368,268
Medical aid contributions	37,665,306	33,670,323
UIF	5,459,018	4,896,526
Leave pay contribution	20,715,702	16,960,011
Pension fund contribution	101,281,869	90,918,249
Overtime payments	43,661,717	50,868,037
Long-service awards	10,888,485	9,476,666
13th Cheques	44,539,274	34,948,361
Car allowance	17,522,377	13,063,057
Housing benefits and allowances	3,625,972	4,333,519
Short term benefit contributions	-	291,386
Group life	5,239,333	4,745,043
Other allowances	28,589,069	16,735,773
Transitional allowances	213,021	(27,636)
	858,017,016	**783,247,583**

Remuneration of municipal manager

Annual Remuneration	839,787	802,856
Other	559,858	535,237
	1,399,645	**1,338,093**

Remuneration based on the position being filled for the full period.

Remuneration of chief finance officer

Annual Remuneration	671,836	642,290
Other	447,890	428,194
	1,119,726	**1,070,484**

Remuneration based on the position being filled for the full period.

Remuneration of other directors

Annual Remuneration	4,702,851	4,887,906
Housing subsidy	36,000	42,120
Travel allowance	1,044,000	1,282,500
Allowance	965,788	761,149
UIF	10,482	11,480
Pension contributions	917,056	953,142
Medical aid	102,681	150,073
Group life	59,227	64,260
	7,838,085	**8,152,630**

The Special Advisor seconded to Buffalo City Tourism left the service on 30 September 2010.

Guarantees by the municipality in respect of building society and commercial bank housing loans for officials amount to R 502 766 (2010: R 502 766).

A guarantee by the municipality in respect of the Department of Labour for COID amount to R 4 251 742 (2010: R 4 251 742).

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Remuneration of councillors

	2011	2010
Executive Mayor	403,700	391,759
Mayoral Committee Members	2,803,236	2,745,810
Speaker	276,185	313,406
Councillors	11,046,039	8,535,861
Councillors pension contribution	1,182,709	1,477,551
Councillors housing subsidy	1,248,928	726,117
Councillors medical aid	874,671	804,910
Other	5,312,404	4,675,437
UIF	129,953	20,200
	23,277,825	**19,691,051**

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 the Council. Cost of secretarial support amounts to R1 666 746.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. Rental value of accommodation amounts to R68 400.

The Executive Mayor has the use of two Council owned vehicles for official duties. Operating costs of vehicles amounts to R360 280.

The Executive Mayor has four bodyguards and an official driver. Cost of bodyguards and driver amounts to R1 105 221.

34. Debt impairment

	2011	2010
Contributions to debt impairment provision	92,152,237	19,949,990
Debts impaired	-	4,367,331
	92,152,237	**24,317,321**

35. Investment revenue

	2011	2010
Dividend revenue		
Listed financial assets - Local	-	85,643
Interest revenue		
Unlisted financial assets	26,263,426	34,775,801
Bank	6,263,496	7,329,608
Interest charged on trade and other receivables	21,150,823	27,414,781
Interest financial instruments	-	17,313,252
Interest on sporting body loans	51,638	90,256
	53,729,383	**86,923,698**
	53,729,383	**87,009,341**

36. Fair value adjustments

	2011	2010
Investment in associates	-	(3,626,888)
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	330,911	539,386
	330,911	**(3,087,502)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

37. Depreciation and amortisation

Property, plant and equipment	480,411,821	478,643,268
Intangible assets	1,395,364	1,935,012
	481,807,185	**480,578,280**

38. Finance costs

Non-current borrowings	58,641,142	62,002,965
Discounted interest on expenditure	10,413,948	24,495,963
Other interest paid *	22,491,081	21,622,200
	91,546,171	**108,121,128**

* Refer to note 22 (Retirement benefits).

39. Auditors' remuneration

Expenses	5,309,522	3,783,357

Scope of work for 2011 was extended, relating to the interim audit, compliance and predetermined objectives.

