BUFFALO CITY METROPOLITAN ECONOMIC ENTITY
Annual Financial Statements
FOR THE YEAR ENDED 30 JUNE 2012

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 economic entity.

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

Mr. A. Fani
City Manager

30/11/12
Date

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

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Government
Accounting Officer	Mr. A. Fani
Acting Chief Financial Officer	Ms. P. Adonis
Jurisdiction	The demarcation board has determined that Buffalo City Metropolitan Economic Entity (EC 125) includes the towns of East London, Bisho, King Williams Town as well as the townships of Mdantsane and Zwelitsha with the corridor of rural areas.
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Standard Bank
Auditors	Auditor General

Index

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

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011 Restated
Assets			
Current Assets			
Cash and cash equivalents	4	1,522,347,706	741,246,762
Inventories	5	117,116,161	137,420,107
Receivables from exchange transactions	6	312,473,204	211,059,310
Receivables from non-exchange transactions	7	153,606,850	91,348,064
VAT receivable	8	34,129,583	37,459,742
Current portion of operating leases	9	2,546,106	1,582,012
Current portion of long-term receivables	10	13,098	11,880
		2,142,232,708	**1,220,127,877**
Non-Current Assets			
Long-term receivables	10	57,353	70,451
Intangible assets	11	12,111,592	13,361,599
Investment property	12	219,463,251	220,776,439
Heritage assets	13	3,853,336	3,420,757
Property, plant and equipment	14	11,327,107,217	11,557,876,309
Non-current investments	15	856,601	819,965
Investment in associate	16	260	12,088,092
Deferred tax	65	275	275
Non-current portion of operating leases	9	59,027,596	58,409,679
		11,622,477,481	**11,866,823,566**
Total Assets		**13,764,710,189**	**13,086,951,443**
Liabilities			
Current Liabilities			
Borrowings	17	41,533,557	45,000,220
Consumer deposits	18	36,919,893	33,454,333
Finance lease obligation	19	463,541	760,066
Provisions	20	124,884,616	116,829,324
Payables from exchange transactions	21	449,850,089	369,554,968
Unspent conditional grants and receipts	22	787,665,935	346,141,548
Current tax payable	67	493,078	247,175
VAT payable	56	171,070	1,120,873
Bank overdraft (iro of market cash book - Bank balance = R1 230 770)	4	1,064,181	1,034,384
		1,443,045,960	**914,142,891**
Non-Current Liabilities			
Borrowings	17	604,256,175	645,786,508
Finance lease obligation	19	990,241	716,951
Provisions	20	68,089,174	49,055,625
Post-retirement medical obligation	23	341,426,029	280,763,820
Refundable deposits		102,500	102,500
		1,014,864,119	**976,425,404**
Total Liabilities		**2,457,910,079**	**1,890,568,295**
Net Assets		**11,306,800,110**	**11,196,383,148**
Net Assets			
Reserves			
Revaluation reserve	24	15,474,689	16,047,826
Accumulated surpluses		11,291,325,421	11,180,335,322
Total Net Assets		**11,306,800,110**	**11,196,383,148**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011 Restated
Revenue			
Public contributions and donations - operating projects	27	1,329,257	1,192,709
Public contributions and donations - PPE	27	1,283,135	9,029,317
Licences and permits	27	15,707,756	15,052,975
Fines	27	5,455,740	7,320,910
Fuel Levy	27	170,477,000	-
Rental of facilities and equipment	27	13,387,803	14,107,440
Property rates	28	522,514,480	453,306,422
Service charges	29	1,754,709,786	1,463,099,072
Government grants & subsidies	30	905,903,245	901,582,926
Other revenue	31	118,100,893	120,366,164
Interest received on investments	36	82,656,471	53,775,551
Total Revenue		**3,591,525,566**	**3,038,833,486**
Expenditure			
Employee related costs	33	(952,656,803)	(861,417,819)
Remuneration of councillors	34	(42,965,666)	(23,277,825)
Depreciation and amortisation	38	(513,024,034)	(508,798,632)
Impairments	14	(1,798,575)	71,221,655
Finance costs	39	(70,498,923)	(58,655,860)
Debt impairment	35	(58,206,738)	(210,998,044)
Repairs and maintenance	64	(210,584,112)	(193,336,391)
Bulk purchases	43	(915,387,167)	(771,252,980)
Contracted services	41	(6,839,654)	(5,907,804)
Grants and subsidies paid	42	(13,740,886)	(19,909,665)
Medical aid obligation net cost	23	(74,121,339)	(32,164,816)
General Expenses	32	(594,148,300)	(626,300,346)
Fair value adjustment on Sanlam shares revalued	37	-	330,911
Loss on the sale of PPE	14	(1,486,310)	(5,608,765)
Total Expenditure		**(3,455,458,511)**	**(3,246,076,386)**
Share of deficit of associate accounted for under the equity method	16	(12,087,832)	(20,235,199)
Taxation	66	(248,885)	(62,023)
Surplus / (deficit) for the year	**63**	**123,730,338**	**(227,540,122)**

Statement of Changes in Net Assets

Figures in Rand

	Notes	Revaluation reserve	Accumulated surpluses	Total Net Assets
Opening balance as previously reported		16,620,963	11,187,980,650	11,204,601,613
Adjustments:				
Prior year adjustments	48	-	(645,684,653)	(645,684,653)
Balance at 01 July 2010 as restated		**16,620,963**	**10,542,295,997**	**10,558,916,960**
Changes in net assets:				
(Deficit) for the year	48	-	(227,540,122)	(227,540,122)
Take on of PPE at deemed cost	14	-	4,428,910	4,428,910
Depreciation transfer to income	24	(573,137)	573,137	-
Depreciation adjustment due to review of assets	48	-	866,217,372	866,217,372
Fair value reversal adjustment in terms of GRAP 104	48	-	(862,916)	(862,916)
Depreciation adjustment iro bridges and stormwater assets	48	-	(4,777,052)	(4,777,052)
Balance at 01 July 2011 as restated	48	**16,047,826**	**11,180,335,322**	**11,196,383,148**
Changes in net assets:				
Take on of PPE at deemed cost	14	-	67,930	67,930
Depreciation transfer to income	24	(573,137)	573,137	-
Adjustments to the Municipal Property Asset Register - Investment properties	12	-	(1,313,188)	(1,313,188)
Adjustments to the Municipal Property Asset Register - Properties	14	-	(12,068,119)	(12,068,119)
Surplus for the year	63	-	123,730,338	123,730,338
Balance at 30 June 2012		**15,474,689**	**11,291,325,421**	**11,306,800,110**
Note(s)		24		

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services	62	2,380,758,693	1,968,302,308
Government grants, subsidies and public contributions and donations	62	908,515,638	911,804,952
Interest received	36	82,656,471	53,775,551
		3,371,930,802	2,933,882,811
Payments			
Employee costs	33&34	(995,622,471)	(884,695,644)
Suppliers	62	(1,655,799,265)	(1,651,679,591)
Interest paid	39	(70,498,923)	(58,655,860)
		(2,721,920,659)	(2,595,031,095)
Net cash flows from operating activities	44	**650,010,145**	**338,851,716**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(267,119,856)	(394,095,638)
Proceeds from sale of property, plant and equipment	14	1,895,651	1,275,865
Purchase of other intangible assets	11	(3,227,171)	(5,014,457)
Purchases/Write on/Donated heritage assets	13	(432,579)	-
Net movement in financial assets	10	11,880	341,686
Movement in non-current investments	15	(36,639)	3,590,981
Net cash flows from investing activities		**(268,908,714)**	**(393,901,563)**
Cash flows from financing activities			
Repayment of borrowings	17	(44,996,996)	154,075,603
Finance lease payments	19	(23,235)	(218,930)
Increase in unspent conditional grants	22	441,524,387	78,855,236
Increase in consumer deposits	18	3,465,560	3,079,227
Net cash flows from financing activities		**399,969,716**	**235,791,136**
Net increase in cash and cash equivalents		**781,071,147**	**180,741,289**
Cash and cash equivalents at the beginning of the year		740,212,378	559,471,089
Cash and cash equivalents at the end of the year	4	**1,521,283,525**	**740,212,378**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

The Metropolitan economic entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance 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 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 Metropolitan economic entity is the current bid price.

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

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

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 23.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) 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 Metropolitan economic entity, and the cost or fair value of the investment property can be measured reliably.

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

Where investment property is acquired 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 entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired 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.

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

1.3 Property, plant and equipment (continued)

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.

1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

- subject to, changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the Metropolitan economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

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

1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Metropolitan economic entity; and
- the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.5 Intangible assets (continued)

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.

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; and
- 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 nil.

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

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

1.6 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.7 Investment in associate

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

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

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

Where the Metropolitan economic entity or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Metropolitan economic entity's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the Metropolitan economic entity is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

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

1.8 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

- cash;

1.8 Financial instruments (continued)

- 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.

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are combined instruments that are designated at fair value and/or instruments held for trading.

A financial instrument is held for trading if:

> it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or

> on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; and

> financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 25 :

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
Other receivables from exchange transactions	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 note 26 :

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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

1.8 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:

1.8 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.

1.9 Tax

Current tax assets and liabilities

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

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

1.9 Tax (continued)

Deferred tax assets and liabilities

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

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

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

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

1.10 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.

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.

1.11 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.

Accounting Policies

1.11 Inventories (continued)

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

Current replacement cost is the cost the Metropolitan economic entity incurs to acquire the asset on the reporting date.

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

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

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

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

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

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

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:
- the period of time over which an asset is expected to be used by the Metropolitan economic entity; or
- the number of production or similar units expected to be obtained from the asset by the Metropolitan economic entity.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Identification

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

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

Value in use

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

Accounting Policies

1.12 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.

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

Depreciation (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:

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

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

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

At each reporting date a review is carried out to determine whether there are any indications that any assets and 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 surplus or deficit in respect of assets at historic cost, and recognised in the the revaluation reserve in respect of assets at revalued amounts.

Identification

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

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

Value in use

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.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.14 Employee benefits

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

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

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

Termination benefits are 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.

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

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits.

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

1.14 Employee benefits (continued)

Short-term employee benefits

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

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The Metropolitan economic entity 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 Metropolitan economic entity recognises the expected cost of bonus, incentive and performance related payments when the Metropolitan economic entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a Metropolitan economic entity pays fixed contributions into a separate Metropolitan economic 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.

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

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

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise of expense adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the Metropolitan economic entity 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 Metropolitan economic entity) that are held by a Metropolitan economic entity (a fund) that is legally separate from the reporting Metropolitan economic entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting Metropolitan economic entity's own creditors (even in liquidation), and cannot be returned to the reporting Metropolitan economic entity, unless either:

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

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

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

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the Metropolitan economic entity 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 Metropolitan economic entity accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the Metropolitan economic entity's informal practices. Informal practices give rise to a constructive obligation where the Metropolitan economic entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the Metropolitan economic entity's informal practices would cause unacceptable damage to its relationship with employees.

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

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

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

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

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

1.14 Employee benefits (continued)

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

The Metropolitan economic entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a Metropolitan economic entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a 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 Metropolitan economic entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

1.14 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.

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.15 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 Metropolitan economic entity

No obligation arises as a consequence of the sale or transfer of an operation until the Metropolitan economic entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

- the Metropolitan economic entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the Metropolitan economic entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Metropolitan economic entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Metropolitan economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the Metropolitan economic entity, and
- the amount of the revenue can be measured reliably.

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

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

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

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

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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.

1.17 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 Metropolitan economic entity.

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

Debt forgiveness and assumption of liabilities

The Metropolitan economic entity 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 Metropolitan economic entity.

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

Bequests

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

Accounting Policies

1.17 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 Metropolitan economic entity and the fair value of the assets can be measured reliably.

1.18 Investment income

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

1.19 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.12 and 1.13. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

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

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

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; 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.

1.22 Fruitless and wasteful expenditure

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

Accounting Policies

1.22 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.

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Metropolitan 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.

1.24 Use of estimates

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

1.25 Offsetting

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

1.26 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.

1.27 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.

Accounting Policies

1.28 Conditional grants and receipts

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

1.29 Budget information

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

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

1.30 Value added tax (VAT)

The Metropolitan economic entity accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. Refer to note 8.

1.31 Commitments

Items are classified as commitments when the Metropolitan economic entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the Metropolitan economic entity determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. Refer to note 45.

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 following policy application as per Directive 5 as issued by the Accounting Standard Board.

- Formulated a policy within Accounting Policies of the AFS for Related Parties based on GRAP 20.

Financial instruments

In the current year, the policy formulated within Accounting Policies for GRAP 104 - Financial Instruments were changed to accommodate the interpretation of paragraph 87 as the most appropriate standard for the calculation of the present value of short-term receivables and payables.This was a change in accounting policy from the previous financial years.

These adjustments were effected retrospectively.

