BUFFALO CITY METROPOLITAN MUNICIPALITY

# Annual Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipality.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) 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**<br>**City Manager** | **Date** |

## General Information

| | |
|---|---|
| **Legal Form of Entity** | Municipality |
| **Nature of Business and Principal Activities** | Local Government |
| **Grading of Local Authority** | Grade 6 Municipality |
| **Accounting Officer** | Mr. A Fani |
| **Chief Financial Officer** | Mr. V Pillay |
| **Jurisdiction** | The demarcation board has determined that Buffalo City Metropolitan Municipality (BUF) includes the towns of East London, Bisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the corridor of rural areas. |
| **Business address** | Trust Centre<br>Oxford Street<br>East London<br>5201 |
| **Postal address** | PO Box 134<br>East London<br>5200 |
| **Bankers** | Absa Bank / Standard Bank |
| **Auditors** | Auditor General of South Africa |
| **Members of Audit Committee** | Mr. V Pangwa (Chairperson)<br>Mr. S Mkebe (Member)<br>Ms. E Kula-Ameyaw (Member) |
| **Legislation Governing the Municipality** | The Constitution of the Republic of South Africa,1996<br>The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998)<br>The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)<br>The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)<br>Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004)<br>Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007)<br>Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998)<br>Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005) |

# Index

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

# Statement of Financial Position as at 30 June 2013

| Figures in Rand | Note(s) | 2013 | 2012 Restated |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | 1,842,193,462 | 1,521,057,217 |
| Inventories | 6 | 71,653,231 | 117,116,161 |
| Receivables from exchange transactions | 7 | 383,984,497 | 312,473,204 |
| Receivables from non-exchange transactions | 8 | 216,159,536 | 146,312,963 |
| VAT receivable | 9 | 65,200,497 | 34,129,583 |
| Current portion of operating leases | 10 | 2,363,400 | 2,546,106 |
| Current portion of long-term receivables | 11 | 14,440 | 13,098 |
| | | **2,581,569,063** | **2,133,648,332** |
| **Non-Current Assets** | | | |
| Non-current portion of operating leases | 10 | 61,815,348 | 59,027,596 |
| Long-term receivables | 11 | 42,913 | 57,353 |
| Intangible assets | 12 | 19,174,824 | 12,111,588 |
| Investment property | 13 | 239,138,733 | 254,892,542 |
| Heritage assets | 14 | 44,954,355 | 44,954,355 |
| Property, plant and equipment | 15 | 11,290,520,567 | 11,206,364,320 |
| Non-current investment | 16 | 892,235 | 856,601 |
| Investment in associate | 17 | 260 | 260 |
| | | **11,656,539,235** | **11,578,264,615** |
| **Total Assets** | | **14,238,108,298** | **13,711,912,947** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Bank overdraft (iro fresh produce market: favourable bank balance = R2 465 727) | 5 | 1,359,574 | 1,064,181 |
| Borrowings | 18 | 49,970,261 | 41,533,557 |
| Consumer deposits | 19 | 45,519,265 | 36,919,893 |
| Finance lease obligation | 20 | 1,686,593 | 463,541 |
| Provisions | 21 | 117,411,611 | 124,884,616 |
| Payables from exchange transactions | 22 | 571,569,433 | 451,030,434 |
| Unspent conditional and unconditional grants and receipts | 23 | 450,148,613 | 739,538,361 |
| | | **1,237,665,350** | **1,395,434,583** |
| **Non-Current Liabilities** | | | |
| Borrowings | 18 | 597,206,903 | 604,256,175 |
| Finance lease obligation | 20 | 3,941,058 | 990,241 |
| Provisions | 21 | 49,968,510 | 68,089,174 |
| Post-retirement medical obligation | 24 | 341,562,823 | 341,426,029 |
| | | **992,679,294** | **1,014,761,619** |
| **Total Liabilities** | | **2,230,344,644** | **2,410,196,202** |
| **Net Assets** | | **12,007,763,654** | **11,301,716,745** |
| **Net Assets** | | | |
| Reserves: | | | |
| Revaluation reserve | 25 | 34,577,035 | 50,903,981 |
| Accumulated surpluses | | 11,973,186,619 | 11,250,812,764 |
| **Total Net Assets** | | **12,007,763,654** | **11,301,716,745** |

# BUFFALO CITY METROPOLITAN MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2013 | 2012 Restated |
|---|---|---|---|
| **Revenue** | | | |
| Public contributions and donations - operating projects | 28 | - | 599,152 |
| Public contributions and donations - PPE | 28 | - | 730,105 |
| Licences and permits | 28 | 15,299,244 | 15,707,756 |
| Rental of facilities and equipment | 28 | 15,485,474 | 14,619,601 |
| Fines | 28 | 5,979,206 | 5,455,740 |
| Fuel levy | 28 | 317,781,000 | 170,477,000 |
| Property rates | 29 | 580,100,409 | 522,514,480 |
| Service charges | 30 | 1,964,268,076 | 1,754,709,786 |
| Government grants & subsidies | 31 | 1,234,896,065 | 907,186,380 |
| Other revenue | 32 | 207,878,985 | 138,057,912 |
| Interest received | 37 | 106,143,844 | 82,608,879 |
| **Total revenue** | 28 | **4,447,832,303** | **3,612,666,791** |
| **Expenditure** | | | |
| Impairments | 15 | - | (1,798,575) |
| Loss on disposal of assets | 15 | (176,871) | (1,486,310) |
| General Expenses | 33 | (613,311,356) | (568,944,458) |
| Employee related costs | 34 | (981,882,094) | (956,365,528) |
| Remuneration of councillors | 35 | (43,331,310) | (42,965,666) |
| Debt impairment | 36 | (106,769,757) | (58,206,738) |
| Depreciation and amortisation | 39 | (501,217,994) | (513,009,118) |
| Finance costs | 40 | (67,258,510) | (70,491,430) |
| Contracted services | 42 | (7,763,365) | (6,839,654) |
| Grants and subsidies paid | 43 | (116,332,346) | (113,584,035) |
| Bulk purchases | 44 | (1,040,113,343) | (915,387,163) |
| Repairs and maintenance | 64 | (254,978,933) | (210,584,112) |
| **Total expenditure** | | **(3,733,135,876)** | **(3,459,662,787)** |
| Share of deficit of associate accounted for under the equity method | 17 | - | (12,087,832) |
| **Surplus for the year** | 63 | **714,696,427** | **140,916,172** |

## Statement of Changes in Net Assets

Figures in Rand

| | Notes | Revaluation Reserve | Accumulated Surpluses | Total Net Assets |
|---|---|---|---|---|
| Opening balance as previously reported | | 16,047,826 | 11,180,532,264 | 11,196,580,090 |
| Adjustments: | | | | |
| Prior year adjustments | 49 | - | 21,739,171 | 21,739,171 |
| **Balance at 01 July 2011 as restated** | | **16,047,826** | **11,202,271,435** | **11,218,319,261** |
| Changes in net assets: | | | | |
| Take on of PPE at deemed cost | | - | 67,930 | 67,930 |
| Depreciation transfer to income | 25 | (573,137) | 573,137 | - |
| Adjustments to the Municipal Property Asset Register - Investment properties | | - | (1,313,188) | (1,313,188) |
| Adjustments to the Municipal Property Asset Register - Other properties | | - | (12,068,119) | (12,068,119) |
| Correction of error | 49 | 35,429,291 | (79,634,599) | (44,205,308) |
| | | | - | - |
| Surplus for the year | 49 | - | 140,916,168 | 140,916,168 |
| **Balance at 01 July 2012 as restated** | 49 | **50,903,981** | **11,250,812,764** | **11,301,716,745** |
| Changes in net assets: | | | | |
| Depreciation transfer to income | | (573,137) | 573,137 | - |
| Adjustments to Plant & Equipment | 15 | - | 181,897 | 181,897 |
| Adjustments to Furniture & Fittings | 15 | - | 4,155,191 | 4,155,191 |
| Adjustments to Office Equipment | 15 | - | 2,513,590 | 2,513,590 |
| Adjustments to Recreational Facilities | 15 | - | 253,616 | 253,616 |
| Surplus for the year | 63 | - | 714,696,424 | 714,696,424 |
| Revaluation of investment properties | 25 | (15,753,808) | - | (15,753,808) |
| **Balance at 30 June 2013** | | **34,577,035** | **11,973,186,619** | **12,007,763,654** |
| Note(s) | | 25 | | |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2013 | 2012 Restated |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | 62 | 2,825,165,683 | 2,402,897,313 |
| Government grants, subsidies and public contributions and donations | 62 | 1,234,896,065 | 908,515,638 |
| Interest received | 37 | 106,143,844 | 82,608,879 |
| | | 4,166,205,592 | 3,394,021,830 |
| **Payments** | | | |
| Employee costs | 34&35 | (1,025,213,402) | (999,331,197) |
| Suppliers | 62 | (1,874,113,466) | (1,674,227,032) |
| Finance costs | 40 | (67,258,510) | (70,491,430) |
| | | (2,966,585,378) | (2,744,049,659) |
| **Net cash flows from operating activities** | 45 | **1,199,620,216** | **649,972,171** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 15 | (593,985,811) | (267,119,856) |
| Proceeds from sale of property, plant and equipment | 15 | 706,236 | 1,895,651 |
| Purchase of other intangible assets | 12 | (10,248,181) | (3,227,171) |
| Purchase of heritage assets | 14 | - | (432,579) |
| Net movement on financial assets | 11 | 13,098 | 11,880 |
| Net movement on non-current investments | 16 | (35,634) | (36,641) |
| **Net cash flows from investing activities** | | **(603,550,292)** | **(268,908,716)** |
| **Cash flows from financing activities** | | | |
| Net movement on borrowings | 18 | 1,387,432 | (44,996,996) |
| Net movement on finance leases | 20 | 4,173,869 | (23,235) |
| Net movement on unspent conditional grants | 23 | (289,389,748) | 441,524,387 |
| Net movement on consumer deposits | 19 | 8,599,372 | 3,465,560 |
| **Net cash flows from financing activities** | | **(275,229,075)** | **399,969,716** |
| **Net increase in cash and cash equivalents** | | **320,840,849** | **781,033,171** |
| Cash and cash equivalents at the beginning of the year | | 1,519,993,036 | 738,959,864 |
| **Cash and cash equivalents at the end of the year** | 5 | **1,840,833,885** | **1,519,993,035** |