40. Contracted services

Specialist Services	7,000	-
Other Contractors	5,900,804	8,344,994
	5,907,804	**8,344,994**

41. Grants and subsidies paid

Grants-in-Aid		
Mayoral Social Responsibility	152,331	753,120
Grants : Rates	2,086,319	1,787,030
Buffalo City Development Agency	1,034,781	3,212,957
Publicity Association Grant	5,083,560	4,860,000
Sponsored Sporting Events	11,611,382	11,420,668
Grants & Subsidies	903,711	866,310
	20,872,084	**22,900,085**

42. Bulk purchases

Electricity	634,092,182	487,510,581
Water	137,160,796	106,213,606
	771,252,978	**593,724,187**

Figures in Rand	2011	2010

43. Cash generated from operations

(Deficit) surplus	(75,655,748)	33,799,362
Adjustments for:		
Depreciation and amortisation	481,807,185	480,578,280
Gain (loss) on sale of assets and liabilities	5,608,074	(1,046,316)
Income from equity accounted investments	20,235,199	(32,323,291)
Fair value adjustments	(330,911)	-
Impairment reversals	(71,221,655)	(50,502,903)
Debt impairment	92,152,237	24,317,321
Movements in operating lease assets and accruals	(3,588,506)	(4,191,880)
Movements in retirement benefit assets and liabilities	19,431,937	27,539,648
Movements in provisions	13,368,819	(20,467,447)
Adjusrment to associate	-	3,626,891
Adjustment prior years	-	7,615,285
Lease asset cost adjustment	(142,770)	-
Changes in working capital:		
Inventories	(45,623,061)	(32,577,823)
Trade and other receivables from non-exchange transactions	(11,547,844)	(15,555,985)
Consumer debtors	(107,538,157)	(124,326,488)
Trade and other payables	37,228,772	39,841,116
VAT	12,588,320	(13,527,016)
Unspent conditional grants and receipts	78,855,235	(14,335,615)
Consumer deposits	3,079,228	2,066,778
Long term receivables	-	17,806
	448,706,357	**310,547,720**

44. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment		
• Community	154,034,760	8,396,651
• Infrastructure	297,618,776	294,549,352
• Other	2,811,695	33,362,542
	454,465,231	**336,308,545**

This committed expenditure relates to Infrastructure, Community and Other Property, Plant and Equipment.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	2,007,366	5,092,339
- in second to fifth year inclusive	59,425	896,765
	2,066,791	**5,989,104**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years. No contingent rent is payable.

45. Contingencies

Contingent assets

The estimated amount of recoverable traffic fines for 2011 is R2 439 300 (2010: R5 936 485) at year end.

46. 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.

The Municipality has made a decision to re-constitute the board. It is anticipated that the board will be appointed by 30 November 2011.

BCDA was not operational in terms of its mandate since 1 January 2011.

The municipality has issued grants of R1 034 781 (VAT exclusive) to the development agency during the current financial year (2010: R3 212 957 - VAT exclusive).
BCDA has paid consumer accounts of R13 917 during the current financial year (2010: R22 633).

Key management personnel information:

Annual Remuneration of the Chief Executive Officer (BCDA), 1 officer, was vacant (2010: R524 265).

Annual Remuneration of Senior Management (BCDA), 2 officers, was R604 601 (2010: R879 189).

No remuneration was paid to family of key personnel.

There are no share based payments.

There are no post-employment benefits for key personnel.

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.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

47. Prior period errors

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

The correction of the error(s) results in adjustments as follows:

	2011	2010
Statement of Financial Position		
Property, plant and equipment - (Cost adjustment of leased assets in respect of 2010 additions)	-	(142,764)
Property,plant and equipment - (Asset values adjusted prior to 2010)	-	(1,242,616,375)
Unspent conditional grant creditors - (Electricity Demand Side Management Grant was overstated during 2010 as expenditure relating to the grant was erroneously processed to own funds during the 2009/10 financial year)	-	816,129
Operating lease asset (accrual) account - (Raising rental income i.r.o. operating lease for Jet Stores not raised in prior years)	-	1,287,117
Creditors - retention monies - (Reversing payments of retention monies incorrectly allocated in prior financial years resulting in retension monies being overstated)	-	6,408,961
Housing stock - (Correcting the value of RDP houses not transferred and unoccupied and not completed as at 30 June 2010)	-	5,731,337
Less: Statement of Financial Performance	-	(92,933,115)
Accumulated Surplus or Deficit	**-**	**(1,321,448,710)**