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April 2011	No material impact
IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011	No material impact
IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April 2011	No material impact
IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April 2011	No material impact
IGRAP 6: Loyalty Programmes	01 April 2011	No material impact
IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April 2011	No material impact
IGRAP 9: Distributions of Non-cash Assets to Owners	01 April 2011	No material impact
IGRAP 10: Assets Received from Customers	01 April 2011	No material impact
IGRAP 13: Operating Leases – Incentives	01 April 2011	No material impact
IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011	No material impact
IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011	No material impact

3.2 Standards and interpretations issued, but not yet effective

The Metropolitan economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the Metropolitan economic entity's accounting periods beginning on or after 01 July 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	No material impact
GRAP 25: Employee benefits	No effective date has yet been determined by the Minister of Finance	To be determined
GRAP 104: Financial Instruments	01 April 2012	No material impact

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the Metropolitan economic entity's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18: Segment Reporting	No effective date has yet been determined by the Minister of Finance	Unknown
GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	Financial system changes
GRAP 103: Heritage Assets	01 April 2012	No material impact
GRAP 21: Impairment of non-cash-generating assets	01 April 2012	No material impact
GRAP 26: Impairment of cash-generating assets	01 April 2012	No material impact

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013	No material impact
GRAP 105: Transfers of functions between entities under common control	No effective date has yet been determined by the Minister of Finance	Unlikely to have an impact
GRAP 106: Transfers of functions between entities not under common control	No effective date has yet been determined by the Minister of Finance	Unlikely to have an impact
GRAP 107: Mergers	No effective date has yet been determined by the Minister of Finance	Unlikely to have an impact
GRAP 20: Related parties	No effective date has yet been determined by the Minister of Finance	No material impact

Figures in Rand		2012	2011 Restated

4. Cash and cash equivalents

Cash and cash equivalents consist of:

		2012	2011 Restated
Cash on hand		1,666,515	1,415,962
Bank balances		56,469,953	43,883,736
Short-term deposits		1,464,211,075	695,946,782
Other cash and cash equivalents		163	282
Bank overdraft		(1,064,181)	(1,034,384)
		1,521,283,525	**740,212,378**
Current assets		1,522,347,706	741,246,762
Current liabilities		(1,064,181)	(1,034,384)
		1,521,283,525	**740,212,378**
Allocation of external investments (short-term deposits)			
Unspent conditional grants		787,665,935	346,141,548
Housing collateral for employees housing loans with lending institutions		271,950	502,766
Borrowing current repayments		24,224,397	1,948,536
Cash flow committed to operating and capital projects		111,897,042	42,876,769
BCMET		1,798,913	2,011,123
Own funding (operating account commitments)		538,352,838	302,466,040
Total short-term deposits		**1,464,211,075**	**695,946,782**
Prior period errors	**48**		
Bank balances previously reported		-	43,876,431
BCMET adjusted		-	7,305
Restated		**-**	**43,883,736**
Prior period errors	**48**		
Short-term deposits previously reported		-	693,935,659
BCMET adjusted		-	2,011,123
Restated		**-**	**695,946,782**
Short-term deposits per institution			
Absa (interest rate range 5% - 5.86% : 2011 5% - 6%)		374,200,819	173,533,317
Nedbank (interest rate range 5% : 2011 5% - 6%)		362,621,306	150,319,944
RMB (interest rate range 5% - 5.80% : 2011 5% - 6%)		362,957,317	191,174,132
Standard (interest rate range 5% - 5.88% : 2011 5% - 6%)		177,642,582	48,611,932
Stanlib (interest rate range 5.56% - 5.67% : 2011 5,6% - 7%)		186,789,051	132,307,457
		1,464,211,075	**695,946,782**

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

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

No restrictions exist with regard to the use of cash.

No portion is past due or impaired.

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

A cession by the Metropolitan economic entity in respect of the Department of Labour for COID amounts to R6 997 418 (2011: R5 704 014).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

4. Cash and cash equivalents (continued)

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 metropolitan economic entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
Standard Bank - Primary Account - 081-221-495	117,205,269	105,075,417	124,060,031	48,486,521	35,563,034	51,217,667
Standard Bank - Market Account - 081-246-072	1,230,770	1,875,348	1,270,839	(1,064,181)	(1,034,384)	(1,268,510)
Standard Bank - Inter Authority Account - 081-246-250	1,476,139	1,477,381	1,477,695	1,476,138	1,477,381	1,477,695
Standard Bank - Prism Account - 081-246-048	-	-	-	5,105,086	5,583,785	3,042,357
Standard Bank - BCMET - 081-098-359	111,882	7,304	1,836,020	111,882	7,304	-
First National Bank - Operating Account - 620-987-17899	159,540	164,834	133,967	159,540	164,834	133,967
First National Bank - Money Market Account - 620-987-19358	1,130,642	1,087,253	1,042,716	1,130,642	1,087,253	1,042,716
Corporate Credit Card - 881-271-290-380-1000	163	282	562	163	282	562
Credit Card	144	144	-	144	144	-
Total	**121,314,549**	**109,687,963**	**129,821,830**	**55,405,935**	**42,849,633**	**55,646,454**

Total cash book balance as at 30 June 2012 = R55 405 935 Add Back bank overdraft of R1 064 181 = R56 470 116.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

5. Inventories

Electricity store (Electrical maintenance parts)	14,067,505	13,359,942
Workshop store (Mechanical maintenance parts)	366,322	273,535
General stores (Chiselhurst,Mdantsane,KWT)	31,634,062	42,476,991
Water store (Water maintenance parts)	25,403,125	25,607,572
Fuel (Diesel, Petrol)	1,651,100	1,665,217
Unsold water (Treated water in pipelines & reservoirs)	2,297,627	2,248,008
Housing stock (RDP Houses)	41,823,101	52,622,502
	117,242,842	138,253,767
Inventories (write-downs)	(126,681)	(833,660)
	117,116,161	**137,420,107**

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

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

Prior period errors	**48**		
Housing stock previously reported		-	57,616,450
Adjusted		-	(4,993,948)
Restated		**-**	**52,622,502**

Inventory pledged as security

No inventory was pledged as security.

6. Receivables from exchange transactions

Gross balances		
Electricity	164,575,388	139,270,922
Water	233,338,178	203,331,289
Sewerage	116,942,793	101,965,944
Refuse	139,417,302	117,764,259
Housing rental	2,126,090	1,787,303
	656,399,751	**564,119,717**
Less: Allowance for debt impairment		
Electricity	(31,203,958)	(29,497,133)
Water	(139,785,764)	(150,192,769)
Sewerage	(76,331,740)	(76,836,655)
Refuse	(95,065,173)	(95,046,910)
Housing rental	(1,539,912)	(1,486,940)
	(343,926,547)	**(353,060,407)**
Net balance		
Electricity	133,371,430	109,773,789
Water	93,552,414	53,138,520
Sewerage	40,611,053	25,129,289
Refuse	44,352,129	22,717,349
Housing rental	586,178	300,363
	312,473,204	**211,059,310**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

6. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	119,976,018	106,168,253
31 - 60 days	6,546,082	5,759,741
61 - 90 days	3,282,855	2,888,653
91 - 120 days	3,028,520	2,727,449
121 - 365 days	14,316,844	7,827,991
> 365 days	17,425,069	13,898,835
	164,575,388	**139,270,922**

Water		
Current (0 -30 days)	43,303,486	34,163,595
31 - 60 days	14,223,543	10,367,866
61 - 90 days	12,229,566	8,813,104
91 - 120 days	8,020,442	7,049,696
121 - 365 days	45,149,001	41,917,612
> 365 days	110,412,140	101,019,416
	233,338,178	**203,331,289**

Sewerage		
Current (0 -30 days)	15,639,625	16,151,628
31 - 60 days	7,041,355	5,763,142
61 - 90 days	6,554,367	4,469,396
91 - 120 days	4,038,096	3,249,900
121 - 365 days	21,985,759	17,825,006
> 365 days	61,683,591	54,506,872
	116,942,793	**101,965,944**

Refuse		
Current (0 -30 days)	13,252,182	11,417,703
31 - 60 days	7,373,244	5,890,441
61 - 90 days	7,029,977	4,469,824
91 - 120 days	4,735,207	3,276,519
121 - 365 days	25,137,766	19,235,621
> 365 days	81,888,926	73,474,151
	139,417,302	**117,764,259**

Housing rental		
Current (0 -30 days)	82,406	82,873
31 - 60 days	81,462	46,223
61 - 90 days	89,523	50,253
91 - 120 days	61,849	37,665
121 - 365 days	400,988	245,780
> 365 days	1,409,862	1,324,509
	2,126,090	**1,787,303**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

6. Receivables from exchange transactions (continued)

Summary of debtors by customer classification:
(This refers to the total debtor classification including exchange and non- exchange transactions as per the billing system i.e. this includes rates and other billing receivables)

Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	115,536,686	110,526,721
31 - 60 days	38,592,466	29,573,810
61 - 90 days	35,646,055	24,453,756
91 - 120 days	23,360,860	18,757,969
121 - 365 days	137,345,258	114,899,732
> 365 days	381,306,256	348,593,145
	731,787,581	646,805,133
Less: Allowance for debt impairment	(474,617,731)	(483,709,444)
	257,169,850	**163,095,689**

Industrial/ commercial (including rates and other receivables (billing))		
Current (0 -30 days)	114,915,186	103,808,701
31 - 60 days	11,131,834	8,561,426
61 - 90 days	6,206,593	4,652,230
91 - 120 days	4,931,523	4,044,789
121 - 365 days	25,840,401	13,934,019
> 365 days	40,547,113	23,539,068
	203,572,650	158,540,233
Less: Allowance for debt impairment	(54,278,387)	(48,219,977)
	149,294,263	**110,320,256**

National and provincial government (including rates and other receivables (billing))		
Current (0 -30 days)	12,511,991	11,939,521
31 - 60 days	1,089,261	2,289,947
61 - 90 days	193,753	771,919
91 - 120 days	601,906	661,589
121 - 365 days	1,621,884	1,693,047
> 365 days	1,212,030	556,168
	17,230,825	**17,912,191**

Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	242,963,863	226,274,943
31 - 60 days	50,813,561	40,425,183
61 - 90 days	42,046,401	29,877,905
91 - 120 days	28,894,289	23,464,347
121 - 365 days	164,807,543	130,526,798
> 365 days	423,065,399	372,688,382
	952,591,056	823,257,558
Less: Allowance for debt impairment	(528,896,119)	(531,929,422)
	423,694,937	**291,328,136**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

6. Receivables from exchange transactions (continued)

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

	2012	2011 Restated
Current (0 -30 days)	(252,809)	-
31 - 60 days	(37,854,030)	(35,266,816)
61 - 90 days	(31,322,854)	(26,065,400)
91 - 120 days	(21,525,067)	(20,470,231)
121 - 365 days	(122,774,896)	(113,871,214)
> 365 days	(315,166,463)	(336,255,760)
	(528,896,119)	**(531,929,421)**

Prior year error

	Note	2012	2011 Restated
Balance previously stated		-	219,625,088
Adjusted interest on arrears debtors	48	-	(8,565,778)
Restated		**-**	**211,059,310**

Consumer debtors pledged as security

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

No security is held for any of the accounts receivable.

Credit quality of consumer debtors

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

Consumer debtors impaired

As at 30 June 2012, consumer debtors of R 343,926,547 (2011: R 353,060,407) were impaired and provided for.

Amounts totalling R 50,331,640 (2011: R 22,705,198) were written off as uncollectable against the debt impairment allowance account. This represents 0.014 % (2011: 0.007 %) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

	2012	2011 Restated
Opening balance	(353,060,407)	(226,489,673)
Contribution during the year	(41,197,781)	(149,255,431)
Amounts written off as uncollectable	50,331,640	22,705,198
Other	-	(20,501)
	(343,926,548)	**(353,060,407)**

The creation and release of provisions for impaired receivables have been included in operating expenses in the statement of financial performance (note 35). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

Refer to note 7 regarding impairment of non-exchange transactions

Change in estimate - Debt impairment provision:

Figures in Rand		2012	2011 Restated

6. Receivables from exchange transactions (continued)

Management has reassessed the methodology utilized in performing the debt impairment provision. The debt impairment policy has not been amended. Through the analysis of the institution's customer population comprising the amounts owing to the institution and payment trends associated with individual customers, a determination could be made as to the likelihood of payment occurring from each individual customer. This approach was used to determine an estimate of the debt impairment amount which totalled R 528 896 119. It is impracticable to determine the amount of the change in estimate on future periods and as such no disclosure is made in this regard.