## Statement of Comparison of Budget and Actual Amounts

| Figures in Rand | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance - refer to note 4 | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 585,374,446 | - | 585,374,446 | - | | 585,374,446 | 580,100,409 | | (5,274,037) | 99 % | 99 % |
| Service charges | 1,967,956,117 | - | 1,967,956,117 | - | | 1,967,956,117 | 1,964,268,076 | | (3,688,041) | 100 % | 100 % |
| Investment revenue | 78,314,288 | - | 78,314,288 | - | | 78,314,288 | 106,143,844 | | 27,829,556 | 136 % | 136 % |
| Transfers recognised - operational | 804,866,030 | (8,096,541) | 796,769,489 | - | | 796,769,489 | 719,325,675 | | (77,443,814) | 90 % | 89 % |
| Other own revenue | 530,126,413 | - | 530,126,413 | - | | 530,126,413 | 562,423,909 | | 32,297,496 | 106 % | 106 % |
| **Total revenue (excluding capital transfers and contributions)** | **3,966,637,294** | **(8,096,541)** | **3,958,540,753** | **-** | | **3,958,540,753** | **3,932,261,913** | | **(26,278,840)** | **99 %** | **99 %** |
| Employee costs | (1,053,329,100) | (26,349,160) | (1,079,678,260) | - | - | (1,079,678,260) | (981,882,094) | - | 97,796,166 | 91 % | 93 % |
| Remuneration of councillors | (45,218,700) | (535,003) | (45,753,703) | - | - | (45,753,703) | (43,331,310) | - | 2,422,393 | 95 % | 96 % |
| Debt impairment | (215,000,000) | - | (215,000,000) | | | (215,000,000) | (106,769,757) | - | 108,230,243 | 50 % | 50 % |
| Depreciation and asset impairment | (376,527,919) | - | (376,527,919) | | | (376,527,919) | (501,217,994) | - | (124,690,075) | 133 % | 133 % |
| Finance charges | (89,112,465) | 22,463,270 | (66,649,195) | - | - | (66,649,195) | (67,258,510) | - | (609,315) | 101 % | 75 % |
| Materials and bulk purchases | (1,049,156,775) | - | (1,049,156,775) | - | - | (1,049,156,775) | (1,040,113,343) | - | 9,043,432 | 99 % | 99 % |
| Transfers and grants | (30,464,322) | (1,682,802) | (32,147,124) | - | - | (32,147,124) | (116,332,346) | - | (84,185,222) | 362 % | 382 % |
| Other expenditure | (1,133,412,451) | (33,340,664) | (1,166,753,115) | - | - | (1,166,753,115) | (876,230,525) | - | 290,522,590 | 75 % | 77 % |
| **Total expenditure** | **(3,992,221,732)** | **(39,444,359)** | **(4,031,666,091)** | **-** | **-** | **(4,031,666,091)** | **(3,733,135,879)** | **-** | **298,530,212** | **93 %** | **94 %** |
| **Surplus/(Deficit)** | **(25,584,438)** | **(47,540,900)** | **(73,125,338)** | **-** | | **(73,125,338)** | **199,126,034** | | **272,251,372** | **(272)%** | **(778)%** |

# Statement of Comparison of Budget and Actual Amounts

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 629,018,248 | 205,049,909 | 834,068,157 | - | | 834,068,157 | 515,570,390 | | (318,497,767) | 62 % | 82 % |
| Contributions recognised - capital and contributed assets | - | 2,450,976 | 2,450,976 | - | | 2,450,976 | - | | (2,450,976) | - | - |
| **Surplus (Deficit) after capital transfers and contributions** | **603,433,810** | **159,959,985** | **763,393,795** | **-** | | **763,393,795** | **714,696,424** | | **(48,697,371)** | **94 %** | **118 %** |
| **Surplus/(Deficit) for the year** | **603,433,810** | **159,959,985** | **763,393,795** | **-** | | **763,393,795** | **714,696,424** | | **(48,697,371)** | **94 %** | **118 %** |

**Capital expenditure and funds sources**

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total capital expenditure | 749,097,271 | 229,006,218 | 978,103,489 | - | | 978,103,489 | 604,233,990 | | (373,869,499) | 62 % | 81 % |
| **Sources of capital funds** | | | | | | | | | | | |
| Transfers recognised - capital | 609,847,828 | 224,220,329 | 834,068,157 | - | | 834,068,157 | 515,570,387 | | (318,497,770) | 62 % | 85 % |
| Public contributions and donations | 19,170,420 | (16,719,444) | 2,450,976 | - | | 2,450,976 | - | | (2,450,976) | - | - |
| Borrowing | - | - | - | - | | - | 18,146,281 | | 18,146,281 | - | - |
| Internally generated funds | 120,079,023 | 21,505,333 | 141,584,356 | - | | 141,584,356 | 70,517,322 | | (71,067,034) | 50 % | 59 % |
| **Total sources of capital funds** | **749,097,271** | **229,006,218** | **978,103,489** | **-** | | **978,103,489** | **604,233,990** | | **(373,869,499)** | **62 %** | **81 %** |

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows** | | | | | | | | | | | |
| Net cash from (used) operating | 942,998,729 | 161,315,088 | 1,104,313,817 | - | | 1,104,313,817 | 1,199,620,216 | | 95,306,399 | 109 % | 127 % |
| Net cash from (used) investing | (749,097,271) | (229,006,218) | (978,103,489) | - | | (978,103,489) | (603,550,292) | | 374,553,197 | 62 % | 81 % |
| Net cash from (used) financing | (41,532,778) | (2,448,186) | (43,980,964) | - | | (43,980,964) | (275,229,075) | | (231,248,111) | 626 % | 663 % |
| **Net increase/(decrease) in cash and cash equivalents** | **152,368,680** | **(70,139,316)** | **82,229,364** | **-** | | **82,229,364** | **320,840,849** | | **238,611,485** | **390 %** | **211 %** |
| Cash and cash equivalents at the beginning of the year | 696,148,584 | - | 696,148,584 | - | | 696,148,584 | 1,519,993,036 | | 823,844,452 | 218 % | 218 % |
| **Cash and cash equivalents at year end** | **848,517,264** | **(70,139,316)** | **778,377,948** | **-** | | **778,377,948** | **1,840,833,885** | | **(1,062,455,937)** | **236 %** | **217 %** |

# 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.

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

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of 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, investments and/or loans and receivables**

The municipality 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 has been made to write down stock to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note 6.

**Fair value estimation**

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

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

**Impairment testing**

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

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

**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 21 - Provisions.

# Accounting Policies

### 1.1 Significant judgements and sources of estimation uncertainty (continued)

**Useful lives of waste and water network and other assets**

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

**Post retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 24.

**Effective interest rate**

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

**Allowance for doubtful debts**

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

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both - or under construction) 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.

Investment property excludes owner-occupied property.

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

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

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

Where investment property is acquired through a non-exchange transaction, 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 measures 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.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) commencement of development with a view to sale, for a transfer from investment property to inventories;
(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, 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.

### 1.3 Property, plant and equipment (continued)

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings and roads 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 |
| Finance Leased Assets | 5 |
| Roads | 5 to 100 |
| Wastewater network | 5 to 80 |
| Water network | 5 to 150 |

# Accounting Policies

### 1.3 Property, plant and equipment (continued)

| | |
|---|---|
| Heritage Assets | 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.

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 municipality 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 and will be classified as revenue. 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.

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

### 1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

- 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 municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount and any impairment loss is recognised in 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 intangible asset is an identifiable non-monetary asset without physical substance.

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, 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.
- 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.

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

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

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

| Item | Useful life |
|---|---|
| Computer software | 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 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

### 1.6 Heritage assets (continued)

A class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

**Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

If an municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, 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 heritage asset.

**Impairment**

The municipality assess at each reporting date whether there is an indication that a heritage asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

**Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

### 1.7 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.

### 1.8 Investment in associate

An associate is an entity over which the municipality 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 municipality's share of operating surpluses/ (deficits) less any dividends received.

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

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

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

### 1.9 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.

### 1.9 Financial instruments (continued)

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;
- 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

### 1.9 Financial instruments (continued)

- 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.

**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 26 :

| 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 investments | 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 27 :

| 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.

# Accounting Policies

### 1.9 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:

### 1.9 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.

### 1.10 Leases

A lease is either a written of implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under spedific conditions, in return for specific periodic rental or lease payments.

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

**Finance leases - lessee**

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

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

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

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

### 1.10 Leases (continued)

**Operating leases - lessor**

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

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

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

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

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

**Operating leases - lessee**

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

### 1.11 Inventories

Inventories are initially measured at cost, except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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

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

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

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

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

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value 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 municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

The 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.

# Accounting Policies

### 1.12 Impairment of cash-generating assets (continued)

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

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

Depreciation and/or 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.

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

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

**Identification**

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

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

**Value in use**

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

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

# Accounting Policies

### 1.12 Impairment of cash-generating assets (continued)

**Cash-generating units**

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

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

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

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

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

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

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

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

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

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

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.

The 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 and/or 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.

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

The useful life is either:

- the period of time over which an asset is expected to be used by the municipality; 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 municipality.