	2011	2010
Statement of Financial Performance		
Conditional grant Revenue - PPE revenue	-	(816,129)
Rental income	-	61,970
Depreciation	-	(35,944,716)
Impairment reversal	-	(50,502,903)
Housing projects - expenditure	-	(5,731,337)
	-	**(92,933,115)**

48. Risk management

Capital risk management

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

The capital structure of the municipality 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 municipality’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 municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’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 municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

48. Risk management (continued)

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

Interest rate risk

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

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

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	9.00 %	472,474,474	-	-	-	-
Cash in current banking institutions	4.00 %	43,005,777	-	-	-	-
Call investment deposits	5.42 %	693,935,659	-	-	-	-
Trade and other payables - extended credit terms	7.00 %	(261,109,399)	-	-	-	-
Long term borrowings	10.30 %	(45,000,220)	(86,933,287)	(95,074,017)	(92,858,017)	(465,994,800)

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

Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value 30/06/2011	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)
Trade and other receivables - normal credit terms	9.00 %	472,474,474	433,462,820	437,476,365	429,522,249
Trade and other payables	7.00 %	(234,477,266)	(219,137,632)	(221,204,968)	(217,108,580)
Cash and cash equivalents					
Cash in current banking institutions	4.00 %	43,005,777	41,351,709	41,753,182	40,957,883
Call investment deposits	5.42 %	693,935,659	658,258,072	664,562,018	652,072,598

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

Credit risk

Credit risk consists mainly of cash deposits (R 735 525 475) and trade debtors (refer notes 6 & 7). The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

50. Events after the reporting date

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

51. Unauthorised expenditure

An amount of R45.58 million has been identified as unuathorised expenditure as detailed below:	45,580,000	-

An amount of R10.92 million is in respect of operating expenditure that was incorrectly incurred against capital votes.

An amount of R34.66 million relates to over expenditure incurred in various operating and capital project votes.

A report will be submitted to Council in September 2011 requesting a special adjustment budget in terms of Municipal Budget and Reporting Regulations, Reg. 23 (6) to be tabled to Council in January 2012 by the Mayor with the 2010/11 annual report in terms of Section 127 (2) of the MFMA.

This special adjustment budget only deals with unauthorised expenditure from the previous financial year which the Council is requested to authorise in terms of Section 32 (2) (a) (i) of the MFMA.

Figures in Rand	2011	2010

52. Fruitless and wasteful expenditure

Payment of commitment fee to DBSA.	-	199,703
Delayed claim on Reeston Phases 1 and 2 Housing Poject.	323,654	-
Acts of negligence, damage to vehicles, theft of goods and overpayment of overtime.	647,986	1,406,617
Payment to Eastern Engineering Contractors (Pty) Ltd but goods were never received.	132,201	-
Interest charged on overdue accounts due to late payment.	18,206	829
Payments made to Directors while they were suspended.	4,708,631	1,700,996
	5,830,678	**3,308,145**

During November 2008 DBSA issued an invoice amounting to R 199 703 with regard to commitment fees due as a result of the slow rate of capital expenditure. BCMM's application to waive the commitment fee has been unsuccessful. A report was submitted to the Mayoral Committee.

Payment of interest on delayed claims to the amount of R 323 654 granted to Grinaker LTA in terms of court order 926/2009 regarding costs and other expenditure due to claims not being submitted timeously. No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

Staff members involved in acts of negligence, damage to vehicles, theft of goods and overpayment of overtime, resulted in the municipality incurring losses totalling R 647 986 (2010: R 1 406 617).