7. Receivables from non-exchange transactions

Property rates		196,165,077	160,555,218
Other receivables (billing)		100,026,228	98,582,625
Prepaid expenses		-	714,038
Accrued income		37,230,007	5,967,552
Other debtors		5,155,110	4,397,646
Impairment property rates		(184,969,572)	(178,869,015)
		153,606,850	**91,348,064**
Property rates age analysis			
Current (0-30days)		38,550,126	35,854,916
31-60 days		11,733,179	9,601,229
61-90 days		9,814,389	6,910,197
91-120 days		6,708,721	5,332,890
121-365 days		39,993,394	29,901,827
> 365 days		89,365,268	72,954,159
		196,165,077	**160,555,218**
Other receivables (billing)			
Current (0-30days)		12,160,024	22,435,978
31-60 days		3,814,694	2,996,542
61-90 days		3,045,724	2,276,478
91-120 days		2,301,454	1,790,227
121-365 days		17,823,791	13,572,961
> 365 days		60,880,541	55,510,439
		100,026,228	**98,582,625**
Prior period errors - Billing	**48**		
Other receivables (billing) previously reported		-	99,574,143
Adjusted for interest overstated		-	(991,518)
Restated		**-**	**98,582,625**
Prior period errors - Property rates	**48**		
Previously reported		-	163,748,374
Adjusted for interest overstated		-	(3,193,156)
		-	**160,555,218**

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.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

7. Receivables from non-exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

Trade receivables

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

Trade and other receivables impaired

As at 30 June 2012, trade and other receivables from non-exchange transactions of R 184,969,572 (2011: R 178,869,015) were impaired and provided for.

Amounts totalling R10,932,684 (2011: R3,657,943) were written off as uncollectable against the debt impairment allowance account.This represents 0.003 % (2011: 0.001 %) of the total operating income for the year.

Reconciliation of allowance for impairment of non-exchange transactions

	2012	2011
Opening balance	(178,869,015)	(120,784,346)
Allowance for impairment	(17,033,241)	(61,742,612)
Amounts written off as uncollectable	10,932,684	3,657,943
	(184,969,572)	**(178,869,015)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 35). 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

		2012	2011
VAT		34,129,583	37,459,742
Prior year error: Ernest and Young adjustment			
Balance previously reported		-	38,699,745
Adjustment	48	-	(1,240,003)
Restated		**-**	**37,459,742**

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

9. Operating leases averaged over total period

	2012	2011
Non-current assets	59,027,596	58,409,679
Current assets	2,546,106	1,582,012
	61,573,702	**59,991,691**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

9. Operating leases averaged over total period (continued)

Operating lease rentals	61,573,702	59,991,691
Operating lease rentals		
Current assets	2,546,106	1,582,012
Non-current assets	59,027,596	58,409,679
	61,573,702	**59,991,691**
Municipality as lessor: Operating leases minimum future receivables		
No later than one year	1,636,966	1,118,062
Later than one year no later than 5 years	7,009,992	5,047,272
Later than 5 years	159,816,056	160,041,529
	168,463,014	**166,206,863**

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% annually.

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

The operating lease accrual arises from the differences between the actual rental and average rental at balance sheet date. During 2011/12 financial year the net amount of R2 546 106 has been accrued.

10. Long-term receivables

Financial assets at amortised cost		
Sporting bodies and other loans	70,451	82,331
Non-current assets		
Financial assets at amortised cost	57,353	70,451
Current assets		
Financial assets at amortised cost	13,098	11,880
	70,451	**82,331**

Sporting bodies: Loans were granted to sporting bodies before the implementation of the MFMA. No new loans have been issued and the remaining loans are redeemable until 2016. The above amounts relate to two loans that were issued to Beacon Bay Country Club on 30 June 1995 and 30 June 1996 payable over 21.5 and 20.5 years with the last payment due on 31 December 2016 respectively.

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

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 of the long-term receivables was pledged as security for any financial liabilities.

Figures in Rand	2012	2011 Restated

11. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	20,826,638	(16,786,474)	4,040,164	18,827,225	(12,309,296)	6,517,929
Intangible assets under development	8,071,428	-	8,071,428	6,843,670	-	6,843,670
Total	**28,898,066**	**(16,786,474)**	**12,111,592**	**25,670,895**	**(12,309,296)**	**13,361,599**

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Work in progress completed tranferred	Amortisation	Total
Computer software	6,517,928	-	1,999,413	(4,477,177)	4,040,164
Intangible assets under development	6,843,670	3,227,171	(1,999,413)	-	8,071,428
	13,361,598	**3,227,171**	**-**	**(4,477,177)**	**12,111,592**

Reconciliation of intangible assets - 2011

	Opening balance	Additions	WIP Capitalised	Amortisation	Total
Computer software	9,673,367	170,200	397,800	(3,723,425)	6,517,929
Intangible assets under development	2,397,213	4,844,257	(397,800)	-	6,843,670
	12,070,580	**5,014,457**	**-**	**(3,723,425)**	**13,361,599**

Prior period errors			
Amortisation as stated in 2011		-	2,234,631
Adjusted	38&48	-	1,488,794
Restated		**-**	**3,723,425**

Pledged as security

No Intangible Assets were pledged as security.

Intangible assets under development refers to computer software.

12. Investment property

	2012			2011		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	219,463,251	-	219,463,251	220,776,439	-	220,776,439

12. Investment property (continued)

Reconciliation of investment property - 2012

	Opening balance	Adjustments	Total
Investment property	220,776,439	(1,313,188)	219,463,251

Reconciliation of investment property - 2011

	Opening balance	Transfers	Total
Investment property	201,198,657	19,577,782	220,776,439

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

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R 12,445,133 (2011: R12,929,741), including repairs and maintenance expenses on investment properties.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

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. The Municipal Valuer was assisted by appointed consultants.

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

Rental income from investment properties in respect of monthly and annual leases amounted to R7,804,438 (2011: R9,271,610).

13. Heritage assets

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Heritage sites	3,853,336	-	3,853,336	3,420,757	-	3,420,757

13. Heritage assets (continued)

Reconciliation of heritage assets - 2012

	Opening balance	Additions	Total
Heritage sites	3,420,757	432,579	3,853,336

Reconciliation of heritage assets - 2011

	Opening balance	Total
Heritage sites	3,420,757	3,420,757

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

14. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	3,131,787,499	-	3,131,787,499	3,141,740,575	-	3,141,740,575
Buildings	1,272,634,984	(126,717,885)	1,145,917,099	1,289,882,448	(84,831,701)	1,205,050,747
Plant and equipment	79,573,281	(33,909,777)	45,663,504	58,322,785	(24,135,816)	34,186,969
Furniture and fittings	33,936,438	(12,508,145)	21,428,293	33,692,891	(10,534,333)	23,158,558
Motor vehicles	244,667,868	(107,317,975)	137,349,893	226,838,716	(96,134,717)	130,703,999
Office equipment	36,972,408	(22,167,337)	14,805,071	30,174,678	(15,318,295)	14,856,383
IT equipment	96,739	(96,726)	13	96,739	(96,726)	13
Electricity	3,022,745,692	(1,671,629,661)	1,351,116,031	2,976,435,313	(1,575,915,224)	1,400,520,089
Other properties	447,047,242	(30,382,452)	416,664,790	411,707,831	(18,617,316)	393,090,515
Work in progress (WIP)	424,832,747	-	424,832,747	624,802,216	-	624,802,216
Recreational facilities	64,605,152	(2,648,958)	61,956,194	18,372,937	(1,059,931)	17,313,006
Leases	3,584,867	(1,160,733)	2,424,134	2,835,077	(605,589)	2,229,488
Roads	3,653,779,758	(1,610,239,567)	2,043,540,191	3,121,860,407	(1,015,253,927)	2,106,606,480
Wastewater network	3,299,029,616	(2,269,923,610)	1,029,106,006	3,153,850,453	(2,163,983,571)	989,866,882
Water network	3,773,558,443	(2,509,263,944)	1,264,294,499	3,711,148,167	(2,441,302,156)	1,269,846,011
Community buildings	257,032,428	(20,811,175)	236,221,253	217,928,484	(14,024,106)	203,904,378
Total	**19,745,885,162**	**(8,418,777,945)**	**11,327,107,217**	**19,019,689,717**	**(7,461,813,408)**	**11,557,876,309**

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Non-cash additions	Disposals	Adjustments	WIP capitalised	Depreciation	Impairment loss	Total
Land	3,141,740,575	441,882	-	(1,318,866)	(9,076,092)	-	-	-	3,131,787,499
Buildings	1,205,050,747	347,839	-	-	(23,827,107)	6,579,961	(42,234,341)	-	1,145,917,099
Plant and equipment	34,186,969	12,433,148	-	(48,489)	-	8,902,707	(9,810,831)	-	45,663,504
Furniture and fittings	23,158,558	101,221	-	(2,950)	-	145,855	(1,974,391)	-	21,428,293
Motor vehicles	130,703,999	19,460,507	-	(649,812)	-	-	(12,164,801)	-	137,349,893
Office equipment	14,856,383	6,864,306	-	(10,716)	-	-	(6,904,902)	-	14,805,071
Electricity	1,400,520,089	5,264,320	-	(1,324,763)	-	43,136,802	(96,480,417)	-	1,351,116,031
Other properties	393,090,515	1,735,195	27,088,841	-	-	786,305	(6,036,066)	-	416,664,790
Work in progress (WIP)	624,802,216	195,956,597	-	-	-	(395,926,066)	-	-	424,832,747
Recreational facilities	17,313,006	1,487,737	67,929	-	19,300,000	25,376,549	(1,589,027)	-	61,956,194
Leases	2,229,488	-	749,791	-	-	-	(555,145)	-	2,424,134
Roads	2,106,606,482	12,965,908	-	(9,954)	-	74,326,695	(148,550,365)	(1,798,575)	2,043,540,191
Wastewater network	989,866,882	3,876,961	-	(16,411)	-	141,342,205	(105,963,631)	-	1,029,106,006
Water network	1,269,846,011	2,042,918	-	-	-	60,367,359	(67,961,789)	-	1,264,294,499
Community buildings	203,904,378	4,141,317	-	-	1,535,080	34,961,628	(8,321,150)	-	236,221,253
IT equipment	13	-	-	-	-	-	-	-	13
	11,557,876,311	**267,119,856**	**27,906,561**	**(3,381,961)**	**(12,068,119)**	**-**	**(508,546,856)**	**(1,798,575)**	**11,327,107,217**

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Asset additions	Non-cash additions	Disposals	Transfers	Work in progress capitalised	Depreciation	Impairment reversal	Total
Land	3,138,465,575	1,300,000	1,975,000	-	-	-	-	-	3,141,740,575
Buildings	1,230,859,258	2,623,983	549,000	-	-	13,460,149	(42,441,643)	-	1,205,050,747
Plant and equipment	29,695,355	12,060,275	-	(221,748)	-	-	(7,346,913)	-	34,186,969
Furniture and fittings	23,678,860	1,505,911	26,692	(18,095)	-	-	(2,034,810)	-	23,158,558
Motor vehicles	123,770,498	23,685,752	-	(3,537,530)	-	-	(13,214,721)	-	130,703,999
Office equipment	14,822,563	5,627,597	-	(157,501)	-	-	(5,436,276)	-	14,856,383
Electricity	1,402,690,591	16,749,758	-	(2,268,535)	-	-	(87,873,380)	71,221,655	1,400,520,089
Other properties	375,947,991	581,622	-	-	22,293,392	-	(5,732,490)	-	393,090,515
Work in progress (WIP)	463,326,952	263,359,136	-	-	-	(101,883,872)	-	-	624,802,216
Recreational facilities	37,467,106	-	335,095	-	(19,912,877)	-	(576,318)	-	17,313,006
Leases	1,758,693	-	862,874	-	-	-	(392,079)	-	2,229,488
Roads	2,221,362,112	51,603,805	7,000,000	(607,054)	-	-	(172,752,383)	-	2,106,606,480
Wastewater network	992,583,911	2,009,943	-	(74,167)	-	86,738,033	(91,390,838)	-	989,866,882
Water network	1,326,250,435	12,359,478	-	-	-	-	(68,763,902)	-	1,269,846,011
Community buildings	206,469,768	628,378	2,240,000	-	-	1,685,690	(7,119,458)	-	203,904,378
IT equipment	13	-	-	-	-	-	-	-	13
	11,589,149,681	**394,095,638**	**12,988,661**	**(6,884,630)**	**2,380,515**	**-**	**(505,075,211)**	**71,221,655**	**11,557,876,309**

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment (continued)

Proceeds on disposal of PPE	**2012**	**2011**
Carrying value of PPE	3,381,961	6,884,630
Net gain/(loss) on disposal of assets	(1,486,310)	(5,608,765)
Total	**1,895,651**	**1,275,865**

Prior period errors: Other properties	48		
Opening balance as stated in 2011		-	381,800,762
Adjusted		-	(5,859,152)
Restated balance		**-**	**375,941,610**

Prior period errors: Electricity			
Opening balance as stated in 2011		-	1,403,288,989
Adjusted	48	-	(598,398)
Restated balance		**-**	**1,402,690,591**

Prior period errors: Wastewater network			
Opening balance as stated in 2011		-	992,643,911
Adjusted	48	-	(60,000)
Restated balance		**-**	**992,583,911**

Prior period errors: Roads			
Opening balance as stated in 2011		-	1,996,917,658
Adjusted	48	-	(5,655)
Remove opening cost and depreciation as at 1 July 2010	48	-	(643,513,417)
Add back cost and accumulated depreciation after asset adjustments	48	-	872,740,579
Changes in depreciation due to the update of bridge and stormwater asset data	48	-	(4,777,053)
Restated balance		**-**	**2,221,362,112**

Prior period errors depreciation			
Opening balance as stated in 2011		-	500,414,684

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment (continued)

Adjusted	48	-	4,660,527
Restated balance		**-**	**505,075,211**

There are currently 5 934 assets that have carrying values of and between R0.00 and R1.00, which are still in use.