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-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 non-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 municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

**Value in use**

The value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of the non-cash-generating assets 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 municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

# Accounting Policies

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

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

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

### 1.14 Employee benefits

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

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

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

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

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

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

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

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

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

# Accounting Policies

### 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 municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

**Post-employment benefits**

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

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

**Post-employment benefits: Defined contribution plans**

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

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

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

# Accounting Policies

**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 municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**1.14 Employee benefits (continued)**

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

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

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

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); or until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

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

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

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

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

## Accounting Policies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# 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 announcing its main features to those affected by it.

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

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

Contingencies are disclosed in note 47 and note 61.

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

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

#### Measurement

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

#### Sale of goods

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

# 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 municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

**Interest, royalties and dividends**

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

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

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

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

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

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

### 1.17 Revenue from non-exchange transactions

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

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

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

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

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

### 1.17 Revenue from non-exchange transactions (continued)

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.

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

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

**Measurement**

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

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

**Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

**Transfers**

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

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

**Debt forgiveness and assumption of liabilities**

The municipality recognise 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 carrying amount of debt forgiven.

**Fines**

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

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

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

### 1.17 Revenue from non-exchange transactions (continued)

**Bequests**

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

**Gifts and donations, including goods in-kind**

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

### 1.18 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 municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, 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 municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

### 1.20 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.

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

### 1.25 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.

### 1.28 Conditional grants and receipts

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

### 1.29 Budget information

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

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

The approved budget is prepared on a cash basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in note 4 to the annual financial statements.

### 1.30 Value added tax (VAT)

The municipality 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 9.

### 1.31 Commitments

Items are classified as commitments when the municipality 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 municipality 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 46.

### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following new standards as issued by the Accounting Standard Board:

- GRAP 23 Revenue from non-exchange transactions.
- GRAP 24 Presentation of budget information in the financial statement
- GRAP 21 Impairment of non-exchange transactions
- GRAP 26 Impairment of exchange transactions
- GRAP 103 Heritage assets
- GRAP 104 Financial instruments

### 3. New standards and interpretations

### 3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality 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: |
|---|---|---|
| GRAP 23: Revenue from Non-exchange Transactions | 01 July 2012 | The major impact will be the accounting treatment of conditional grants and fines. |
| GRAP 24: Presentation of Budget Information in the Financial Statements | 01 July 2012 | Major change in presenting the Budget information compared to actuals in the Financial Statements. |
| GRAP 103: Heritage Assets | 01 July 2012 | This standard requires a more detailed approach to identifying and presenting the heritage assets in the Annual Financial Statements. |
| GRAP 21: Impairment of non-cash-generating assets | 01 July 2012 | No major impact as the municipality has already accepted a policy based on GRAP 21. |
| GRAP 26: Impairment of cash-generating assets | 01 July 2012 | No major impact as the municipality has already accepted a policy based on GRAP 26. |
| GRAP 104: Financial Instruments | 01 July 2012 | No major impact as the municipality has already accepted a policy based on GRAP 104. |

### 3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| GRAP 25: Employee benefits | 01 July 2013 | No major impact expected |
| GRAP 20: Related parties | 01 July 2013 | No major impact expected |
| IGRAP 11: Consolidation – Special purpose entities | 01 July 2014 | No major impact expected |
| IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures | 01 July 2014 | No major impact expected |

# Notes to the Annual Financial Statements

**3. New standards and interpretations (continued)**

| | | |
|---|---|---|
| ▸ GRAP 1 (as revised 2012): Presentation of Financial Statements | 01 July 2013 | No major impact expected |
| ▸ GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors | 01 July 2013 | No major impact expected |
| ▸ GRAP 7 (as revised 2012): Investments in Associates | 01 July 2013 | No major impact expected |
| ▸ GRAP 9 (as revised 2012): Revenue from Exchange Transactions | 01 July 2013 | No major impact expected |
| ▸ GRAP 12 (as revised 2012): Inventories | 01 July 2013 | No major impact expected |
| ▸ GRAP 13 (as revised 2012): Leases | 01 July 2013 | No major impact expected |
| ▸ GRAP 16 (as revised 2012): Investment Property | 01 July 2013 | No major impact expected |
| ▸ GRAP 17 (as revised 2012): Property, Plant and Equipment | 01 July 2013 | No major impact expected |
| ▸ GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101) | 01 July 2013 | No major impact expected |
| ▸ GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102) | 01 July 2013 | No major impact expected |
| ▸ IGRAP16: Intangible assets website costs | 01 July 2013 | No major impact expected |
| ▸ IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue | 01 July 2013 | No major impact expected |

**3.3 Standards and interpretations not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 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 | 01 July 2013 | Not applicable |
| ▸ GRAP 105: Transfers of functions between entities under common control | 01 July 2013 | Not applicable |
| ▸ GRAP 106: Transfers of functions between entities not under common control | 01 July 2013 | Not applicable |
| ▸ GRAP 107: Mergers | 01 July 2013 | Not applicable |

# Notes to the Annual Financial Statements

Figures in Rand

**4. Explanation of significant variances on budget comparison to actuals**

Reasons for material variances shown on the **Statement of Comparison of Budget and Actual Amounts** are detailed below:

**REVENUE**

Investment revenue
The institution budgeted to incur expenditure from conditional grant funding from an earlier point in the financial year. This did not occur resulting in conditional grant funding being available for investment resulting in additional unbudgeted interest income.

**EXPENDITURE**

Debt impairment
The debt impairment figure is calculated using the approved methodology on the debt book as at 30 June 2013. This figure allows the municipality to make a realistic provision taking into account the ageing of the outstanding debtors at year end. The budget for debt impairment is based on the 12 months average collection rate. The debtors provision methodology was amended in order to obtain a more realistic figure.

Depreciation & asset impairment
The asset register is currently being revised for certain infrastructure asset categories which has led to an increase in the cost of these assets and the resulting depreciation on them, which was not budgeted for. This is also due to a large amount of infrastructure projects that were still under construction (WIP) when the budgeted figures were calculated. This resulted in depreciation being charged when these assets were capitalised which was not budgeted for. In addition, the budgeted figures are also based on the capital budget, which is still budgeted for on a globular basis and not componentised per asset category. This results in the budgeted figures differing from actuals due to different useful lives used for budgeting purposes and actual asset capitalisation i.e. specific useful lives are assigned to asset categories once these assets are capitalised.

Transfers and grants
This variance arose as a result of less payments being made for grant-in-aid that was originally predicted. Furthermore, a grant was budgeted for iro the Buffalo City Development Agency as it was expected that this entity would be operational, however this did not materialise. Poor relief was also expensed against transfers and grants whereas the amount was budgeted under general expenses.

Other expenditure
This is due to under spending on operating projects and contracted services. The allocated budget for Enterprise Project Management Office was intended for staffing of the EPMO however the recruitment of staff took longer than expected resulting in the slow utilisation of the budget. For contracted services - this is due to BCMM adopting an in-house approach to perform the refuse removal service. This service was expected to be outsourced when preparing the budget.

Transfers recognised - Capital
This is due to underspending on conditional grant funded projects.

# Notes to the Annual Financial Statements

Figures in Rand

**4. Explanation of significent variances on budget comparison to actuals (continued)**

**CAPITAL EXPENDITURE AND FUNDS SOURCES**

Total capital expenditure
This is due to underspending on conditional grant funded projects.

**CASH FLOWS**

Net cash from (used) investing
This is due to under spending on capital projects as purchase of Property Plant and Equipment is less than what has been projected.

Net cash from (used) financing
This is due to the increase in the utilisation of grant funding.

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 5. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 3,338,127 | 1,666,515 |
| Bank balances | 141,557,682 | 55,179,627 |
| Short-term deposits | 1,697,297,653 | 1,464,211,075 |
| Bank overdraft | (1,359,574) | (1,064,181) |
| | **1,840,833,888** | **1,519,993,036** |

| | | |
|---|---|---|
| Current assets | 1,842,193,462 | 1,521,057,217 |
| Current liabilities | (1,359,574) | (1,064,181) |
| | **1,840,833,888** | **1,519,993,036** |

| | | |
|---|---|---|
| **Allocation of external investments (short-term deposits)** | | |
| Unspent conditional and unconditional grants and receipts | 450,148,613 | 787,665,935 |
| Housing collateral for employees housing loans with lending instutions | 231,150 | 271,950 |
| Borrowing current repayments | 25,528,353 | 24,224,397 |
| Cash flow committed to operating and capital budgets | 81,627,983 | 111,897,042 |
| BCMET | 1,645,346 | 1,798,913 |
| Own funding (operating account commitments) | 1,138,116,208 | 538,352,838 |
| **Total short-term deposits** | **1,697,297,653** | **1,464,211,075** |

| | | |
|---|---|---|
| **Short-term deposits per institution** | | |
| ABSA ( interest range: 2013 4.5%-5% : 2012 5%-5.86%) | 424,335,564 | 374,200,819 |
| Nedbank (interest range: 2013 4.5%-5%: 2012 5%) | 424,309,733 | 362,621,306 |
| RMB (interest range: 2013 4.5%-5%: 2012 5% - 5,8%) | 422,974,683 | 362,957,317 |
| Standard bank (interest range: 2013 4.5%-5%: 2012 5% - 5.88%) | 246,880,571 | 177,642,582 |
| Stanlib (interest range: 2013 5.23%-5.7%: 2012 5.56% - 5.67%) | 178,797,102 | 186,789,051 |
| | **1,697,297,653** | **1,464,211,075** |

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 Municipality in respect of the Department of Labour for COID amounts to R7 539 288 (2012: R6 997 418).