Development of open spaces - Bisho, Dimbaza and Breidbach. R 132 201 was paid to Eastern Engineering Contractors (Pty) Ltd but goods were never received. No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

Interest charged on overdue account (Transnet Offices in Cambridge) = R 293. Interest charged on overdue account (ECDC Building) = R 80. Interest charged on overdue account (Telkom) = R 17 833 (2010: R 829). No disciplinary steps were taken to date of reporting and there is no indication that these costs are recoverable.

Payments made to Directors while they were suspended and later re-instated amounted to R 4 708 631. (2010: R 1 700 996).

53. Irregular expenditure

Opening balance	60,905,364	23,390,731
Irregular Expenditure - current year	159,874,774	37,514,633
Less: Amounts condoned	(880,654)	-
	219,899,484	**60,905,364**

Analysis of expenditure awaiting condonation per age classification

Current year	159,874,774	37,514,633

Figures in Rand		2011	2010

53. Irregular expenditure (continued)

Details of irregular expenditure – current year

A contract in respect of printing and mailing of municipal accounts was awarded to a service provider which was not in accordance with the requirements of the SCM policy.	4,770,137
A contract in respect of repairs to a turntable ladder was awarded to a service provider which was not in accordance with the requirements of SCM policy.	106,804
Payments were made in respect of expired lease contracts for photocopy machines.	28,788
Bank charges were paid in respect of the bank contract which expired on 31/12/2009.	4,907,907
Tender cancellations and re-adverts for 2010/11 resulted in irregular expenditure payments.	111,818
Irregular expenditure in respect of stock purchases.	19,754,104
Payments were made in respect of an expired contract for the supply and delivery of electricity low voltage distribution pillar boxes.	76,200
Payments were made in respect of an expired contract for refuse collection within Mdantsane.	10,556,785
Payments were made in respect of expired contracts for servicing, recharging and maintenance of municipal fire fighting equipment.	89,019
Payments were made in respect of an expired contract for the disconnection and reconnection of electricity and water.	3,563,002
Payments were made in respect of an expired contract for the supply and delivery of dissolved acetylene and liquid petroleum gas.	1,311,327
Payments were made in respect of an expired contract for the supply and delivery of street lighting brackets.	61,402
Payments were made in respect of an expired contract for the supply and delivery of weed killer herbicides.	803,786
Payments were made in respect of an expired contract for garded maintenence of sewerage treatment works and grass cutting of reservoir sites.	930,124
Payments were made in respect of an expired contract for the supply and delivery of refuse bags.	9,398,160
Payments were made in respect of an expired contract for street lighting maintenance.	10,012,069
Payments were made in respect of an expired contract for the hire of portable chemical toilets.	1,090,899
Payments were made in respect of an expired contract for launderette services.	76,830
Payments were made in respect of expired contracts for the hire of mechanical plant and services.	57,094,778
Payments were made in respect of expired contracts for security and the safeguarding of the city.	13,544,239
Payments were made in respect of expired contracts for flocculent and powder activated carbon.	6,871,050
Payments were made in repect of expired contracts for the supply and delivery of paint.	1,591,213
Payments were made in respect of expired contracts for trench excavations.	4,433,513
Payments were made in respect of expired contracts for the hire of a pressure jetting machine for clearing blocked sewerage water drains and sewers.	2,757,740
Payments were made in respect of expired contracts for the supply and delivery of chemicals.	849,520

Notes to the Annual Financial Statements

Figures in Rand		2011	2010

53. Irregular expenditure (continued)

Payments were made in respect of grants to Tourism Buffalo City which was not properly constituted in terms of the MFMA.	5,083,560		
	159,874,774		

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Payment made from investment vote whereby supporting documentation - misplaced/missing	High court judgment	880,654

Payment made from investment vote whereby supporting documentation was misplaced/missing - judgment was handed down in the High Court (Case no 179/2009) whereby Zinala Information Technology and Communication System CC were instructed to repay the municipality plus interest from 27 July 2007 to date of repayment. On reporting date no repayment had yet been received. The municipality is awaiting legal opinion to institute criminal proceedings.