As at 30 June 2012 there are no temporary idle assets.

As at 30 June 2012 the total cost of all fully depreciated assets amount to R 472 948 560 (2011 restated: R 213 190 375).

As at 30 June 2012 there are no assets retired from active use and held for disposal.

Pledged as security

No assets were pledged as security.

Borrowing costs capitalised

No borrowing costs were capitalised during the year.

Assets subject to finance lease (Net carrying amount)

	2012	2011 Restated
Office equipment	2,424,134	2,229,489

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

14. Property, plant and equipment (continued)

Revaluations

Revaluations were performed by a consortuim of independent valuers consisiting of CB Richard Ellis Mass Appraisal Services (Pty) Ltd trading as Richard Ellis KZN (Pty) Ltd, Integrate (Pty) Ltd, Afrivall Property Valuers (Pty) Ltd) and Coalition Trading 204 CC which were appointed to do the 2008 general valuation for implementation in July 2009.

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

Land and buildings are re-valued every 4 years.

The fair values were determined directly by reference to observable prices and an active market or recent market transactions at arms length terms.

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. No historical cost information is available as, prior to the identification and revaluation of these assets in 2009, assets were not componentised but were recorded as globular assets.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the Metropolitan economic entity. The Metropolitan economic entity has taken all reasonable steps to ensure the completeness of the fixed asset register by using the best international and local methodology and practice for asset verification, within the limits of the available organisational, human and financial capacity. 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. Non- current investments

These investments are classified as financial assets at amortised cost.

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

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

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

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

No portion is past due or impaired.

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

Fixed term deposits of R 856 601 (2011: R 819 965) are invested with Nedbank at interest rates of 2% - 5.32% (2011: 2.2% - 5.27%)

Fixed deposits long term	856,601	819,965
	856,601	**819,965**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

16. Investment in associate

Name of entity	Listed / Unlisted	% holding 2012	% holding 2011	Carrying amount 2012	Carrying amount 2011	Fair value 2011
East London Industrial Development Zone (Pty)Ltd (IDZ)	Unlisted	26.00 %	26.00 %	-	12,088,092	12,088,092
BCMM share in IDZ - 26,000 shares @ 0,01c		26.00 %	26.00 %	260	-	-
				260	12,088,092	12,088,092

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

Movements in carrying value

		2012	2011
Opening balance		12,088,092	32,323,291
Share of surplus/(deficit)	44	(12,087,832)	(20,235,199)
		260	**12,088,092**

Investment in associate at 30 June 2012 amounted to R 260 (2011: R 12,088,092).

Fair value

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

Principal activities, country of incorporation and voting power

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

Summary of controlled entity's interest in associate

	2012	2011
Total equity	(29,526,840)	(15,636,674)
Total liabilities	442,683,592	448,196,303
Total assets	413,156,752	432,559,629
Deficit	(13,890,166)	(25,900,138)
Revenue	6,476,798	8,927,730

Associate with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2011 to 31 March 2012 and the quarter ending 30 June 2012.

Unrecognised share of losses of associates

The Metropolitan economic entity has discontinued recognising its share of the deficits of East London Industrial Development Zone (Proprietary) Limited, as the investment is held at R nil and the Metropolitan economic entity has no obligation for any deficits of the associate. The total unrecognised deficits for the current period amount to R41 614 932 - (2011 : R20,235,199). The accumulated unrecognised deficits to date amount to R nil (2011: R9,928,176).

Figures in Rand	2012	2011 Restated

17. Borrowings

Held at amortised cost		
Annuity loans	645,789,732	690,786,728
	645,789,732	**690,786,728**

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	604,256,175	645,786,508
Current liabilities		
At amortised cost	41,533,557	45,000,220
	645,789,732	**690,786,728**

18. Consumer deposits

Electricity	19,452,348	16,695,945
Water	17,467,545	16,758,388
	36,919,893	**33,454,333**

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

Guarantees held in lieu of Electricity and Water Deposits amounted to R12 087 359 (2011: R11 257 675).

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

19. Finance lease obligation

Minimum lease payments due		
- within one year	798,306	1,002,799
- in second to fifth year inclusive	1,518,725	1,020,719
	2,317,031	2,023,518
less: future finance charges	(863,249)	(546,501)
Present value of minimum lease payments	**1,453,782**	**1,477,017**
Present value of minimum lease payments due		
- within one year	463,541	760,066
- in second to fifth year inclusive	990,241	716,951
	1,453,782	**1,477,017**
Non-current liabilities	990,241	716,951
Current liabilities	463,541	760,066
	1,453,782	**1,477,017**

The average lease term was 3-5 years and the average effective borrowing rate was 8.50% (2011: 7.65%).

Interest rates are either fixed or variable at the contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements. The contingent rents were recognised as an expense for the period.

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

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

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

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

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

There are no restrictions imposed on the lease arrangements.

Contingent rents were recognised as an expense for 2012 and 2011. Contingent rents could not be separately disclosed as detailed information is not currently available.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

20. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Landfill sites	165,884,949	27,088,841	192,973,790

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed 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**

	Note	2012	2011
Prior period errors - BCDA			
Onerous contract provision previously reported		-	162,569
Adjusted	48	-	(162,569)
Restated		**-**	**-**

	2012	2011
Non-current liabilities	68,089,174	49,055,625
Current liabilities	124,884,616	116,829,324
	192,973,790	**165,884,949**

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

Assumptions used:
- Interest rate used is BCMM's borrowing rate at 7.65% (2011: 7.65%).

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

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

21. Payables from exchange transactions

		2012	2011 Restated
Accrued leave pay		54,590,844	47,651,207
BCMET		1,910,795	2,018,427
Deposits received		7,713,276	5,956,009
BCDA		92,649	1,382
Other creditors		75,498,841	38,176,496
Payments received in advance		61,551,930	61,987,656
Retention monies		24,415,539	25,946,551
Trade payables		224,076,214	187,817,241
		449,850,089	**369,554,968**
Prior period errors	**48**		
Retention monies previously reported		-	26,632,133
Adjusted		-	(685,582)
Restated		**-**	**25,946,551**
Prior period errors	**48**		
Other creditors previously reported		-	34,863,766
Adjusted: stale cheque's overstated		-	(699,312)
Overtime and OSD adjustments		-	4,012,042
Restated		**-**	**38,176,496**
Prior period errors - BCMET	**48**		
Adjusted		-	2,018,427
Restated		**-**	**2,018,427**
Estimated effect of the time value of money	**48**		
Time value of money on payables		-	(650,494)
Reversal of prior year time value of money		-	650,494
Restated		**-**	**-**
Estimated effect of the time value of money	**48**		
Time value of money on payables		-	650,494
Net effect on the statement of financial performance		-	212,423
Reversal of prior year time value of money		-	(862,917)
Restated		**-**	**-**
Prior period error - BCDA			
Balance as previously reported		-	983
Adjusted	48	-	399
Restated		**-**	**1,382**
Prior period error	**48**		
Balance trade payables previously reported		-	199,613,500
Adjusted		-	(11,796,259)
Restated		**-**	**187,817,241**

Accrued leave pay represents the total value of all leave due to staff as at 30 June.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

21. Payables from exchange transactions (continued)

BCMET - This amount represents funds allocated to Buffalo City Metropolitan Metropolitan economic entity (BCMM) to promote the planning and provision of adequate urban transport facilities through the preparation and implementation of urban transport plans and to provide for matters connected therewith. The Provincial Urban Transport Board was created under the auspices of the Urban Transport Act to facilitate the goals outlined in the Act. Funds were allocated to achieve those goals and the allocation of funds for projects are conditional on the approval by the Board. In terms of the Act, the funds (which are represented by a bank and an investment account - refer to note 4) are under the administration of the "Core City". Both of these accounts are under the control of employees of BCMM and the strategic guidance of the Urban Transport Board.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	724,414,129	179,419,659
Provincial grants	45,955,939	149,238,925
Other conditional grants	17,295,867	17,482,964
	787,665,935	**346,141,548**

22. Unspent conditional grants and receipts (continued)

Movements on unspent grants

Grant description	Unspent balance 30 June 2011	Receipts	Interest	Transfer operating expenditure	Transfer capital expenditure	Other transfers	Unspent balance 30 June 2012
Transitional grant	113,769	-	-	-	-	-	113,769
Finance management grant	8,004	1,450,000	-	(1,459,000)	-	-	(996)
Land Affairs	65,416,449	-	3,631,785	(50,350)	-	-	68,997,884
Urban settlement development grant	-	423,446,000	-	(4,579,293)	(151,552,358)	-	267,314,349
Municipal Infrastructure Grant	47,305,857	-	-	-	(2,987,486)	(9,804,968)	34,513,403
Public transport infrastructure and systems grant	-	180,000,000	-	-	(1,283,135)	101,301,251	280,018,116
Project Consolidated - billing system - MSIG	89,799	-	-	-	-	(89,799)	-
Energy Efficient Technology	5,738,975	-	-	-	(150,000)	-	5,588,975
European Commission - MURP	1,063,359	-	56,884	(317,656)	-	-	802,587
Land Affairs - East Bank	57,771,281	-	2,963,970	-	-	-	60,735,251
Equitable Share Grant	-	-	-	-	-	-	-
DWA - Provincial	-	18,344,981	-	(18,927,832)	-	1,187,278	604,427
Municipal Support Programme	291,926	-	-	(2,020)	-	-	289,906
Disaster Relief Fund	3,553	-	751	(89,951)	(108,509)	194,156	-
Local Economic Development Fund	4,122,426	276,841	-	(409,228)	-	(677,758)	3,312,281
Premiers Fund	500,000	-	-	-	(432,579)	-	67,421
Mdants Urban Renewal Project (Mnt Ruth Node)	7,498,278	-	384,701	-	-	-	7,882,979
Health Management Systems	176,266	-	-	-	-	-	176,266
Aids Training and Information Centre	6,723,565	5,413,967	-	-	-	(1,088,931)	11,048,601
Dept of Sports Recreation Arts & Culture	11,656,254	-	-	-	(1,219,208)	-	10,437,046
Transport	105,345,493	-	-	-	-	(105,345,493)	-
Ward Committee Training	375,372	-	-	-	-	-	375,372
ADM funding	1,979,270	-	-	-	-	-	1,979,270
BCMET funding	222,603	281,496	-	(281,496)	-	-	222,603
Public funding	4,538,678	686,415	-	-	-	-	5,225,093
SETA fund	397,648	4,387,065	-	(1,078,698)	-	(3,235,123)	470,892
Dept of Economic Affairs and Tourism	152,936	-	-	(25,810)	-	-	127,126
Vuna Award	1,048,758	-	-	-	-	-	1,048,758

22. Unspent conditional grants and receipts (continued)

Salaida (Gavle)	522,463	235,655	32,834	(279,437)	-	-	511,515
Glasgow Partnership	15,781	74,077	-	-	-	-	89,858
PADF Contributions	877,963	-	-	-	-	-	877,963
Eastern Cape Development Agency	67,359	-	-	-	-	-	67,359
Umsobomvu Youth fund	645,890	-	33,138	-	-	-	679,028
Compost Waste Management	60,640	-	-	-	-	-	60,640
Leiden	1,609,207	-	74,210	(421,468)	(730,105)	-	531,844
Human Settlement Development Grant	5,184,494	30,463,115	848,928	(27,857,649)	(4,100,081)	-	4,538,807
Housing & Infrastructure Dev. Award	330,312	-	16,850	-	-	-	347,162
Electricity Demand: Side Mngt Grant	1,724	4,000,000	-	-	(3,926,791)	-	74,933
INEP	955,061	26,895,000	-	-	(20,641,201)	(955,061)	6,253,799
DWA- National	953,329	1,714,006	-	(1,711,503)	-	(955,826)	6
Upgrade Water Supply	29,954	-	1,528	-	-	-	31,482
MD Upgrade Water and Sewerage	140,002	-	7,142	-	-	-	147,144
Water Supply to Areas West of IDZ	327,858	-	-	-	-	-	327,858
Bequests	125,392	-	3,895	-	-	-	129,287
Sundry Grants	3,973,109	-	12,839	-	-	-	3,985,948
Grants Ex ADM	425,607	-	758	-	-	-	426,365
Sundry Housing Grants	7,354,884	-	94,247	(215,573)	-	-	7,233,558
	346,141,548	**697,668,618**	**8,164,460**	**(57,706,964)**	**(187,131,453)**	**(19,470,274)**	**787,665,935**

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

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

Figures in Rand	2012	2011 Restated

23. Post- retirement medical obligation

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

Carrying value		
Balance at beginning of year	280,763,820	261,331,883
Interest cost	26,493,119	22,491,081
Current service cost	13,851,056	10,173,937
Actual employer benefit payments	(13,459,130)	(12,732,879)
Actuarial (gain)/loss recognised in the year	33,777,164	(500,202)
Net liability	**341,426,029**	**280,763,820**

Net costs		
Interest cost	26,493,119	22,491,081
Current service cost	13,851,056	10,173,937
Actuarial (gain)/loss recognised in the year	33,777,164	(500,202)
	74,121,339	**32,164,816**

Net costs were previously disclosed on the face of the Statement of Financial Performance as follows: interest was included in finance cost, current service costs were included in general expenses and actuarial (gain)/loss was a separate item.