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

## 5. Cash and cash equivalents (continued)

**The municipality had the following bank accounts:**

| Account number / description | Bank statement balances 30 June 2013 | 30 June 2012 | 30 June 2011 | Cash book balances 30 June 2013 | 30 June 2012 | 30 June 2011 |
|---|---|---|---|---|---|---|
| STANDARD BANK - Primary Account - 081-221-495 | - | 117,205,269 | 105,075,417 | - | 48,486,521 | 35,563,034 |
| STANDARD BANK - Market Account - 081-246-072 | - | 1,230,770 | 1,875,348 | - | (1,064,181) | (1,034,384) |
| STANDARD BANK - Inter Authority Account - 081-246-250 | - | 1,476,139 | 1,477,381 | - | 1,476,138 | 1,477,381 |
| STANDARD BANK - Prism Account - 081-246-048 | - | - | - | - | 5,105,086 | 5,583,785 |
| STANDARD BANK - BCMET Account - 081-098-359 | - | 111,882 | 7,304 | - | 111,882 | 7,304 |
| ABSA BANK - Primary Account - 408-009-0281 | 148,477,033 | - | - | 138,627,064 | - | - |
| ABSA BANK - Prism Account - 408-009-0574 | - | - | - | 2,930,618 | - | - |
| ABSA BANK - Market Account - 408-009-0639 | 2,465,727 | - | - | (1,359,574) | - | - |
| ABSA BANK - Unpaid Account - 408-009-0697 | 53,575 | - | - | - | - | - |
| **Total** | **150,996,335** | **120,024,060** | **108,435,450** | **140,198,108** | **54,115,446** | **41,597,120** |

| | | |
|---|---|---|
| **Cash book balances** | | |
| Bank balances | 141,557,682 | 55,179,627 |
| Bank overdraft | (1,359,574) | (1,064,181) |
| **Net cash book balance** | **140,198,108** | **54,115,446** |

As from 1 February 2013 BCMM changed the Council's bank accounts from Standard Bank to ABSA Bank.

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 6. Inventories

| | | |
|---|---|---|
| Electricity store (Electrical maintenance parts) | 8,461,153 | 14,067,505 |
| Workshop store (Mechanical maintenance parts) | 302,265 | 366,322 |
| General stores (Chiselhurst,Mdantsane,KWT) | 29,838,932 | 31,634,062 |
| Water store (Water maintenance parts) | 20,913,219 | 25,403,125 |
| Fuel (Diesel, Petrol) | 2,147,473 | 1,651,100 |
| Unsold water (Treated water in pipelines & reservoirs) | 2,755,898 | 2,297,627 |
| Housing stock (RDP Houses) | 12,288,185 | 41,823,101 |
| | 76,707,125 | 117,242,842 |
| Inventories (write-downs) | (5,053,894) | (126,681) |
| | **71,653,231** | **117,116,161** |

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

Certain houses constructed pre 1994 under the old Ciskei Municipality 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 Municipality has taken the initiative to collect all information and data to enable the transfer of these properties.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

**Inventory pledged as security**

No inventory was pledged as security.

### 7. Receivables from exchange transactions

| | | |
|---|---|---|
| **Gross balances** | | |
| Electricity | 179,922,270 | 164,575,388 |
| Water | 272,677,143 | 233,338,178 |
| Sewerage | 138,386,707 | 116,942,793 |
| Refuse | 166,289,611 | 139,417,302 |
| Housing rental | 2,655,609 | 2,126,090 |
| | **759,931,340** | **656,399,751** |
| **Less: Allowance for debt impairment** | | |
| Electricity | (34,095,753) | (31,203,958) |
| Water | (153,995,448) | (139,785,764) |
| Sewerage | (82,214,605) | (76,331,740) |
| Refuse | (103,895,569) | (95,065,173) |
| Housing rental | (1,745,468) | (1,539,912) |
| | **(375,946,843)** | **(343,926,547)** |
| **Net balance** | | |
| Electricity | 145,826,517 | 133,371,430 |
| Water | 118,681,695 | 93,552,414 |
| Sewerage | 56,172,102 | 40,611,053 |
| Refuse | 62,394,042 | 44,352,129 |
| Housing rental | 910,141 | 586,178 |
| | **383,984,497** | **312,473,204** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 7. Receivables from exchange transactions (continued)

| | | |
|---|---|---|
| **Electricity** | | |
| Current (0 -30 days) | 129,634,898 | 119,976,018 |
| 31 - 60 days | 9,131,346 | 6,546,082 |
| 61 - 90 days | 3,993,865 | 3,282,855 |
| 91 - 120 days | 2,713,203 | 3,028,520 |
| 121 - 365 days | 12,719,750 | 14,316,844 |
| > 365 days | 21,729,208 | 17,425,069 |
| | **179,922,270** | **164,575,388** |
| **Water** | | |
| Current (0 -30 days) | 45,569,128 | 43,303,486 |
| 31 - 60 days | 15,485,030 | 14,223,543 |
| 61 - 90 days | 11,522,850 | 12,229,566 |
| 91 - 120 days | 12,358,324 | 8,020,442 |
| 121 - 365 days | 59,571,476 | 45,149,001 |
| > 365 days | 128,170,335 | 110,412,140 |
| | **272,677,143** | **233,338,178** |
| **Sewerage** | | |
| Current (0 -30 days) | 17,156,112 | 15,639,625 |
| 31 - 60 days | 7,540,485 | 7,041,355 |
| 61 - 90 days | 6,357,435 | 6,554,367 |
| 91 - 120 days | 6,908,407 | 4,038,096 |
| 121 - 365 days | 28,903,566 | 21,985,759 |
| > 365 days | 71,520,702 | 61,683,591 |
| | **138,386,707** | **116,942,793** |
| **Refuse** | | |
| Current (0 -30 days) | 13,088,301 | 13,252,182 |
| 31 - 60 days | 7,091,785 | 7,373,244 |
| 61 - 90 days | 6,214,883 | 7,029,977 |
| 91 - 120 days | 7,053,807 | 4,735,207 |
| 121 - 365 days | 36,527,159 | 25,137,766 |
| > 365 days | 96,313,676 | 81,888,926 |
| | **166,289,611** | **139,417,302** |
| **Housing rental** | | |
| Current (0 -30 days) | 81,822 | 82,406 |
| 31 - 60 days | 80,632 | 81,462 |
| 61 - 90 days | 90,733 | 89,523 |
| 91 - 120 days | 92,672 | 61,849 |
| 121 - 365 days | 572,538 | 400,988 |
| > 365 days | 1,737,212 | 1,409,862 |
| | **2,655,609** | **2,126,090** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 7. 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)**

| | 2013 | 2012 |
|---|---|---|
| **Domestic Debtors (including rates & other receivables (billing))** | | |
| Current (0 -30 days) | 104,165,166 | 115,536,686 |
| 31 - 60 days | 41,452,212 | 38,592,466 |
| 61 - 90 days | 34,503,781 | 35,646,055 |
| 91 - 120 days | 36,915,306 | 23,360,860 |
| 121 - 365 days | 180,385,821 | 137,345,258 |
| > 365 days | 448,282,560 | 381,306,256 |
| | 845,704,846 | 731,787,581 |
| Less: Allowance for debt impairment | (517,679,422) | (474,617,731) |
| | **328,025,424** | **257,169,850** |
| **Industrial/ commercial (including rates and other receivables (billing))** | | |
| Current (0 -30 days) | 138,520,545 | 114,915,186 |
| 31 - 60 days | 13,182,174 | 11,131,834 |
| 61 - 90 days | 6,679,649 | 6,206,593 |
| 91 - 120 days | 4,634,651 | 4,931,523 |
| 121 - 365 days | 23,193,900 | 25,840,401 |
| > 365 days | 40,440,547 | 40,547,113 |
| | 226,651,466 | 203,572,650 |
| Less: Allowance for debt impairment | (47,436,659) | (54,278,387) |
| | **179,214,807** | **149,294,263** |
| **National and provincial government (including rates and other receivables (billing))** | | |
| Current (0 -30 days) | 12,871,484 | 12,511,991 |
| 31 - 60 days | 1,317,899 | 1,089,261 |
| 61 - 90 days | 197,480 | 193,753 |
| 91 - 120 days | 135,216 | 601,906 |
| 121 - 365 days | 1,117,195 | 1,621,884 |
| > 365 days | 909,032 | 1,212,030 |
| | **16,548,306** | **17,230,825** |
| **Total Debtors (including rates & other receivables (billing))** | | |
| Current (0 -30 days) | 255,557,195 | 242,963,863 |
| 31 - 60 days | 55,952,284 | 50,813,561 |
| 61 - 90 days | 41,380,910 | 42,046,401 |
| 91 - 120 days | 41,685,173 | 28,894,289 |
| 121 - 365 days | 204,696,916 | 164,807,543 |
| > 365 days | 489,632,140 | 423,065,399 |
| | 1,088,904,618 | 952,591,056 |
| Less: Allowance for debt impairment | (565,116,082) | (528,896,119) |
| | **523,788,536** | **423,694,937** |
| **Ageing of allowance for debt impairment (including rates & other receivables (billing))** | | |
| Current (0 -30 days) | (270,122) | (252,809) |
| 31 - 60 days | (40,446,357) | (37,854,030) |
| 61 - 90 days | (33,467,910) | (31,322,854) |
| 91 - 120 days | (22,999,150) | (21,525,067) |
| 121 - 365 days | (131,182,790) | (122,774,896) |
| > 365 days | (336,749,752) | (315,166,463) |
| | **(565,116,081)** | **(528,896,119)** |

### 7. Receivables from exchange transactions (continued)

**Consumer debtors pledged as security**

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

No security is held for any of the accounts receivable.

**Credit quality of consumer debtors**

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

**Consumer debtors impaired**

As at 30 June 2013, consumer debtors of R 375,946,843 (2012: R 343,926,547) were impaired and provided for.

Amounts totaling R 61,842,336 (2012: R 50,331,640 ) were written off as uncollectable against the debt impairment allowance account. This represents 0.014 % (2012: 0.014 %) of the total operating income for the year.