Details of irregular expenditure recoverable (not condoned)

Tender award - Irregularities - Neo Solutions	2,278,189
Tender award - Irregularities - Waste Rite	20,231,888
	22,510,077

53. Irregular expenditure (continued)

Details of irregular expenditure not recoverable (not condoned)

A contract in respect of printing and mailing of municipal accounts was awarded to a service provider which was not in accordance with the requirements of the SCM policy - 2010.	4,204,787
Payments were made in respect of expired lease contracts for photocopy machines - 2010.	14,907
Bank charges were paid in respect of the bank contract which expired on 31/12/2009 - 2010.	2,025,672
Payments were made in respect of an expired contract for refuse collection within Mdantsane - 2010.	7,799,740
Payments were made in respect of an expired contract for the supply and delivery of weed killer herbicides - 2010.	335,458
Payments were made in respect of an expired contract for the hire of portable chemical toilets - 2010.	630,826
Payments were made in respect of expired contracts for flocculent and powder activated carbon- 2010.	7,566,802
Payments were made inb respect of expired contracts for trench excavations - 2010.	9,098,942
Payments were made in respect of expired contracts for the supply of chemicals - 2010.	977,499
Payments were made in respect of grants to Tourism Buffalo City which was not properly constituted in terms of the MFMA - 2010.	4,860,000
A contract in respect of printing and mailing of municipal accounts was awarded to a service provider which was not in accordance with the requirements of the SCM policy - 2011.	4,770,137
A contract in respect of repairs to a turntable ladder was awarded to a service provider which was not in accordance with the requirements of SCM policy - 2011.	106,804
Payments were made in respect of expired lease contracts for photocopy machines - 2011.	28,788
Bank charges were paid in respect of the bank contract which expired on 31/12/2009 - 2011.	4,907,907
Tender cancellations and re-adverts for 2010/11 resulted in irregular expenditure payments - 2011.	111,818
Irregular expenditure in respect of stock purchases - 2011.	19,754,104
Payments were made in respect of an expired contract for the supply and delivery of electricity low voltage distribution pillar boxes - 2011.	76,200
Payments were made in respect of an expired contract for refuse collection within Mdantsane - 2011.	10,556,785
Payments were made in respect of expired contracts for servicing, recharging and maintenance of municipal fire fighting equipment - 2011.	89,019
Payments were made in respect of an expired contract for the disconnection and reconnection of electricity and water - 2011.	3,563,002
Payments were made in respect of an expired contract for the supply and delivery of dissolved acetylene and liquid petroleum gas - 2011.	1,311,327
Payments were made in respect of an expired contract for the supply and delivery of street lighting brackets - 2011.	61,402
Payments were made in respect of an expired contract for the supply and delivery of weed killer herbicides - 2011.	803,786
Payments were made in respect of an expired contract for garded maintenance of sewerage treatment works and grass cutting of reservoir sites - 2011.	930,124

Figures in Rand		2011	2010

53. Irregular expenditure (continued)

Payments were made in respect of an expired contract for the supply and delivery of refuse bags - 2011.	9,398,160
Payments were made in respect of an expired contract for street lighting maintenance - 2011.	10,012,069
Payments were made in respect of an expired contract for the hire of portable chemical toilets - 2011.	1,090,899
Payments were made in respect of an expired contract for launderette services - 2011.	76,830
Payments were made in respect of expired contracts for the hire of mechanical plant and services - 2011.	57,094,778
Payments were made in respect of expired contracts for security and the safeguarding of the city - 2011.	13,544,239
Payments were made in respect of expired contracts for flocculent and powder activated carbon - 2011.	6,871,050
Payments were made in repect of expired contracts for the supply and delivery of paint - 2011.	1,591,213
Payments were made in respect of expired contracts for trench excavations - 2011.	4,433,513
Payments were made in respect of expired contracts for the hire of a pressure jetting machine for clearing blocked sewerage/water drains and sewers - 2011.	2,757,740
Payments were made in respect of expired contracts for the supply and delivery of chemicals - 2011.	849,520
Payments were made in respect of grants to Tourism Buffalo City which was not properly constituted in terms of the MFMA - 2011.	5,083,560
	197,389,407