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

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared on 30 July 2012 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

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

The best estimates for the employer benefit payments in the 2012/13 financial period is expected to be R14 442 048 (The actual employer benefit payments in the 2011/12 financial period was R13 459 130).

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.59 %	8.81 %
Medical aid inflation rate	7.30 %	7.06 %
Net effective discount rate	1.20 %	1.63 %
Post retirement subsidy	60.00 %	60.00 %

Retirement age		
Males	63	63
Females	63	63
Number of eligible members	2,561	2,556
Number of pensioners	520	524
1% change in the assumed medical inflation:		
Projected liability increase/(decrease) - 2012	54,628,165	(44,385,384)
Projected liability increase/(decrease) - 2011	42,114,610	(36,499,296)
Projected liability increase/(decrease) - 2010	43,165,000	(35,058,000)

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

24. Revaluation reserve

Opening balance	16,047,826	16,620,963
Depreciation transfer to income	(573,137)	(573,137)
	15,474,689	**16,047,826**

25. Financial assets by category

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

2012

	Financial assets amortised	Total
Other financial assets	70,451	70,451
Trade and other receivables from exchange transactions	312,473,204	312,473,204
Other receivables from non-exchange transactions	153,606,850	153,606,850
Cash and cash equivalents	1,522,347,869	1,522,347,869
Non-current investments	856,861	856,861
	1,989,355,235	**1,989,355,235**

2011

	Financial assets amortised	Total
Other financial assets	82,331	82,331
Trade and other receivables from exchange transactions	211,059,307	211,059,307
Other receivables from non-exchange transactions	90,634,026	90,634,026
Cash and cash equivalents	741,246,762	741,246,762
Non-current investments	12,908,057	12,908,057
	1,055,930,483	**1,055,930,483**

Adjustment of financial assets previously reported.			
Previously reported		-	1,065,628,124
Adjusting cash and cash equivalents for bank overdraft	4	-	1,034,384
Adjustments on incorrect interest on consumer accounts	48	-	(12,750,452)
BCMET bank adjustment	4	-	2,018,427
		-	**1,055,930,483**

26. Financial liabilities by category

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

2012

	Financial liabilities at amortised cost	Measured at fair value	Total
Other financial liabilities	645,789,732	-	645,789,732
Trade and other payables	324,083,243	-	324,083,243
Bank overdraft	1,064,181	-	1,064,181
Consumer deposits	-	36,919,893	36,919,893
Other deposits	-	7,815,776	7,815,776
	970,937,156	**44,735,669**	**1,015,672,825**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

26. Financial liabilities by category (continued)

2011

	Financial liabilities at amortised cost	Measured at fair value	Total
Other financial liabilities	690,786,728	-	690,786,728
Trade and other payables	251,941,670	-	251,941,670
Bank overdraft	1,034,384	-	1,034,384
Consumer deposits	-	33,454,333	33,454,333
Other deposits	-	6,058,509	6,058,509
	943,762,782	**39,512,842**	**983,275,624**

	Note	2012	2011 Restated
Adjustment to balance of financial liabilities previously reported			
Previously reported		-	951,896,127
Adjustment for bank overdraft previously included under cash and cash equivalents		-	1,034,384
Deposits not previously included as financial instruments		-	39,514,224
Prior year adjustments	21	-	(9,169,111)
Restated		**-**	**983,275,624**

27. Revenue

	2012	2011 Restated
Property rates	522,514,480	453,306,422
Service charges	1,754,709,786	1,463,099,072
Rental of facilities & equipment	13,387,803	14,107,440
Public contributions and donations - operating projects	1,329,257	1,192,709
Fines	5,455,740	7,320,910
Licences and permits	15,707,756	15,052,975
Government grants & subsidies	905,903,245	901,582,926
Public contributions and donations - PPE	1,283,135	9,029,317
Fuel Levy (Amount transferred by National Treasury iro BCMM's Metro allocation)	170,477,000	-
	3,390,768,202	**2,864,691,771**

	2012	2011 Restated
The amounts included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1,754,709,786	1,463,099,072
Rental of facilities & equipment	13,387,803	14,107,440
Licences and permits	15,707,756	15,052,975
	1,783,805,345	**1,492,259,487**

	2012	2011 Restated
The amounts included in revenue arising from non-exchange transactions are as follows:		
Taxation revenue		
Property rates	522,514,480	453,306,422
Public contributions and donations - Operating projects	1,329,257	1,192,709
Fines	5,455,740	7,320,910
Transfer revenue		
Government grants and subsidies	905,903,245	901,582,926
Public contributions and donations - PPE	1,283,135	9,029,317
Fuel Levy	170,477,000	-
	1,606,962,857	**1,372,432,284**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

28. Property rates

Rates received

Residential	269,341,269	228,762,109
Commercial	243,352,437	214,427,174
Municipal	967,510	17,989
Public Benefit Organisation	4,580	-
Educational	5,586,571	5,928,365
Agricultural	3,117,285	1,240,196
Public Service Infrastructure	318,116	294,466
Vacant land	21,978,245	19,752,986
Less: Income forgone	(22,151,533)	(17,116,863)
	522,514,480	**453,306,422**

Valuations

Residential	41,152,218,219	41,134,476,461
Commercial	14,639,490,800	15,241,656,800
Public Benefit Organisation	2,800,000	-
Municipal	1,904,813,166	-
Rural Communal Land and Special	1,407,397,700	1,585,704,086
Educational	1,219,509,000	1,509,009,000
Agricultural	1,905,430,990	1,904,328,990
Public Service Infrastucture	277,782,000	280,159,400
Vacant land	1,119,340,202	1,439,978,926
	63,628,782,077	**63,095,313,663**

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

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2012. 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	0,1636	0.1477
Business	1,6362	1.4768
Educational	0,4581	0.4135
Public Service Infrastructure	0,1636	0.1477
Residential	0,6545	0.5907
Vacant Land	1,9635	1.7721

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

A 40% rebate to senior citizens if they meet certain requirements.

A rebate/discount of up to 75%, where the Metropolitan economic entity 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 service	15.0 %	15.0 %

Figures in Rand	2012	2011 Restated

28. Property rates (continued)

	75.00 %	**75.00 %**

- Properties that were not rated before 2009 qualify for a compulsory phase in period of three years in terms of Section 21 of the MPRA. Discount for 2012 was 25% (2011: 50%).
- Impermissible rates (Section 17 of the MPRA):
  Section 17 (1)(a) - First 30% of the market value of public service infrastructure.
  Section 17 (1)(h) - R15 000 on market value of residential properties.
  Section 17 (1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

29. Service charges

Sale of electricity	1,137,197,632	924,506,800
Sale of water	239,551,504	200,157,656
Sewerage and sanitation charges	197,957,711	176,708,703
Refuse removal	175,340,728	157,219,214
Other service charges	4,662,211	4,506,699
	1,754,709,786	**1,463,099,072**

30. Government grants and subsidies

Government grants operating projects	26,062,309	35,014,109
Government grants housing	31,195,503	103,225,478
Government grant - PPE	184,968,213	223,635,089
Government grants and subsidies - unconditional	663,677,221	539,708,250
	905,903,246	**901,582,926**

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 22).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

31. Other revenue

Administration fees	26,055	29,273
Admission fees	1,803,192	1,889,307
Application: Town planning	33,388	53,216
Cemetery fees	5,800,317	5,077,847
Cold storage fees	487,416	471,611
Commission	15,412,627	14,765,849
Coupons and clip tickets	1,657,828	2,302,324
Dog tax and penalties	620,211	619,226
Fire brigade	180,558	298,159
Fire levy charges	40,780,779	36,458,206
Grazing fees	52,622	57,635
Hire charges	400,385	711,707
Insurance	2,713,626	1,119,950
Levy on gates	90,757	77,287
Library	24,130	29,190
Meter test fees	34,492	37,409
Parking meters	192,648	335,069
Photocopies	103,523	106,347
Plan approval fees	4,459,391	4,565,703
Private works	1,261,309	1,478,669
Sale of plants and animals	39,671	12,597
Scrap	2,772,408	3,645,531
Service connections and reconnections	7,077,038	14,027,178
Street frontage administration fees	270,807	292,784
Sub division fees	545,545	705,326
Sundry income	1,882,392	2,415,706
Tender receipts	523,609	556,351
Towing fees	51,824	178,495
Vehicle registrations	28,802,345	28,048,212
	118,100,893	**120,366,164**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

32. General expenses

Accounting fees	132,709	1,995
Advertising	2,210,070	1,714,326
Assessment rates & municipal charges	2,195,640	1,977,090
Assets expensed	1,857,599	1,723,261
Auditors remuneration	7,480,260	5,309,522
BCMET	283,029	204,840
Bank charges	5,782,567	5,458,444
Chemicals	15,271,994	11,152,546
Cities network	292,308	265,734
Cleaning	4,094,844	4,067,997
Commission paid	11,133,109	10,291,127
Community development and training	7,218	223,851
Computer expenses	2,101,289	4,133,314
Conferences and seminars	2,062,661	1,689,928
Consulting and professional fees	29,598,390	32,607,115
Consumables	6,838,765	6,732,638
DWAF	4,227,598	4,038,968
Disconnections	3,768,702	5,052,807
Entertainment	2,032,754	1,839,660
Essential user cost	11,862,533	10,471,708
Fuel and oil	31,455,269	25,437,674
Hire (labour and plant)	1,540,921	1,179,090
IT expenses	3,954,888	2,707,588
Insurance	15,535,982	12,375,322
Lease rentals on operating lease	40,944,282	33,684,582
Levies	13,225,798	7,462,521
Magazines, books and periodicals	2,443,226	2,305,180
Marketing	244,400	147,774
Motor vehicle expenses	3,985,988	3,512,980
Poor relief	98,646,964	114,703,417
Operating and housing projects ex grants	100,939,751	112,280,654
Other expenses	43,426,836	64,292,760
Postage and courier	4,695,788	4,873,431
Printing and stationery	8,132,810	8,313,888
Promotions	342,366	520,945
Royalties and license fees	8,366,907	7,729,135
Security (Guarding of municipal property)	391,668	19,886,460
Software expenses	326,682	559,507
Subscriptions and membership fees	9,501,138	4,535,466
Telecommunication costs (telephones, faxes and cell phones)	20,517,660	17,721,435
Title deed search fees	6,966	21,577
Training	3,133,866	3,201,590
Travel - local	6,233,208	4,874,020
Travel - overseas	1,114,021	1,450,294
Uniforms	6,832,462	6,103,000
Utilities (electricity, refuse and water departmental charges)	54,974,414	57,463,185
	594,148,300	**626,300,346**

Refer to note 39 in respect of time value for money on expenditure regarding the 2011 financial period reallocated.

Prior period errors note 48		
Operating and housing projects ex grants	-	107,286,706
Adjusted	-	4,993,948
Restated	**-**	**112,280,654**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

33. Employee related costs

		2012	2011 Restated
Basic emoluments		602,172,059	539,366,568
Medical aid contributions		40,410,121	37,665,306
UIF		6,005,373	5,459,018
Leave pay contribution		25,319,589	20,715,702
Pension fund contribution		110,355,566	101,281,869
Overtime payments		50,915,706	44,861,492
Long-service awards		12,194,233	10,888,485
13th Cheque's		50,148,188	44,539,274
Car allowance		18,717,538	17,522,377
Housing benefits and allowances		3,770,310	3,625,972
Group life		5,333,247	5,239,333
Other allowances		27,314,873	30,039,402
Transitional allowances		-	213,021
		952,656,803	**861,417,819**

Overtime payments prior year errors	**48**		
As previously stated		-	43,661,717
Adjustment		-	1,199,775
Restated		**-**	**44,861,492**

Other allowances prior year errors	**48**		
As previously stated		-	28,589,069
Adjustment		-	1,450,333
Restated		**-**	**30,039,402**

Included in staff costs for the 2011/12 financial year is an amount of R25 269 190 that was paid by BCMM on behalf of the Department of Health (DOH) for the period January 2012 to June 2012. This was in respect of Primary Health staff that were transferred from BCMM to DOH on 01 January 2012. A claim has been submitted by BCMM to DOH in the amount of R24 522 793. The difference of R746 397, in respect of Health Administration cannot be claimed as only two thirds of the Health Administration cost is claimable.