**Reconciliation of allowance for impairment of consumer debtors**

| | | |
|---|---|---|
| Opening balance | (343,926,548) | (353,060,407) |
| Allowance for impairment | (93,838,491) | (41,197,781) |
| Amounts written off as uncollectable | 61,842,336 | 50,331,640 |
| | **(375,922,703)** | **(343,926,548)** |

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 36). 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 8 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2013, 5 048 debtors had active outstanding arrangements to the value of value of R17 710 816. The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

# Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

## 8. Receivables from non-exchange transactions

| | | 2013 | 2012 |
|---|---|---|---|
| Property rates | | 218,657,712 | 193,151,975 |
| Other receivables (billing) | | 110,315,565 | 95,745,443 |
| Accrued income | | 65,745,886 | 37,230,007 |
| Other debtors | | 10,609,612 | 5,155,110 |
| Impairment property rates | | (189,169,239) | (184,969,572) |
| | | **216,159,536** | **146,312,963** |
| **Property rates age analysis** | | | |
| Current (0-30days) | | 40,707,209 | 38,550,126 |
| 31-60 days | | 13,132,137 | 11,733,179 |
| 61-90 days | | 10,068,020 | 9,814,389 |
| 91-120 days | | 9,102,428 | 6,708,721 |
| 121-365 days | | 41,922,724 | 39,993,394 |
| > 365 days | | 103,725,193 | 86,352,167 |
| | | **218,657,711** | **193,151,976** |
| **Other receivables (billing)** | | | |
| Current (0-30days) | | 9,319,725 | 12,160,024 |
| 31-60 days | | 3,490,869 | 3,814,694 |
| 61-90 days | | 3,133,125 | 3,045,724 |
| 91-120 days | | 3,456,332 | 2,301,454 |
| 121-365 days | | 24,479,702 | 17,823,791 |
| > 365 days | | 66,435,813 | 56,599,756 |
| | | **110,315,566** | **95,745,443** |
| **Prior period errors - Other receivables (billing)** | 49 | | |
| Previously reported | | - | 100,026,228 |
| Adjusted | | - | (4,280,785) |
| **Restated** | | **-** | **95,745,443** |
| **Prior period errors - Property rates** | 49 | | |
| Previously reported | | - | 196,165,077 |
| Adjusted | | - | (3,013,101) |
| **Restated** | | **-** | **193,151,976** |

**Trade and other receivables pledged as security**

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

No security is held for any accounts receivable.

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

**Credit quality of trade and other receivables**

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

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

**8. Receivables from non-exchange transactions (continued)**

**Trade and other receivables impaired**

As at 30 June 2013, trade and other receivables from non-exchange transactions of R 189,193,380 (2012: R 184,969,572) were impaired and provided for.

Amounts totaling R8,731,599 (2012: R10,932,684 ) were written off as uncollectable against the debt impairment allowance account.This represents 0.002 % (2012: 0.003 %) of the total operating income for the year.

**Reconciliation of allowance for impairment of non-exchange transactions**

| | | |
|---|---|---|
| Opening balance | (184,969,572) | (178,869,015) |
| Contributed during the year | (12,931,266) | (17,033,241) |
| Amounts written off as uncollectable | 8,731,599 | 10,932,684 |
| Other income | (24,141) | - |
| | **(189,193,380)** | **(184,969,572)** |

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 36). 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.

**9. VAT receivable**

| | | |
|---|---|---|
| VAT | 65,200,497 | 34,129,583 |

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

**10. Operating leases averaged over total period**

| | | |
|---|---|---|
| Operating lease rentals | 64,178,748 | 61,573,702 |

| | | |
|---|---|---|
| **Operating lease rentals** | | |
| Current assets | 2,363,400 | 2,546,106 |
| Non-current assets | 61,815,348 | 59,027,596 |
| | **64,178,748** | **61,573,702** |

| | | |
|---|---|---|
| **Municipality as lessor: Operating leases minimum future receivables** | | |
| No later than one year | 2,235,772 | 1,636,966 |
| Later than one year no later than 5 years | 7,499,728 | 7,009,992 |
| Later than 5 years | 157,969,982 | 159,816,056 |
| | **167,705,482** | **168,463,014** |

These leases are in respect of municipal properties that are leased to third parties. These leases are payable by lessees, either monthly or annually. 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 the 2012/13 financial year the net amount of R2 605 046 (2012: R2 546 106) has been accrued.

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 11. Long-term receivables

| | 2013 | 2012 |
|---|---|---|
| **Financial assets at amortised cost** | | |
| Sporting bodies and other loans | **57,353** | **70,451** |
| **Non-current assets** | | |
| Financial assets at amortised cost | 42,913 | 57,353 |
| **Current assets** | | |
| Financial assets at amortised cost | 14,440 | 13,098 |
| | **57,353** | **70,451** |

**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.

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.

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

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.

### 12. Intangible assets

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 20,810,485 | (19,955,270) | 855,215 | 20,810,485 | (16,770,325) | 4,040,160 |
| Intangible assets under development | 18,319,609 | - | 18,319,609 | 8,071,428 | - | 8,071,428 |
| **Total** | **39,130,094** | **(19,955,270)** | **19,174,824** | **28,881,913** | **(16,770,325)** | **12,111,588** |

**Reconciliation of intangible assets - 2013**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 4,040,159 | - | (3,184,946) | 855,213 |
| Intangible assets under development | 8,071,428 | 10,248,181 | - | 18,319,609 |
| | **12,111,587** | **10,248,181** | **(3,184,946)** | **19,174,822** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 12. Intangible assets (continued)

**Reconciliation of intangible assets - 2012**

| | Opening balance | Additions | WIP Capitalised | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software | 6,517,926 | - | 1,999,413 | (4,477,176) | 4,040,160 |
| Intangible assets under development | 6,843,670 | 3,227,171 | (1,999,413) | - | 8,071,428 |
| | **13,361,596** | **3,227,171** | **-** | **(4,477,176)** | **12,111,588** |

**Pledged as security**

No Intangible Assets were pledged as security.

Intangible assets under development refers to computer software which are not yet available for use and are not amortised.

### 13. Investment property

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost/Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost/Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 239,138,733 | - | 239,138,733 | 254,892,542 | - | 254,892,542 |

**Reconciliation of investment property - 2013**

| | Opening balance | Fair value adjustments | Total |
|---|---|---|---|
| Investment property | 254,892,542 | (15,753,809) | 239,138,733 |

**Reconciliation of investment property - 2012**

| | Opening balance | Fair value adjustments | Total |
|---|---|---|---|
| Investment property | 270,647,845 | (15,755,303) | 254,892,542 |

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

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R12,682,400 (2012: R12,445,133), 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.

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.

## Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 13. Investment property (continued)

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 5000/5.

The value of investment property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparible market transactions.

The preferred valuation methodology applied was that of comparible market related sales, based on use, location and extent. In cases where no reasonable comparible sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties.

In the case of properties which were deemed to be classified as investment properties, for which no comparible market related sales nor rentals exist, such as golf courses, land was valued by multiplying the extent, as confirmed through the deeds office and cadastre, with comparible market related sales based on similar zoning, and not use. In the case of buildings associated with such properties, for which no comparible sales, past or present, could be established, the replacement cost of the buildings were deemed to reflect a fair value of the property.

Rental income from investment properties in respect of monthly and annual leases amounted to R9,051,892 (2012: R7,804,438).

| | | | |
|---|---|---|---|
| **Prior year error** | | | |
| Previously reported 30 June 2011 | | - | 220,776,439 |
| Adjusted | 25 | - | 49,871,406 |
| **Restated** | | **-** | **270,647,845** |

| | | |
|---|---|---|
| **Adjustments for 2012** | | |
| Adjusted opening balance as at 1 July 2011 | - | 270,647,845 |
| Adjusted | - | (15,755,303) |
| **Adjusted balance as at 30 June 2012** | **-** | **254,892,542** |

### 14. Heritage assets

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Heritage sites | 44,954,355 | - | 44,954,355 | 44,954,355 | - | 44,954,355 |

**Reconciliation of heritage assets - 2013**

| | Opening balance | Total |
|---|---|---|
| Heritage sites | 44,954,355 | 44,954,355 |

**Reconciliation of heritage assets - 2012**

| | Opening balance | Additions | Total |
|---|---|---|---|
| Heritage sites | 44,521,776 | 432,579 | 44,954,355 |

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.

## Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

**14. Heritage assets (continued)**

| | | | |
|---|---|---|---|
| **Prior year errors** | | | |
| Previously reported 30 June 2011 | | - | 3,420,757 |
| Adjusted | 49 | - | 41,101,019 |
| **Restated** | | **-** | **44,521,776** |

**15. Property, plant and equipment**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | 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 | 3,131,787,499 | - | 3,131,787,499 |
| Buildings | 1,287,975,784 | (169,655,191) | 1,118,320,593 | 1,287,975,784 | (126,717,885) | 1,161,257,899 |
| Plant and equipment | 81,748,523 | (45,119,063) | 36,629,460 | 79,573,281 | (33,909,777) | 45,663,504 |
| Furniture and fittings | 39,426,781 | (14,529,471) | 24,897,310 | 33,810,277 | (12,389,111) | 21,421,166 |
| Motor vehicles | 268,830,816 | (119,548,666) | 149,282,150 | 244,667,868 | (107,317,975) | 137,349,893 |
| Office equipment | 42,857,126 | (29,511,036) | 13,346,090 | 36,923,031 | (22,117,962) | 14,805,069 |
| Electricity | 3,055,907,819 | (1,764,847,499) | 1,291,060,320 | 3,022,745,692 | (1,671,629,666) | 1,351,116,026 |
| Other properties | 421,426,659 | (36,555,493) | 384,871,166 | 447,020,328 | (30,355,675) | 416,664,653 |
| Work in progress (WIP) | 951,240,049 | - | 951,240,049 | 424,832,747 | - | 424,832,747 |
| Recreational facilities | 64,858,768 | (5,409,337) | 59,449,431 | 64,605,152 | (2,648,958) | 61,956,194 |
| Finance Leased Assets | 8,589,038 | (2,125,151) | 6,463,887 | 3,584,866 | (1,160,733) | 2,424,133 |
| Roads | 3,660,553,115 | (1,757,797,298) | 1,902,755,817 | 3,660,553,114 | (1,612,629,146) | 2,047,923,968 |
| Wastewater network | 3,300,214,464 | (2,376,599,809) | 923,614,655 | 3,299,029,616 | (2,269,923,610) | 1,029,106,006 |
| Water network | 3,406,360,896 | (2,322,382,726) | 1,083,978,170 | 3,403,132,407 | (2,263,957,297) | 1,139,175,110 |
| Community buildings | 241,691,627 | (28,867,657) | 212,823,970 | 241,691,628 | (20,811,175) | 220,880,453 |
| **Total** | **19,963,468,964** | **(8,672,948,397)** | **11,290,520,567** | **19,381,933,290** | **(8,175,568,970)** | **11,206,364,320** |

**15. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2013**

| | Opening balance | Additions | Non-cash additions | Disposals | Transfers | Adjustments | Depreciation | Total |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Land | 3,131,787,499 | - | - | - | - | - | - | 3,131,787,499 |
| Buildings | 1,161,257,899 | - | - | - | - | - | (42,937,306) | 1,118,320,593 |
| Plant and equipment | 45,663,503 | 2,019,745 | - | (7,067) | - | 181,897 | (11,228,618) | 36,629,460 |
| Furniture and fittings | 21,421,167 | 1,461,311 | - | - | - | 4,155,191 | (2,140,359) | 24,897,310 |
| Motor vehicles | 137,349,892 | 25,645,938 | - | (874,854) | - | - | (12,838,826) | 149,282,150 |
| Office equipment | 14,805,070 | 3,447,848 | - | (1,186) | - | 2,513,590 | (7,419,232) | 13,346,090 |
| Electricity | 1,351,116,029 | 33,162,129 | - | - | - | - | (93,217,838) | 1,291,060,320 |
| Other properties | 416,664,653 | - | - | - | (25,593,669) | - | (6,199,818) | 384,871,166 |
| Work in progress (WIP) | 424,832,748 | 523,835,503 | 2,571,797 | - | - | - | - | 951,240,049 |
| Recreational facilities | 61,956,194 | - | - | - | - | 253,616 | (2,760,379) | 59,449,431 |
| Finance Leased Assets | 2,424,134 | - | 5,004,172 | - | - | - | (964,419) | 6,463,887 |
| Roads | 2,047,923,968 | - | - | - | - | - | (145,168,151) | 1,902,755,817 |
| Wastewater network | 1,029,106,006 | 1,184,848 | - | - | - | - | (106,676,199) | 923,614,655 |
| Water network | 1,139,175,104 | 3,228,489 | - | - | - | - | (58,425,423) | 1,083,978,170 |
| Community buildings | 220,880,453 | - | - | - | - | - | (8,056,483) | 212,823,970 |
| | **11,206,364,319** | **593,985,811** | **7,575,969** | **(883,107)** | **(25,593,669)** | **7,104,294** | **(498,033,051)** | **11,290,520,567** |

**15. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2012**

| | Opening balance | Additions | Non-cash additions | Disposals | Adjustments | Transfers | 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) | 15,340,800 | 6,579,961 | (42,234,341) | - | 1,161,257,899 |
| Plant and equipment | 34,186,969 | 12,433,148 | - | (48,489) | - | - | 8,902,707 | (9,810,831) | - | 45,663,504 |
| Furniture and fittings | 23,139,838 | 101,220 | - | (2,950) | - | - | 145,855 | (1,962,797) | - | 21,421,166 |
| Motor vehicles | 130,703,998 | 19,460,508 | - | (649,812) | - | - | - | (12,164,801) | - | 137,349,893 |
| Office equipment | 14,855,114 | 6,864,306 | - | (10,716) | - | - | - | (6,903,635) | - | 14,805,069 |
| Electricity | 1,400,520,089 | 5,264,320 | - | (1,324,763) | - | - | 43,136,802 | (96,480,417) | - | 1,351,116,031 |
| Other properties | 393,088,322 | 1,735,195 | 27,088,841 | - | - | - | 786,305 | (6,034,010) | - | 416,664,653 |
| Work in progress (WIP) | 624,802,216 | 195,956,597 | - | - | - | - | (395,926,066) | - | - | 424,832,747 |
| Recreational facilities | 17,313,006 | 1,487,737 | - | - | 19,367,929 | - | 25,376,549 | (1,589,027) | - | 61,956,194 |
| Finance Leased Assets | 2,229,488 | - | 749,791 | - | - | - | - | (555,146) | - | 2,424,133 |
| Roads | 2,110,990,259 | 12,965,908 | - | (9,954) | - | - | 74,326,695 | (148,550,365) | (1,798,575) | 2,047,923,968 |
| Wastewater network | 989,866,882 | 3,876,961 | - | (16,411) | - | - | 141,342,205 | (105,963,631) | - | 1,029,106,006 |
| Water network | 1,144,726,616 | 2,042,918 | - | - | - | - | 60,367,359 | (67,961,789) | - | 1,139,175,104 |
| Community buildings | 203,904,378 | 4,141,317 | - | - | 1,535,080 | (15,340,800) | 34,961,628 | (8,321,151) | - | 220,880,452 |
| | **11,437,118,497** | **267,119,856** | **27,838,632** | **(3,381,961)** | **(12,000,190)** | **-** | **-** | **(508,531,941)** | **(1,798,575)** | **11,206,364,318** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

**15. Property, plant and equipment (continued)**

| Proceeds on disposal of PPE | 2013 | 2012 |
|---|---|---|
| Carrying value of PPE | 883,107 | 3,381,961 |
| Net gain/(loss) on disposal of assets | (176,871) | (1,486,310) |
| **Total** | **706,236** | **1,895,651** |

| | | |
|---|---|---|
| **Prior period errors: Water** | 49 | |
| Opening balance as stated in 2012 | | 1,264,294,499 |
| Adjusted | | (125,119,395) |
| **Restated balance** | | **1,139,175,104** |

| | | |
|---|---|---|
| **Prior period errors: Roads** | | |
| Opening balance as stated in 2012 | | 2,043,540,191 |
| Adjusted | 49 | 4,383,777 |
| **Restated balance** | | **2,047,923,968** |

There are currently 8 468 assets that have carrying values between R0.00 and R1.00, which are still in use.

As at 30 June 2013 there are 6 buses that are temporary idle with a carrying value of R 10 738 939.

As at 30 June 2013 the total cost of all fully depreciated assets amount to R 939 183 915 (2012 restated: R 472 948 560).

As at 30 June 2013 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.

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

**15. Property, plant and equipment (continued)**

**Assets subject to finance lease (Net carrying amount)**

| | | |
|---|---|---|
| Leases - Office equipment | 6,463,887 | 2,424,134 |

**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 meter for the type of property and structure. The rate per square meter for each property and structure type was sourced from the Davis Langdon Property and Construction Handbook 2009. Land values were calculated in terms of the rate per square meter for different geographic areas within the municipality. In order to undertake this process, the land sizes for each property in the register were verified against the Deeds office, AS400 and Cadastre. In cases where no land sizes were provided in the register, the land size was sourced from the Deed, Cadastre and AS400 in that order. The calculation of the rate per square meter for the different geographic areas within the municipality 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 municipality. The municipality has taken all reasonable steps to ensure the completeness of the fixed asset register by using the best international and local methodology and practice for asset verification, within the limits of the available organisational, human and financial capacity.

**16. 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 R890 894 (2012: R856 600 ) are invested with Nedbank at interest rates of 2% - 5.17% (2012: 2% - 5.32%)

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 16. Non-current investments (continued)

| | | |
|---|---|---|
| Fixed deposits long term | 892,235 | 856,601 |
| | **892,235** | **856,601** |

### 17. Investment in associate

| Name of entity | Listed / Unlisted | % holding 2013 | % holding 2012 | Carrying amount 2013 | Carrying amount 2012 | Fair value 2013 | Fair value 2012 |
|---|---|---|---|---|---|---|---|
| East London Industrial Development Zone (Pty) Ltd (IDZ) | Unlisted | | | - | - | 260 | 260 |
| BCMM share in IDZ - 26,000 shares @ 0,01c | | 26.00 % | 26.00 % | 260 | 260 | - | - |
| | | | | 260 | 260 | 260 | 260 |

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

**Movements in carrying value**

| | | |
|---|---|---|
| Opening balance | 260 | 260 |

Investment in associate at 30 June 2013 amounted to R 260 (2012: R 260).

In the prior period the associate incurred a deficit which resulted in the municipality's interest (accumulated share of surplus in the associate) being reduced by R12 087 832.

**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**

| | | |
|---|---|---|
| Total equity | (18,206,980) | (29,526,840) |
| Total liabilities | 336,908,841 | 442,683,592 |
| Total assets | 318,701,861 | 413,156,752 |
| Deficit | (2,626,082) | (13,890,166) |
| Revenue | 4,896,511 | 6,476,798 |

**Associate with different reporting dates**

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2012 to 31 March 2013. The results for the quarter ending 30 June 2013 were not available at the time of completing the Financial Statements.

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 17. Investment in associate (continued)

**Unrecognised share of loss of associate**

The municipality does not recognise its share of the deficits of East London Industrial Development Zone (Proprietary) Limited. The investment is held at R 260 and the municipality has no obligation for any deficits of the associate. The total unrecognised deficits for the current period amount to R2 626 082 (2012 : R13 890 166). The accumulated unrecognised deficits to date amount to R 19 826 977 (2012: R 41 614 932).