54. In-kind donations and assistance

	2011	2010
BCMM received the services of Dr. J Rausch - German Development Services	-	159,642
FELZOO donated amount to BCMM	81,527	-
	81,527	**159,642**

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2011	2010
Current year subscription / fee	4,534,166	3,972,247
Amount paid - current year	(4,534,166)	(3,972,247)
	-	-

Contributions to SA Cities Network

	2011	2010
Current year subscription / fee	265,734	241,577
Amount paid - current year	(265,734)	(241,577)
	-	-

Audit fees

	2011	2010
Current year subscription / fee	5,309,522	3,783,357
Amount paid - current year	(5,309,522)	(3,783,357)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

PAYE and UIF

	2011	2010
Current year subscription / fee	105,940,361	88,990,900
Amount paid - current year	(105,940,361)	(88,990,900)
	-	-

Pension and Medical Aid Deductions

	2011	2010
Current year subscription / fee	208,918,976	185,123,351
Amount paid - current year	(208,918,976)	(185,123,351)
	-	-

VAT

	2011	2010
VAT receivable	38,470,843	51,059,163

VAT output payables and VAT input receivables are shown in note 8 as net VAT receivable.

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

Councillors' arrear consumer accounts

Arrear Councillors accounts totalling R 8 684 were outstanding for more than 90 days at 30 June 2011 for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

Material losses

Electricity losses for the current year amounted to 12.38% i.e. R 76 330 480 (2010: 12.01% i.e. R 58 296 355). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 9.45% i.e. R 58 267 364 (2010: 6.5% i.e. R 31 553 851). Non-technical losses, being theft, faults, billing errors etc., account for 2.93% i.e. R 18 063 116 (2010: 5.51% i.e. R 26 742 504). Attempts are currently being made to reduce these non-technical losses.

Water losses for the current year amounted to 45.39% i.e. R 52 240 662 (2010: 39.95% i.e. R 47 309 293) which represent non-revenue water i.e. non-billed water. 34.34% i.e. R 39 528 816 (2010: 34.54% i.e. R 40 900 052) of these losses can be accounted for it terms of the National Guidelines for non-revenue water. 11.04% i.e. R 12 711 846 (2010: 5.41% i.e. R 6 409 241) of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

56. Utilisation of Long-term liabilities reconciliation

	2011	2010
Long-term liabilities raised	187,584,824	-
Finance leases taken up	862,874	1,637,433
Used to finance property, plant and equipment	(188,447,698)	(1,637,433)
	-	-

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.

57. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of Council and includes a note to the annual financial statements.

During the financial year under review goods/services totalling R 8 900 518 were procured and the process followed in procuring those goods/services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

58. Retirement benefit information

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

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

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2010 conducted by S. Neethling from Metropolitan Life Limited. The fund was in a sound financial position. 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 2010 conducted by E. Du Toit from Alexander Forbes Financial Services who certified that the structure of the assets and the matching of the assets with the liabilities is adequate.

The Government Employees Pension Fund's last valuation was at 31 March 2008 conducted by G. Barnard from Alexander Forbes Financial Services. The fund was considered to be financially sound.

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 2009 conducted by J.F.Rosslee of Genesis Actuarial Solutions. The fund was 96% funded as at valuation date. Low investment returns resulted in a decrease from 110% .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 less than 100 % funded no additional action was recommended.

The Municipal Employees Pension Fund's last valuation was at 29 February 2009 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The funding level was 102.2% at this date.

The Municipal Councillors Pension Fund's last valuation was at 30 June 2009 prepared by A. F. Botha from Jacques Malan Consultants and Actuaries. The report stated that the fund was in a sound financial position.

It is Council's policy to fund 60% of Pensioner's medical aid expenses.The current costs amount to approximately R 12,7 million.