Prior year adjustmens for OSD and responsibility allowances relating to the 2010 financial year and earlier amounted to R1 310 820 and R51 114 respectively.

Remuneration of Municipal Manager

	2012	2011
Annual Remuneration	803,225	839,787
Other	535,483	559,858
	1,338,708	**1,399,645**

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

Remuneration of Chief Finance Officer

	2012	2011
Annual Remuneration	702,740	671,836
Other	468,493	447,890
	1,171,233	**1,119,726**

Remuneration based on the position being filled for the full period. The CFO position was vacant during the 2010/11 and 2011/12 financial years.

Remuneration of Director Executive Support Services

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

33. Employee related costs (continued)

Annual Remuneration	527,055	671,836
Travel allowance	144,000	192,000
Allowance	78,681	91,459
UIF	1,123	1,497
Medical aid	14,922	131,008
Pension contributions	102,776	19,346
Group life	9,869	12,580
	878,426	**1,119,726**

The director of executive support resigned on 31 March 2012 and the position remained vacant for the rest of the financial year.

Remuneration of Chief Operations Officer

Annual Remuneration	292,808	671,836
Travel allowance	80,000	192,000
Allowance	35,599	73,695
UIF	624	1,497
Medical aid	16,403	37,111
Pension contributions	57,098	131,008
Group life	5,483	12,580
	488,015	**1,119,727**

The chief operating officer resigned on 30 November 2011 and the position remained vacant for the rest of the financial year.

Remuneration of Director Corporate Services

Annual Remuneration	702,740	671,836
Housing subsidy	36,000	36,000
Travel allowance	180,000	180,000
Allowance	97,906	83,977
UIF	1,497	1,497
Medical aid	16,056	15,408
Pension contributions	137,034	131,008
	1,171,233	**1,119,726**

Remuneration of Director Health and Public Safety

Annual Remuneration	702,740	671,836
Allowance	329,962	315,385
UIF	1,497	1,497
Pension contributions	137,034	131,008
	1,171,233	**1,119,726**

Remuneration of Director of Engineering Services

Annual Remuneration	702,740	671,836
Travel allowance	168,000	168,000
Allowance	140,220	126,553
UIF	1,497	1,497
Medical aid	12,424	11,923
Pension contributions	137,034	131,008
Group life	9,318	8,909
	1,171,233	**1,119,726**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

33. Employee related costs (continued)

Remuneration of Director of Development and Planning

Annual Remuneration	702,740	671,836
Travel allowance	192,000	192,000
Allowance	105,115	91,913
UIF	1,497	1,497
Medical aid	19,688	18,893
Pension contributions	137,034	131,008
Group life	13,158	12,580
	1,171,232	**1,119,727**

Remuneration of Director of Community Services

Annual Remuneration	702,740	671,836
Travel allowance	120,000	120,000
Allowance	196,803	182,806
UIF	1,497	1,497
Pension contributions	137,034	131,008
Group life	13,158	12,580
	1,171,232	**1,119,727**

34. Remuneration of Councillors

Executive Mayor	607,480	403,700
Deputy Mayor (2011: appointed on 21 June 2011)	485,984	38,212
Speaker	485,984	276,185
Chief Whip (2011: appointed on 21 June 2011)	455,610	35,834
Mayoral Committee Members (Allowance = R 455 610: 9 Councillors)	4,100,490	2,729,190
Councillors (Allowance = R 212 618: 87 Councillors)	24,842,828	11,046,039
Councillors pension contribution	1,767,177	1,182,709
Councillors housing subsidy	2,261,594	1,248,928
Councillors medical aid	795,151	874,671
Travel allowance	7,075,811	5,312,404
UIF	87,557	129,953
	42,965,666	**23,277,825**

In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R 2 486 553 (2011: R 1 666 746).

The Executive Mayor and Deputy Mayor each have the use of a Council owned vehicle for official duties. Operating costs of the two vehicles amounts to R 333 666 (2011: R 360 280). An amount of R 304 444 was incurred for hired vehicles.

The Executive Mayor and Deputy Mayor each have a full-time bodyguard and an official driver. Cost of the two bodyguards and the two drivers amounts to R1 427 729 (2011: R1 105 221).

35. Debt impairment

Contributions to debt impairment allowance account	58,206,738	210,998,044

Figures in Rand		2012	2011 Restated

36. Interest received on investments

Interest revenue			
Unlisted financial assets		51,472,891	26,263,426
Bank		7,263,696	6,309,664
Interest charged on trade and other receivables		23,911,632	21,150,823
Interest on sporting body loans		8,252	51,638
		82,656,471	**53,775,551**

37. Fair value adjustments and discounting of receivables and payables

in terms of GRAP 104 Paragraph 87 the initial period granted for short-term payables and receivables are 30 days and is consistent with established practice and legislation, therefore no discounting needs to be performed.

The fair value adjustment on Sanlam shares was revalued to R 330 911 during 2011.

38. Depreciation and amortisation

Property, plant and equipment	14	508,546,856	505,075,207
Intangible assets	11	4,477,178	3,723,425
		513,024,034	**508,798,632**

Prior period errors			
Previously reported		-	502,649,311
Adjustment intangible assets	48	-	1,488,794
Adjustments depreciation	48	-	4,660,527
Restated		**-**	**508,798,632**

39. Interest paid

Non-current borrowings		70,491,430	58,641,142
Late payment of tax		7,493	14,718
		70,498,923	**58,655,860**

Changes in accounting policy			
Estimated effect of the time value of money on expenditure previously reported		-	6,135,194
Adjusted		-	(6,135,194)
Restated		**-**	**-**

Changes in accounting policies reflected above, also refer to note no.32.

Prior period error - BCDA			
Balance previously reported		-	19,288
Adjusted	48	-	(4,570)
Restated		**-**	**14,718**

Refer to note 23 (Retirement benefits).

40. Auditor General remuneration

Fees		151,388	-
Expenses		7,328,872	5,309,522
		7,480,260	**5,309,522**

Figures in Rand	2012	2011 Restated

40. Auditor General remuneration (continued)

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

41. Contracted services

	2012	2011
Specialist Services	-	7,000
Other Contractors	6,839,654	5,900,804
	6,839,654	**5,907,804**

42. Grants and subsidies paid

	2012	2011
Grants-in-Aid		
Mayoral Social Responsibility	420,901	152,331
Grants : Rates	-	2,086,319
Buffalo City Development Agency	167,465	72,362
Publicity Association Grant	1,115,717	5,083,560
Sponsored Sporting Events	12,036,802	11,611,382
Grants & Subsidies	-	903,711
	13,740,885	**19,909,665**

43. Bulk purchases

	2012	2011
Electricity	787,947,115	634,092,182
Water	127,440,041	137,160,798
	915,387,156	**771,252,980**

44. Net cash flows from operating activities

	Note	2012	2011
Surplus / (Deficit)		123,730,338	(227,540,122)
Non-cash movements			
Depreciation and amortisation	38	513,024,034	508,798,632
Losses on the sale of property, plant and equipment	14	1,486,310	5,608,765
Share of deficit of associate	16	12,087,832	20,235,199
Fair value adjustment on Sanlam shares revalued	37	-	(330,911)
Impairment loss (reversal)	14	1,798,575	(71,221,655)
Debt impairment	35	58,206,738	210,998,044
Movement in operating leases	9	(1,582,011)	(3,588,506)
Movement in post retirement medical aid benefit obligation	23	60,662,209	19,431,937
Movement in provisions relating to landfill sites	20	27,088,841	13,368,819
Adjustment prior year for discounting applied on payables	48	-	(212,423)
Adjustment of prior year transactions (BCMET), overtime and OSD	48	-	4,668,581
Revaluation of property, plant and equipment	14	67,929	4,763,998
Non-cash property, plant and equipment additions	14	(27,906,561)	(12,988,661)
Non-cash property, plant and equipment transfers	12&14	-	(21,958,294)
Movement in inventory	5	20,303,946	(40,629,113)
Movement in receivables from non-exchange transactions	7	(62,258,787)	28,439,406
Movement in receivables from exchange transactions	6	(159,620,632)	(147,501,789)
Movement in payables from exchange transactions	21	80,295,125	36,025,426
Movement in VAT receivables	8	2,380,356	12,422,360
Current tax		245,903	26,887
Deferred tax		-	35,136
		650,010,145	**338,851,716**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

45. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment			
▸ Community		32,930,069	77,271,475
▸ Infrastructure		227,001,502	145,995,914
▸ Other		121,217,979	4,631,752
		381,149,550	**227,899,141**

This committed expenditure relates to Infrastructure, Community and Other Property, Plant and Equipment.
Above amounts exclude VAT.

The 2011 financial statements reflected a total amount of R387 256 409 for commitments in 2011. The restatement in the 2011 year can be attributed to the contract register being reviewed and revised during the 2012 financial year.

Operating leases - as lessee (expense)

Minimum lease payments due			
- within one year		6,357,433	2,007,366
- in second to fifth year inclusive		24,085,494	59,425
		30,442,927	**2,066,791**

Prior period error - BCDA			
Minimum leases payments due within one year previously disclosed		-	2,169,934
Adjusted - BCDA	20&48	-	(162,568)
Restated		**-**	**2,007,366**

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

46. Contingencies

Contingent assets

The estimated amount of recoverable traffic fines for 2012 is R1 495 800 (2011: R2 439 300) at year end.

BCMM purchased property in the amount of R 762 440 (2011: R762 440) from Roger Rodney Smith who has now instituted a claim against Council for the sale to be reversed. If successful, BCMM will be refunded the amount.

Summons in the amount of R 492 050 (2011: R492 050) have been issued to parties to recover costs incurred relating to a forensic investigation undertaken in respect of services rendered for waste sites.

A claim of approximately R50 000 has been instituted by Council against ASBF Marking, Imigudu Joint Venture and Others due to contractor disputes whereby the contractor defaulted from their obligations in terms of the contract.

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

47. Related parties

Associate	Refer to note 16

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 BCMM. BCDA is 100% controlled by BCMM. BCMM Council resolved to report all Agency related pre-incorporation financial transactions for the first time at 30 June 2005.

BCMM relationship with BCDA: Subsidiary - Buffalo City Development Agency (SOC) Ltd.

The Metropolitan economic entity issued grants of R1 196 185 (VAT exclusive) to the development agency during the current financial year (2011: R962 413 restated - VAT exclusive).

BCDA has paid no consumer accounts during the current financial year (2011: R11 132).

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.

The investment in BCDA was impaired to nil.

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

For key management and councillors remuneration refer to notes 33 and 34.

Figures in Rand		2012	2011 Restated

48. Prior period adjustments

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

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

Statement of Financial Position - 2010 and prior			
Retention monies not adjusted when payment occurred resulting in retention monies being overstated	21		685,582
Cheque's made out to creditors in 2007 to 2010 not presented for payment were written back where the creditor could not be traced	21		699,312
The application of an incorrect interest rate on arrear accounts from February 2007 to March 2010 led to an overstatement of debtors	6&7		(12,750,452)
Adjustment of OSD allowances paid incorrectly to Primary Health staff on behalf of the Department of Health pre 2011	21&33		(1,310,820)
Adjustment of responsibility allowance paid in 2012 i.r.o 2010	21&33		(51,114)
Reversal of accrual regarding Ernest and Young reclassified as contingent liabilities	21		11,796,259
Adjustment of bridges and stormwater carrying values as per the updated fixed asset register 2011	14		(643,513,417)
Adjustment of VAT due to reversal of E&Y	8	-	(1,240,003)
Total changes to Surplus/(Deficit) for 2010			**(645,684,653)**

Statement of Financial Position 2011			
Depreciation adjustment due to review of assets	38		(4,660,527)
Adjustment of Intangible assets due to review of computer software values	11&38		(1,488,794)
BCMET - payable not previously included in the AFS	21		(2,018,427)
BCMET - bank and investment account not previously included in the AFS	4		2,018,427
Correcting the value of RDP houses not transferred, unoccupied and not completed as at 30 June 2011	5		(4,993,947)
Fair value reversal adjustment in terms of GRAP 104 affecting creditors	21		(650,494)
Fair value reversal adjustment in terms of GRAP 104 affecting creditors	21		862,916
Adjustment to creditors relating to overtime payments paid in 2012 i.r.o. 2011	21&33		(1,199,776)
Adjustment to creditors relating to OSD payments made in 2012 i.r.o. 2011	21&33		(1,409,156)
Adjustment of responsibility allowances paid in 2013 i.r.o 2011	21&33		(41,176)
Payables from exchange transactions not recognised in prior year - BCDA	21	-	(399)
Reversal of interest estimate of late submission of tax returns - BCDA	56	-	4,620
Reversal of temporary differences deferred tax - BCDA	65	-	(47,239)
Adjustment of current tax payable - BCDA	67	-	(26,887)
Reversal of provision raised for future expenses (onerous contract) - BCDA	20	-	162,569
Total changes to the Statement of Financial Position 2011			**(13,488,290)**

Accumulated Surplus 2011			
Depreciation adjustment due to review of assets	14		(6,523,205)
Fair value reversal adjustment in terms of GRAP 104	21		(862,916)
Adjustment of bridges and stormwater carrying values as per the updated fixed asset register 2011	14		872,740,579
Depreciation adjustment iro bridges and stormwater assets	14		(4,777,052)
Total changes to Accumulated Surplus/(Deficit) 2011			**860,577,406**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

48. Prior period adjustments (continued)

Statement of Financial Performance 2011			
Deficit for the year as per audited financial statements			214,051,834
Depreciation understated due to review of assets	14&38		4,660,528
Amortisation of intangible assets due to review of computer software values	11		1,488,794
Adjustment of responsibility allowances paid in 2013 i.r.o 2011	33		41,176
Adjustment of overtime payments in 2012 i.r.o. 2011	33&44		1,199,776
Correcting the value of RDP houses not transferred, unoccupied and not completed as at 30 June 2011	32		4,993,945
Fair value reversal adjustment in terms of GRAP 104 affecting surplus	21		(212,422)
Adjustment to creditors relating to OSD payments made in 2012 i.r.o. 2011	33&44		1,409,156
Reversal of interest estimate of late submission of tax returns - BCDA	39	-	(4,570)
Repairs and maintenance not recognised - BCDA	64	-	350
Reversal of provision raised for future expenses (onerous contract) - BCDA	20	-	(162,568)
Adjustment of SA normal tax - BCDA	66	-	74,125
Net effect on deficit for 2011			**13,488,290**
Restated deficit for 2011			**227,540,124**

Reconciliation of the restated balance of the accumulated surplus as at 1 July 2011	
Balance as per audited financial statements	10,978,930,863
Changes effecting net assets	201,404,464
Balance at 1 July 2011 as restated	**11,180,335,327**

Summary: Adjustments affecting Net Assets	
Changes to Accumulated surplus/(deficit) for 2011	860,577,406
Changes to operating income and expenditure accounts in the 2011 year	(13,488,290)
Changes to operating income and expenditure accounts in the 2010 and earlier years	(645,684,652)
Total changes affecting Net Assets	**201,404,464**

49. Risk management

Capital risk management

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

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

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

Financial risk management

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

49. Risk management (continued)

Liquidity risk

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

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

Interest rate risk

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

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

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	9.00 %	500,209,639	-	-	-	-
Cash in current banking institutions	4.00 %	58,136,468	-	-	-	-
Call investment deposits	5.09 %	1,464,211,238	-	-	-	-
Trade and other payables - extended credit terms	10.50 %	(323,990,594)	-	-	-	-
Long term borrowings	10.18 %	(41,533,557)	(86,934,939)	(136,609,426)	(179,715,437)	(200,996,373)

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

Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value 30 June 2012	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 %	500,209,639	458,907,926	463,157,073	454,736,035
Trade and other payables	10.50 %	(299,575,055)	(271,108,647)	(273,584,525)	(268,677,179)
Cash and cash equivalents					
Cash in current banking institutions	4.00 %	58,136,468	55,900,450	56,443,173	55,368,065
Call investment deposits	5.09 %	1,464,211,238	1,393,292,642	1,406,678,104	1,380,159,523

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 (refer note 4) and trade debtors (refer notes 6&7). The Metropolitan economic entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

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

The ability of Buffalo City Development Agency (BCDA) to continue as a going concern is dependant on a number of factors. The most significant of these is that Buffalo City Metropolitan Municipality (BCMM) continues to procure funding for the ongoing operations for BCDA.

BCDA did not operate in terms of its mandate due the process of reconfiguration which is underway in order to revitalise its operations.

51. Events after the reporting date

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

52. Unauthorised expenditure

Opening balance	8,116,451	-
Unauthorised expenditure for the year	-	8,116,451
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
Closing balance	**8,116,451**	**8,116,451**

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

53. Fruitless and wasteful expenditure

Opening balance	5,288,533	3,308,309
Delayed claim on Reeston Phases 1 and 2 Housing Project.	-	323,654
Acts of negligence, damage to municipal properties and theft of goods.	828,514	647,986
Payment to Eastern Engineering Contractors (Pty) Ltd but goods were never received.	-	132,201
Interest charged on overdue accounts due to late payment and sheriff fees.	103,004	18,206
Payments made in respect of Council Litigations.	60,555	-
Penalties charged by SARS for late/incorrect submission of VAT returns - BCDA	7,276	321,506
Cellphone charges with no contract/services - BCDA	1,750	-
AGSA late payment - BCDA	217	-
Personnel expenditure - BCDA	-	536,671
	6,289,849	**5,288,533**

Payment of interest on delayed claims to the amount of R 323 654 was 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 action has been 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 Metropolitan economic entity incurring losses totalling R 828 514 (2011: R 647 986). No disciplinary action has been taken to date of reporting and there is no indication that these costs are recoverable.

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 action has been taken to date of reporting and there is no indication that these costs are recoverable.

Figures in Rand	2012	2011 Restated

53. Fruitless and wasteful expenditure (continued)

Interest charged on overdue accounts due to late payments and sheriff fees amounted R103 004 (2011: R18 206). No disciplinary action has been taken to date of reporting and there is no indication that these costs are recoverable.

Payments made in respect of Council Litigations amounted to R 60 555.

In the prior year an amount of R 4 708 631 was disclosed as fruitless and wasteful expenditure as payments made to directors while they were suspended. The amount is not disclosed in the financial's as comparative figures as the suspension of these directors has subsequently been lifted and the directors have been reinstated. The expenditure is not considered fruitless and wasteful expenditure.

BCMM has resolved that an investigative committee be established by the office of the Executive Mayor to investigate all irregular, fruitless and wasteful expenditure. The outcome of this process will determine the recoverability and disciplinary actions to be taken.

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

BCDA - Penalties charged by SARS for late/incorrect submission of VAT returns accrued but not yet paid amounted to R7 276 (2011: R321 506).

BCDA - AGSA late payment amounted to R217.

BCDA - Personnel expenditure made in vain as BCDA was effective during 2011 and employees could have been paid for four week notice period instead of six months. This amounted to R536 671 during 2011.

54. Irregular expenditure

Opening balance	227,215,436	60,951,986
Irregular Expenditure - current year	436,800,677	167,144,104
Less: Amounts written off	-	(880,654)
	664,016,113	**227,215,436**

Analysis of expenditure awaiting condonation per age classification

Current year	436,800,677	167,144,104
Prior years	227,215,436	60,071,332
	664,016,113	**227,215,436**

Details of irregular expenditure - current year

Quotations	103,692,182	
Stock purchases	177,354	
Expired contracts	186,920,051	
Irregular expenditure - missing documentation	126,462,641	
Expired leases	4,373,022	
Payments iro Councillors	15,175,427	
	436,800,677	

The mayor is currently occupying a house owned by the Metropolitan economic entity rent free. The fair market related rental of this property is R96 000.

BCMM has resolved that an investigative committee be established by the office of the Executive Mayor to investigate all irregular, fruitless and wasteful expenditure. The outcome of this process will determine the recoverability and disciplinary actions to be taken.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

54. Irregular expenditure (continued)

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

Details of irregular expenditure not recoverable (not condoned)

Quotations	103,692,182	-
Stock purchases	177,354	19,754,104
Expired contracts	186,920,051	147,361,212
Irregular expenditure - missing documentation	126,462,641	-
Expired leases	4,373,022	28,788
Payments iro Councillors	15,175,427	-
	436,800,677	**167,144,104**

55. In-kind donations and assistance

FELZOO donated assistance to BCMM	193,378	81,527

56. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	9,500,000	4,534,166
Amount paid - current year	(9,500,000)	(4,534,166)
	-	-

Contributions to SA Cities Network

Current year subscription / fee	292,308	265,734
Amount paid - current year	(292,308)	(265,734)
	-	-

Audit fees

Current year fee	7,328,872	5,309,522
Amount paid - current year	(7,328,872)	(5,309,522)
	-	-

PAYE and UIF

Current year subscription / fee	118,498,259	105,940,361
Amount paid - current year	(118,498,259)	(105,940,361)
	-	-

Figures in Rand		2012	2011 Restated

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

Pension and Medical Aid Deductions

	2012	2011
Current year subscription / fee	221,671,814	208,918,976
Amount paid - current year	(221,671,814)	(208,918,976)
	-	-

VAT

	2012	2011
VAT receivable	34,129,583	37,459,742
VAT payable	(171,070)	(1,120,873)
	33,958,513	**36,338,869**

Prior period error - BCDA			
VAT payable previously reported		-	1,125,493
Adjusted	48	-	(4,620)
Restated		**-**	**1,120,873**

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

Councillors and officials arrear consumer accounts

Arrear Councillors accounts totalling R2 913 were outstanding for more than 90 days at 30 June 2012 (2011: R8 684) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

30 June 2012	Outstanding more than 90 days
Councillor N.E. Maqidlana	652
Councillor A.M. Matana	503
Councillor R.N. May	530
Councillor N. Mekani	633
Councillor L.J. Mentoor	358
Councillor L. Quse	237
	2,913

30 June 2011	Outstanding more than 90 days
Councillor N.E. Maqidlana	2,224
Councillor R.N. May	738
Councillor N. Mekani	1,362
Councillor L.J. Mentoor	75
Councillor M.T. Ngcaba	3,424
Councillor W.I. Ntozini	541
Councillor L. Quse	223
Councillor X.L. Samana	97
	8,684

During the year officials accounts totalling R461 723 were outstanding for more than 90 days.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

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

Material losses

Electricity losses for the current year amounted to 12.61% i.e. R97 544 542 (2011: 12.37% i.e.R76 277 387). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 6.5% i.e. R50 285 375 (2011: 9.45% i.e. R58 267 364). Non-technical losses, being theft, faults, billing errors etc., account for 6.11% i.e. R47 259 167 (2011: 2.92% i.e. R18 010 023). Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 47.28% i.e. R105 221 795 (2011: 45.38% i.e. R92 323 787) . 37.56% i.e. R83 590 522 (2011: 34.34% i.e. R69 852 177) of these losses can be accounted for it terms of the National Guidelines for non-revenue water. 9.72% i.e. R21 631 273 (2011: 11.04% i.e. R22 471 610) 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.

57. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	187,584,824
Finance leases raised	749,790	862,874
Used to finance property, plant and equipment	(749,790)	(188,447,698)
	-	-

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

58. Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 44 of the SCM Policy of 2009 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

During the financial year under review goods/services totalling R21 666 617 (2011: R8 900 518) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

59. 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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

59. Retirement benefit information (continued)

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2011 conducted by S. Neethling from Metropolitan Life Limited. The fund was 98.1% funded at valuation date. BCMM has both defined contribution (9) and defined benefit (31) members within this fund. The fund includes a number of municipalities and it is therefore not possible to identify each municipalities performance as the assets of the fund cannot be separately identified. Due to the low number of members it is envisaged that a surplus or deficit will not have a material effect on future contributions.

The Cape Retirement Fund's last actuarial valuation was at 30 June 2011 conducted by S Neethling from Metropolitan Life Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2011 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 2010 conducted by A Nel .The funding level at this date was 100%.

SAMWU National Provident Fund's last actuarial valuation was at 30 June 2008 conducted by E. Potgieter from Fifth Quadrant Actuaries & Consultants (Pty) Ltd. The report stated that the fund was in a sound financial position.

The SALA Pension Fund's last valuation was at 30 June 2010 conducted by J.F.Rosslee of Genesis Actuarial Solutions. The fund was 96% funded as at valuation date.The valuator was satisfied with the investment policy of the fund and the nature of the assets is in his opinion, suitable for the nature of the liabilities of the fund at the date of valuation.

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

The Municipal Councillors Pension Fund's last 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 13.5 million.

An amount of R 151.9 million (2011: R 143.6 million) was contributed by Council, Councillor's and employee's in respect of Councillor and employee retirement funding. These contributions have been expensed.