An amount of R 143,6 million (2010: R 126,7million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee's retirement funding. These contributions have been expensed.

58. Retirement benefit information (continued)

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.

The Cape Retirement Fund's last actuarial valuation was at 30 June 2010 conducted by S Neethling from Metropolitan life Limited who certified that the fund was in a sound financial position.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

59. Contigent liabilities

The maximum amount payable in respect of Directors and General Managers bonuses amounts to R3 784 405 (2010: R2 366 331).

Claims of approximately R6.7 million have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advise has been sought and Council will defend claims where so advised.

Claims of approximately R2.1 million have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.

Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims of approximately R2.6 million.

A claim of R6.0 million has been instituted against Council by Claremont Farming as the plaintiff wants BCM to take ownership of its farm after BCM allegedly erected a water reservoir on the farm.

A claim of approximately R4.1 million has been instituted against Council by Transnet due to outstanding rental since 1998 when the last lease between Transnet and BCM expired.

A claim of approximately R1.6 million has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCM of the contractor tendering or being awarded the contract.

A claim of approximately R1.4 million has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council.

The unions have disputed the interpretation of the TASK Job Evaluation agreement and have indicated that the current salary scales being used should have increased by 8.48% with effect from 01/07/2010. This could result in Council having to pay an amount of approximately R17.6 million.

Employees who have appealed against TASK evaluation results may receive a higher TASK level and back pay if their TASK levels are upgraded through the appeal process. It is also possible that positions within the Municipality could be re-graded and employees could also in some cases be upgraded and receive backpay. This could result in Council having to pay an amount of approximately R5.0 million.

The Senior Professional Nurses allege that their Occupational Specific Dispensation allowances have been incorrectly calculated and that they should be receiving higher amounts. This could result in Council having to pay an amount of approximately R2.8 million.

Certain former R293 employees received a lesser total package when they were transferred to the Municipality. This could result in Council having to pay an amount of approximately R4.0 million.

A claim of approximately R4.2 million has been instituted against Council by Mercedes-Benz SA in respect of a voltage fluctuation which allegedly fell outside the time periods and parameters as agreed upon in the electricity supply agreement between BCM and MBSA resulting in damage to body shop machinery.

A claim of approximately R1.6 million has been instituted against Council by the East London IDZ in respect of an alleged overcharge on an electricity account.

A claim of approximately R1.2 million has been instituted against Council by the East London IDZ in respect of maintenance of roads around the ELIDZ pertaining to grass cutting.

A claim of approximately R9.8 million has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance.

Contracts awarded during Dr. Zitha's tenure as Acting Municipal Manager, in the estimated amount of R100 million were iinvestigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.

Figures in Rand	2011	2010

59. Contigent liabilities (continued)

As a result of a tender award being challenged by interested parties, a recommodation was made by a facilitator that the municipality pay the appointed contractor Umso Construction an amount of approximately R3.5 million being the approximate standing time between the commencement of the project and the date the project was stopped.

A claim of approximately R2.9 million has been instituted against Council by N.M. Rieger & Others in respect of monies allegedly due to them in terms of an agreement with Council.

60. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/ (deficit) with the surplus/ (deficit) in the statement of financial performance:

	2011	2010
Net (deficit) surplus per the statement of financial performance	(75,655,748)	33,799,362
Adjusted for:		
Defficit/ (surplus) from equity accounted investments	20,235,199	(32,323,291)
Loss or (gain) on sale of assets	5,608,074	(1,076,212)
Actuarial (Gain)/ Loss	(500,202)	7,891,109
Fair value adjustments	(330,911)	3,087,502
Discounted payables	1,290,683	(241,801)
Impairment reversal	(71,221,655)	(50,502,903)
Stock - RDP house	(29,842,624)	(26,003,221)
Donated & Plubic PPE - Revenue	(7,823,046)	-
Government Grants PPE - Revenue	(224,910,557)	-
Offset depreciation	318,833,827	160,166,528
Variances between budget and actuals	64,421,248	145,051,522
Net surplus per approved budget	**104,288**	**239,848,595**