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated
60. Contingent liabilities		
Litigation Issues		
A claim has been instituted against Council due to alleged defamation. Legal advice has been sought and Council will defend the claim.	100,000	250,000
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	1,162,631	416,160
A claim has been instituted against Council by Transnet due to outstanding rental since 1998 when the last lease between Transnet and BCMM expired (Date of incident March 1998 and summons received by BCMM November 2007).	4,092,956	4,092,956
A claim has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCMM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCMM of the contractor tendering or being awarded the contract (Date of incident August 2008 and summons received by BCMM November 2010).	1,563,415	1,563,415
A claim has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council (Date of incident August 2009 and summons received by BCMM June 2011).	1,382,118	1,382,118
A claim has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance (Summons received by BCMM November 2007).	9,780,185	9,780,185
A claim has been instituted against Council by N.M. Rieger & Others in respect of monies allegedly due to them in terms of an agreement with Council (Date of incident June 2000 and summons received by BCMM July 2011).	2,872,579	2,872,579
A claim has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident August 2011 and summons received by BCMM September 2011).	3,948,000	-
A claim has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident June 2010 and summons received by BCMM January 2012).	7,786,920	-
A claim has been instituted against Council by Nurcha Development & Tusk Construction for alleged breach of contract (Cession agreement signed by the Contractor New Boss CC) (Date of incident June 2011 and summons received by BCMM January 2012).	2,910,575	-
A claim has been instituted against Council by Mkwanazi Construction (Pty) Ltd claiming for damages arising from alleged delays and disruptions in the construction project. (Date of incident October 2011 and summons received by BCMM April 2012).	36,861,290	-
A claim has been instituted against Council by Faye Heuer claiming for damages against Council due to an accident allegedly caused by potholes (Date of incident February 2009 and summons received by BCMM February 2012).	2,209,820	-
A claim has been instituted against Council by Claremont Farming as the plaintiff wants BCMM to take ownership of its farm after BCMM alledgedly erected a water reservoir on the farm.	680,000	6,900,000
Contracts awarded during Dr.Zitha's tenure as acting Municipal Manager were investigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.	20,983,535	26,000,000
BCDA is involved in a dispute with a supplier (Kwezi V3 now Worley Parsons) claiming an amount above contract amount. This additional amount relates to additional services and disbursements that had not been included in the initial contract amount and there was no agreement entered for these additional costs.	45,104	-
Total Contingent Liabilities in respect of Litigation Issues	**96,379,128**	**53,257,413**
Labour issues		
Directors bonuses	2,105,653	3,784,405

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated
60. Contingent liabilities (continued)		
Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims.	4,815,057	2,601,085
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.	35,000,000	17,562,808
Employees who have appealed against TASK evaluation results may receive a higher TASK level and backpay if their TASK levels are upgraded through the appeal process. It is also possible that positions within the Municipality could be re-graded and employees could also in some cases be upgraded and receive backpay. 6.5% of the positions have not yet been graded and the financial implications of this are unquantifiable. The appeals arise from the evaluation of all posts in 2006.	10,000,000	5,000,000
The Senior Professional Nurses allege that their Occupational Specific Dispensation allowances have been incorrectly calculated and that they should be receiving higher amounts. The Occupational Specific Dispensation Allowances (OSDA) paid to primary health care employees will be recalculated according to information requested from Province and this will determine whether the amounts paid to employees need to be adjusted. The amount is therefore unquantifiable at this stage. (This was for the period 2010 to June 2012 paid in August 2012).	4,800,000	2,765,132
Certain former R293 employees received a lesser total package when they were transferred to the Municipality in April 2000.	5,000,000	4,000,000
Total Contingent Liabilities in respect of Labour Issues	**61,720,710**	**35,713,430**
Insurance Issues		
Claims have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advice has been sought and Council will defend claims where so advised.	6,582,866	6,446,142
Claims have been instituted against Council due to various damage claims.	256,854	876,739
A claim has been instituted against Council by Mercedes-Benz SA in respect of a voltage fluctuation which allegedly fell outside the time periods and parameters as agreed upon in the electricity supply agreement between BCMM and MBSA resulting in damage to body shop machinery (Date of incident September 2009 and claim received by BCMM November 2009).	4,183,882	4,183,882
A claim has been instituted against Council by M. Ntswanthlana in respect of personal injury caused by a billboard (Date of incident August 2005 and claim received by BCMM September 2006).	1,880,000	-
A claim has been instituted against Council by M. Gwentsha, K. Poni, N. Magxwalisa, T. Nzuzo and D. Sam in respect of an alleged shooting incident (Date of incident January 2009 and claim received by BCMM March 2009).	2,500,000	-
Total Contingent Liabilities in respect of Insurance issues	**15,403,602**	**11,506,763**
Other issues		
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	75,147	25,000
A claim has been instituted against Council by the East London IDZ in respect of an alleged overcharge on an electricity account (Resolved).	-	1,600,000
A claim has been instituted against Council by the East London IDZ in respect of maintenance of roads around the ELIDZ pertaining to grass cutting (Resolved).	-	1,200,000
As a result of a tender award being challanged by interested parties, a recommendation was made by a facilitator that the municipality pay the appointed contractor Umso Construction for the standing time between the commencement of the project and the date the project was stopped (Resolved).	-	3,500,000
Total Contingent Liabilities in respect of Other Issues	**75,147**	**6,325,000**
Total Contingent liabilities	**173,578,587**	**106,802,606**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011 Restated

61. Reconciliation between budget and statement of financial performance

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

Net surplus/(deficit) per the statement of financial performance	123,730,338	(227,540,122)
Adjusted for:		
Deficit/(surplus) from equity accounted investments - Not budgeted for	12,087,832	20,235,199
Loss or (gain) on sale of assets - Not budgeted for	1,486,310	5,608,765
Actuarial Loss/(gain) - Not budgeted for	33,777,164	(500,202)
Fair value adjustments - Not budgeted for	-	(330,911)
Taxation - BCDA - Not budgeted for	248,885	62,023
Impairment reversal - Not budgeted for	1,798,575	(71,221,655)
Stock - RDP houses - Not budgeted for	10,799,401	(29,864,624)
Donated & Public PPE - Revenue - Not budgeted for	-	(9,029,317)
Government Grants PPE - Revenue - Not budgeted for	-	(223,635,089)
Offset depreciation - Budgeted for but no actual	310,740,544	318,833,827
Employee related costs - variance between budget and actual	(27,184,669)	21,117,652
Depreciation and amortisation - variance between budget and actual	39,776,023	32,777,418
Debt impairment - variance between budget and actual	(107,243,262)	141,316,593
Repairs and maintenance - variance between budget and actual	(31,451,429)	(21,230,193)
Bulk purchases - variance between budget and actual	(12,731,370)	8,713,420
General expenses - variance between budget and actual	(180,923,581)	(112,629,434)
Interest received on investments - Revenue - variance between budget and actual	(30,428,742)	(10,844,218)
Fines - Revenue - variance between budget and actual	5,201,088	2,384,762
Government grants and subsidies - Revenue - variance between budget and actual	(31,741,938)	34,755,233
Donated & Public PPE - Revenue - variance between budget and actual	1,506,443	-
Government Grants PPE - Revenue - variance between budget and actual	382,781,202	-
Government Grants operating and housing projects - Revenue - variance between budget and actual	74,496,406	76,664,720
Other variances between budget and actual	29,107,280	44,459,443
Net surplus per approved budget	**605,832,500**	**103,290**

Underspending		
Operating expenditure	1,295,030,117	808,398,557
Capital expenditure	494,322,104	81,002,261
	1,789,352,221	**889,400,818**

Figures in Rand		2012	2011 Restated

62. Cash flows from operating activities

	Note	2012	2011 Restated
Receipts: Sale of goods and services			
Total revenue as per Statement of Financial Performance		3,591,525,566	3,038,833,486
Less: Interest received	36	(82,656,471)	(53,775,551)
Less: Public contributions and donations	27	(1,329,257)	(1,192,709)
Less: Government grants and subsidies received	27	(905,903,245)	(901,582,926)
Less: Public contributions- PPE	27	(1,283,135)	(9,029,317)
Gain/(Loss) on sale of assets	14	1,486,310	5,608,765
Decrease in revenue from non-exchange transactions	7	(62,258,787)	28,439,406
Fair value adjustment on revalued Sanlam shares	37	-	(330,911)
Increase in receivables from exchange transactions	6	(159,620,632)	(147,501,789)
Decrease in VAT receivables	8	2,380,356	12,422,360
Increase in operating leases	9	(1,582,011)	(3,588,506)
Net revenue from sale of goods and services as per the cash flow statement		**2,380,758,694**	**1,968,302,308**

	Note	2012	2011 Restated
Payments: Suppliers			
Total expenditure as per the Statement of Financial Performance		(3,455,458,511)	(3,246,076,386)
Employee costs	33&34	995,622,469	884,695,644
Interest paid	39	70,498,923	58,655,860
Depreciation and amortisation	38	513,024,034	508,798,632
Reversal of impairments	14	1,798,575	(71,221,655)
Debt impairment	35	58,206,738	210,998,044
Non-cash property, plant and equipment transfers	12&14	-	(21,958,294)
Increase in post retirement medical aid benefit obligation	23	60,662,209	19,431,932
Increase in provisions relating to landfill sites	20	27,088,841	13,368,819
Adjustment of prior year transactions	48	-	4,456,158
Revaluation of property plant and equipment	14	67,929	4,763,998
Increase in payables from exchange transactions	44	80,295,125	36,025,426
Non-cash asset additions	14	(27,906,561)	(12,988,661)
Increase in inventory	44	20,303,946	(40,629,113)
Tax on adjustment of SARS interest and penalties calculated	39	(2,982)	-
Net payments to suppliers as per cash flow statement		**(1,655,799,265)**	**(1,651,679,596)**

	Note	2012	2011 Restated
Government grants, subsidies and public contributions and donations			
Government grants & subsidies	30	905,903,246	901,582,926
Public contributions and donations	27	1,329,257	1,192,709
Public contributions PPE	27	1,283,135	9,029,317
Total as per cash flow statement		**908,515,638**	**911,804,952**

63. Surplus / (Deficit) for the year

	2012	2011 Restated
Reconciliation of actual operating results to net income/ (deficit)		
Net income/ (deficit) for the period	123,730,338	(227,540,122)
Offset depreciation	473,029,283	494,060,213
Items not provided for in the operating budget	(13,574,142)	(25,513,053)
Actual operating results	**583,185,479**	**241,007,038**

	2012	2011 Restated
Items not provided for in the operating budget		
(Loss) on disposal of assets and liabilities	(1,486,310)	(5,608,765)
Fair value adjustment on Sanlam shares revalued	-	330,911
Income from equity accounted investments	(12,087,832)	(20,235,199)
Other income and expenditure not bugeted for	**(13,574,142)**	**(25,513,053)**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

63. Surplus / (Deficit) for the year (continued)

When items of property, plant and equipment are financed from government grants these grants are recorded as revenue in the Statement of Financial Performance. (Revenue from non- exchange transctions). Depreciation expenses that will occur over the useful lives of Government funded items of property, plant and equipment will be offset by the accumulated revenue portion of the items of property, plant and equipment within accumulated surplus.

Other income and expenditure as set out in the table above, are those items falling outside the scope of the operational revenue and expenditure but affects the surplus/(deficit) for the year.

64. Repairs and maintenance

		2012	2011
Repairs and maintenance summary			
Repairs and maintenance - Buildings		12,445,133	12,929,741
Repairs and maintenence - Vehicles		11,011,960	9,507,019
Repairs and maintenance - Equipment		6,204,702	6,778,452
Repairs and maintenance - Minor improvements		2,700,551	2,331,492
Repairs and maintenance - Office machines		4,069,482	3,562,205
Repairs and maintenance - Roads		22,048,981	32,335,826
Repairs and maintenance - Furniture		121,624	137,572
Repairs and maintenance - Electricity		12,691,835	12,869,896
Repairs and maintenance - Deffered maintenance		55,779,001	31,517,272
Repairs and maintenance - Sewerage		8,242,751	7,837,270
Repairs and maintenance - Water network		19,314,642	11,828,854
Repairs and maintenance - Mechanical repairs		1,656,041	1,669,585
Repairs and maintenance - Stormwater		5,064,405	6,012,173
Repairs and maintenance - Radio equipment		162,762	140,019
Repairs and maintenance - Maintenance contracts		43,249,967	47,490,482
Repairs and maintenance - Grounds		667,907	854,880
Repairs and maintenance - General		954,443	671,123
Repairs and maintenance - Extinguishers		127,658	157,486
Repairs and maintenance - Health and Public safety		1,051,305	1,343,622
Repairs and maintenance - Community services		3,018,962	3,361,072
Repairs and maintenance - BCDA		-	350
		210,584,112	**193,336,391**
Prior period error - BCDA			
Adjusted	48	-	350

65. Deferred tax

Reconciliation of deferred tax asset (liability)

		2012	2011
Deferred tax		275	275
Prior period errors			
Balance as previously stated		-	47,513
Adjustment	48	-	(47,238)
Restated balance		**-**	**275**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011 Restated

66. Taxation

Major components of the tax expense

Current			
Local income tax - current period		248,885	62,023
Prior year corrections to current tax			
Balance as previously reported		-	(12,102)
Current tax	48	-	26,887
Deferred tax	48	-	47,238
Restated balance		**-**	**62,023**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate	28.00 %	28.00 %
Standard tax on accouting profit (R884 581*28%)/ (2011:R81 306*28%)	247,682	22,766
Less: Interest received - SARS (R2 982*28%)	(834)	-
Add: Tax effect on interest and penalties (R7 275*28%)/ (2011: R14 718*28%)	2,037	4,121
Current income tax	**248,885**	**26,887**

67. Taxes and transfers payable (non-exchange)

Balance at beginning of the year		247,175	247,175
Current tax for the year recognised in surplus or deficit		248,885	-
SARS interest and penalties payable		(2,982)	-
Balance at end of the year		**493,078**	**247,175**
Prior period error			
Balance as previously reported		-	220,288
Adjusted	48	-	26,887
Restated balance		**-**	**247,175**