### 18. Borrowings

| | | |
|---|---|---|
| **Held at amortised cost** | | |
| Annuity loans | 647,177,164 | 645,789,732 |
| | **647,177,164** | **645,789,732** |

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 | 597,206,903 | 604,256,175 |
| **Current liabilities** | | |
| At amortised cost | 49,970,261 | 41,533,557 |
| | **647,177,164** | **645,789,732** |

### 19. Consumer deposits

| | | |
|---|---|---|
| Electricity | 27,165,932 | 19,452,348 |
| Water | 18,353,333 | 17,467,545 |
| | **45,519,265** | **36,919,893** |

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 R13 190 628 (2012: R12 087 359).

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 | 2013 | 2012 Restated |
|---|---|---|

## 20. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 2,765,600 | 798,306 |
| - in second to fifth year inclusive | 4,898,477 | 1,518,725 |
| | 7,664,077 | 2,317,031 |
| less: future finance charges | (2,036,425) | (863,249) |
| **Present value of minimum lease payments** | **5,627,652** | **1,453,782** |
| **Present value of minimum lease payments due** | | |
| - within one year | 1,686,593 | 463,541 |
| - in second to fifth year inclusive | 3,941,059 | 990,241 |
| | **5,627,652** | **1,453,782** |
| Non-current liabilities | 3,941,058 | 990,241 |
| Current liabilities | 1,686,593 | 463,541 |
| | **5,627,651** | **1,453,782** |

The average lease term was 3-5 years and the average effective borrowing rate was 7.35% (2012: 8.50%).

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

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

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

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

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

There are no restrictions imposed on the lease arrangements.

The contingent rent for the current year amounted to R743 123. Contingent rent is based on the annual operating charges of leased equipment which are escalated at a standard interest rate.

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 21. Provisions

**Reconciliation of provisions - 2013**

| | Opening Balance | Utilised during the year | Total |
|---|---|---|---|
| Landfill sites | 192,973,790 | (25,593,669) | 167,380,121 |

**Reconciliation of provisions - 2012**

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

| | 2013 | 2012 |
|---|---|---|
| Non-current liabilities | 49,968,510 | 68,089,174 |
| Current liabilities | 117,411,611 | 124,884,616 |
| | **167,380,121** | **192,973,790** |

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 10.09% (2012: 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 | Note | 2013 | 2012 Restated |
|---|---|---|---|

## 22. Payables from exchange transactions

| | | | |
|---|---|---|---|
| Accrued leave pay | | 56,536,835 | 54,590,844 |
| BCMET | | 1,645,347 | 1,910,795 |
| Deposits received | | 5,884,942 | 5,277,546 |
| Other creditors | | 43,958,774 | 79,207,566 |
| Payments received in advanced | | 84,942,460 | 61,551,930 |
| Retention monies | | 25,479,338 | 24,415,539 |
| Trade payables | | 353,121,737 | 224,076,214 |
| | | **571,569,433** | **451,030,434** |
| **Prior period errors - Deposits received** | 49 | | |
| Deposits received previously reported | | - | 7,713,276 |
| Adjusted | | - | (2,435,730) |
| **Restated** | | **-** | **5,277,546** |
| **Prior period errors - Other creditors** | 49 | | |
| Other creditors previously reported | | - | 75,498,841 |
| Adjusted: Scarce skills | | - | 3,708,725 |
| **Restated** | | **-** | **79,207,566** |

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

BCMET - This amount represents funds allocated to Buffalo City Metropolitan Municipality (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 5) 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 | | 2013 | 2012 Restated |
|---|---|---|---|

## 23. Unspent conditional and unconditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | | |
|---|---|---|---|
| **Unspent conditional and unconditional grants and receipts** | | | |
| Government grants | | 243,490,910 | 676,286,555 |
| Provincial grants | | 189,832,657 | 45,955,939 |
| Other conditional grants | | 16,825,046 | 17,295,867 |
| | | **450,148,613** | **739,538,361** |

| | | | |
|---|---|---|---|
| **Prior period errors** | 49 | | |
| Government grants previously reported | | - | 787,665,935 |
| Adjusted | | - | (48,127,574) |
| **Restated** | | **-** | **739,538,361** |

### 23. Unspent conditional and unconditional grants and receipts (continued)

**Movements on grants**

| Grant description | Unspent balance 30 June 2012 | Receipts | Interest | Transfer operating expenditure | Transfer capital expenditure | Other transfers | Unspent balance 30 June 2013 |
|---|---|---|---|---|---|---|---|
| Transitional Grant | 113,769 | - | - | - | - | - | 113,769 |
| Finance Management Grant | (996) | 1,500,000 | - | (1,500,000) | - | 996 | - |
| Land Affairs Grant | 68,997,884 | - | 3,303,913 | - | - | - | 72,301,797 |
| Urban Settlement Development Grant | 267,314,348 | 499,474,000 | - | (6,231,797) | (465,007,889) | (87,369,272) | 208,179,390 |
| Municipal Infrastructure Grant | 34,513,403 | - | - | - | - | (26,269,143) | 8,244,260 |
| Public Transport Infrastructure Systems Grant | 280,018,116 | 3,000,000 | - | - | (133,342) | (249,207,016) | 33,677,758 |
| Energy Efficient Technology Grant | 5,588,975 | - | - | - | - | - | 5,588,975 |
| European Commission Grant | 802,587 | - | 37,437 | - | - | - | 840,024 |
| Land Affairs Grant | 60,735,251 | - | 2,806,634 | (978) | - | - | 63,540,907 |
| Infrastructure Skills Development Grant | - | 3,000,000 | - | (1,265,458) | (654,959) | - | 1,079,583 |
| Department of Water Affairs Grant | 604,427 | 5,830,681 | - | (7,729,946) | - | 1,294,838 | - |
| Expanded Public Works Program Grant | - | 1,484,000 | - | (929,823) | - | - | 554,177 |
| Municipal Support Programme Grant | 289,906 | - | - | - | - | - | 289,906 |
| Disaster Relief Grant | - | - | 713 | - | - | (713) | - |
| Local Economic Development Grant | 3,312,282 | - | - | - | - | - | 3,312,282 |
| Provincial Government Premiers Grant | 67,421 | - | - | - | - | - | 67,421 |
| Mdantsane Urban Renewal Grant (Mount Ruth) | 7,882,979 | - | 365,518 | - | - | - | 8,248,497 |
| Health Management Systems Grant | 176,266 | - | - | - | - | - | 176,266 |
| Aids Training Information Centre Grant | 11,048,601 | - | - | - | - | (72,821) | 10,975,780 |
| Department of Sports Recreation Arts & Culture | 10,437,047 | - | - | - | - | - | 10,437,047 |
| Ward Committee Training Grant | 375,372 | - | - | - | - | - | 375,372 |
| Amatole District Municipality Grant | 1,979,270 | - | - | - | - | - | 1,979,270 |
| Buffalo City Metropolitan Transport Grant | 222,603 | - | - | - | (204,597) | - | 18,006 |
| Donation and Public Contribution Grant | 5,225,093 | 272,201 | - | - | - | - | 5,497,294 |
| Sector Education Training Authority Grant | 470,892 | 3,418,667 | - | - | - | (3,889,559) | - |
| Department Economic Affairs and Tourism Grant | 127,126 | - | - | - | - | - | 127,126 |
| Vuna Award Grant | 1,048,758 | - | - | - | - | - | 1,048,758 |
| Gavle Grant | 511,514 | - | 30,235 | (8,790) | - | - | 532,959 |

### 23. Unspent conditional and unconditional grants and receipts (continued)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Glasgow Partnership Grant | 89,858 | - | - | - | - | - | 89,858 |
| Public Development Areas Development Fund | 877,963 | 188,125 | - | - | - | - | 1,066,088 |
| Eastern Cape Development Agency Grant | 67,359 | - | - | - | - | - | 67,359 |
| Umsobomvu Youth Grant | 679,028 | - | 31,379 | - | - | - | 710,407 |
| Compost Waste Management Grant | 60,640 | - | - | - | - | - | 60,640 |
| Leiden Grant | 531,844 | 49,613 | 24,010 | (413,977) | - | - | 191,490 |
| Human Settlement Development Grant | 4,538,807 | 20,879,696 | 736,712 | (47,918,009) | (6,220,234) | 27,983,028 | - |
| Housing and Infrastructure Development Grant | 347,162 | - | 15,639 | - | - | - | 362,801 |
| Electricity Demand Side Management Grant | 74,933 | 10,000,000 | - | - | (10,071,435) | - | 3,498 |
| Integrated National Electrification Programme | 6,253,799 | 30,000,000 | - | - | (33,277,932) | (2,975,867) | - |
| Department of Water Affairs Grant | 6 | 1,374,000 | - | (1,125,786) | - | (248,220) | - |
| Mdantsane Upgrade Water Supply Grant | 31,482 | - | 1,418 | - | - | - | 32,900 |
| Mdantsane Upgrade Water and Sewerage Grant | 147,144 | - | 6,628 | - | - | - | 153,772 |
| Water Supply to Cove Rock Grant | 327,858 | - | - | - | - | - | 327,858 |
| Bequests | 129,288 | - | 3,615 | - | - | - | 132,903 |
| Sundry Grants | 3,985,947 | - | 11,973 | - | - | - | 3,997,920 |
| Other Grants ex Amatole District Council | 426,365 | - | 646 | - | - | - | 427,011 |
| Sundry Housing Grants | 7,233,561 | - | 87,423 | - | - | (2,003,500) | 5,317,484 |
| | **787,665,938** | **580,470,983** | **7,463,893** | **(67,124,564)** | **(515,570,388)** | **(342,757,249)** | **450,148,613** |

| | | | |
|---|---|---|---|
| **Prior period errors** | 49 | | |
| Unspent grants previously reported | | - | 787,665,936 |
| Adjusted | | - | (48,127,574) |
| **Restated** | | **-** | **739,538,362** |

| | | | |
|---|---|---|---|
| **Details of adjusted amount incuded in other transfers above** | 49 | | |
| Adjustments to urban settlement development grant | | - | (21,858,431) |
| Ajustments to municipal infrastructure grant | | - | (26,269,143) |
| **Total adjusted amount** | | **-** | **(48,127,574)** |

All conditions for the funding were complied with and no funds were withheld.
These amounts are invested in a ring-fenced investment until utilised.
Conditional grants amount to R243 494 406 and unconditional grants amount to R206 654 207.

## Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 24. Post- retirement medical obligation

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

| | | 2013 | 2012 |
|---|---|---|---|
| **Carrying value** | | | |
| Balance at beginning of year | | 341,426,029 | 280,763,820 |
| Interest cost | | 24,583,110 | 26,493,119 |
| Current service cost | | 12,647,770 | 13,851,056 |
| Actual employer benefit payments | | (13,928,851) | (13,459,130) |
| Actuarial (gain)/loss recognised in the year | | (23,165,235) | 33,777,164 |
| **Net liability** | | **341,562,823** | **341,426,029** |

| | | 2013 | 2012 |
|---|---|---|---|
| **Net costs** | | | |
| Interest cost | | 24,583,110 | 26,493,119 |
| Current service cost | | 12,647,770 | 13,851,056 |
| Actuarial (gain)/loss recognised in the year | | (23,165,235) | 33,777,164 |
| **Net cost per Statement of Financial Performance** | 33 | **14,065,645** | **74,121,339** |

The municipality employees contribute to 6 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med, FedHealth and Hosmed. Pensioners continue on the option they 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 22 July 2013 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

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

The best estimates for the employer benefit payments in the 2013/14 financial period is expected to be R14 850 248 (The actual employer benefit payments in the 2012/13 financial period was R13 928 851).

**Key assumptions used**

Assumptions used at the reporting date:

| | 2013 | 2012 |
|---|---|---|
| Discount rates used | 7.88 % | 8.59 % |
| Medical aid inflation rate | 6.62 % | 7.30 % |
| Net effective discount rate | 1.19 % | 1.20 % |
| Post retirement subsidy | 60.00 % | 60.00 % |

| | | |
|---|---|---|
| **Retirement age** | | |
| Males | 63 | 63 |
| Females | 63 | 63 |
| Number of eligible members | 2,514 | 2,561 |
| Number of pensioners | 518 | 520 |
| **1% change in the assumed medical inflation:** | | |
| Projected liability increase/(decrease) - 2013 | 51,234,423 | (40,987,539) |
| Projected liability increase/(decrease) - 2012 | 54,628,164 | (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 | 2013 | 2012 Restated |
|---|---|---|

### 25. Revaluation reserve

| | | |
|---|---|---|
| Opening balance | 50,903,981 | 16,047,828 |
| Depreciation transfer to income | (573,137) | (573,137) |
| Revaluation of investment properties | (15,753,809) | 35,429,291 |
| | **34,577,035** | **50,903,981** |

**Prior year error**

| | | |
|---|---|---|
| Balance previously disclosed | - | 15,474,690 |
| Revaluation adjustments | - | 35,429,291 |
| **Restated** | **-** | **50,903,981** |

### 26. Financial assets by category

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

**2013**

| | Financial assets amortised | Total |
|---|---|---|
| Other financial assets | 57,353 | 57,353 |
| Trade and other receivables from exchange transactions | 383,984,497 | 383,984,497 |
| Other receivables from non-exchange transactions | 216,159,536 | 216,159,536 |
| Cash and cash equivalents | 1,842,193,462 | 1,842,193,462 |
| Non-current investments | 892,235 | 892,235 |
| | **2,443,287,083** | **2,443,287,083** |

**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 | 146,312,964 | 146,312,964 |
| Cash and cash equivalents | 1,521,057,217 | 1,521,057,217 |
| Non-current investments | 856,861 | 856,861 |
| | **1,980,770,697** | **1,980,770,697** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

## 27. Financial liabilities by category

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

**2013**

| | Financial liabilities at amortised cost | Measured at fair value | Total |
|---|---|---|---|
| Other financial liabilities | 647,177,164 | - | 647,177,164 |
| Trade and other payables | 422,559,849 | - | 422,559,849 |
| Bank overdraft | 1,359,574 | - | 1,359,574 |
| Consumer deposits | - | 45,519,265 | 45,519,265 |
| Other deposits | - | 5,884,942 | 5,884,942 |
| | **1,071,096,587** | **51,404,207** | **1,122,500,794** |

**2012**

| | Financial liabilities at amortised cost | Measured at fair value | Total |
|---|---|---|---|
| Other financial liabilities | 645,789,732 | - | 645,789,732 |
| Trade and other payables | 323,990,594 | - | 323,990,594 |
| Bank overdraft | 1,064,181 | - | 1,064,181 |
| Consumer deposits | - | 36,919,893 | 36,919,893 |
| Other deposits | - | 5,277,546 | 5,277,546 |
| | **970,844,507** | **42,197,439** | **1,013,041,946** |

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Adjustment of financial liabilities previously reported** | 49 | | |
| Previously reported | | - | 1,015,477,676 |
| Resort rental income erroneously diclosed as caravan deposits | 22 | - | (2,435,730) |
| **Restated** | | **-** | **1,013,041,946** |

## 28. Revenue

| | 2013 | 2012 |
|---|---|---|
| Service charges | 1,964,268,076 | 1,754,709,786 |
| Rental of facilities and equipment | 15,485,474 | 14,619,601 |
| Licences and permits | 15,299,244 | 15,707,756 |
| Other revenue | 207,878,985 | 138,057,912 |
| Interest received - investment | 106,143,844 | 82,608,879 |
| Property rates | 580,100,409 | 522,514,480 |
| Government grants & subsidies | 1,234,896,065 | 907,186,380 |
| Public contributions and donations - operating projects | - | 599,152 |
| Fines | 5,979,206 | 5,455,740 |
| Public contributions and donations - PPE | - | 730,105 |
| Fuel levy | 317,781,000 | 170,477,000 |
| | **4,447,832,303** | **3,612,666,791** |

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

| | 2013 | 2012 |
|---|---|---|
| Service charges | 1,964,268,076 | 1,754,709,786 |
| Rental of facilities and equipment | 15,485,474 | 14,619,601 |
| Licences and permits | 15,299,244 | 15,707,756 |
| Other revenue | 207,878,985 | 138,057,912 |
| Interest received - investment | 106,143,844 | 82,608,879 |
| | **2,309,075,623** | **2,005,703,934** |

## Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 28. Revenue (continued)

| | | | |
|---|---|---|---|
| **The amounts included in revenue arising from non-exchange transactions are as follows:** | | | |
| **Taxation revenue** | | | |
| Property rates | | 580,100,409 | 522,514,480 |
| **Transfer revenue** | | | |
| Government grants and subsidies | | 1,234,896,065 | 907,186,380 |
| Public contributions and donations - operating projects | | - | 599,152 |
| Fines | | 5,979,206 | 5,455,740 |
| Public contributions and donations - PPE | | - | 730,105 |
| Fuel levy | | 317,781,000 | 170,477,000 |
| | | **2,138,756,680** | **1,606,962,857** |

| | | | |
|---|---|---|---|
| **Prior year errors - Rental of facilities and equipment.** | 49 | | |
| Previously reported | | - | 13,387,803 |
| Adjusted | | - | 1,231,798 |
| **Restated** | | **-** | **14,619,601** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

## 29. Property rates

### Rates received

| | | |
|---|---|---|
| Residential | 302,755,675 | 269,341,269 |
| Commercial | 271,383,807 | 243,352,437 |
| Municipal | 2,557,395 | 967,510 |
| Public Benefit Organisation | 41,092 | 4,580 |
| Educational | 4,389 | 5,586,571 |
| Agricultural | 3,251,927 | 3,117,285 |
| Public Service Infrastructure | 503,298 | 318,116 |
| Vacant land | 22,369,422 | 21,978,245 |
| Less: Income forgone | (22,766,596) | (22,151,533) |
| | **580,100,409** | **522,514,480** |

### Valuations

| | | |
|---|---|---|
| Residential | 41,099,633,920 | 41,152,218,219 |
| Commercial | 14,769,186,800 | 14,639,490,800 |
| Public Benefit Organisation | 22,357,000 | 2,800,000 |
| Municipal | 1,709,490,766 | 1,904,813,166 |
| Rural Communal Land and Special | 3,361,122,618 | 1,407,397,700 |
| Educational | 853,000 | 1,219,509,000 |
| Agricultural | 1,769,274,990 | 1,905,430,990 |
| Public Service Infrastucture | 273,829,000 | 277,782,000 |
| Vacant land | 1,014,486,202 | 1,119,340,202 |
| | **64,020,234,296** | **63,628,782,077** |

The Buffalo City Metropolitan Municipality is required, in terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings 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. The insititution undertook a tendering process to procure the services of a supplier to assist with the preparation of a valuation roll that needs to be presented to the Municipal Manager by 31 January 2014. An unsuccessful tenderer has instituted legal proceedings against the award that was made by the Municipality. Arising from this action, a court has interdicted the Municipality from continuing with the process until a judgement has been made by the court on the issue. The interdict placed on the institution to prevent the continued implementation of a General Valuation process is resulting in a risk that it may not achieve the compliance requirements in terms of the MPRA and may not be able to levy rates revenue in the 2014/15 financial year.

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 2014. 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 | 0.1838 | 0.1636 |
| Business | 1.8375 | 1.6362 |
| Educational | 0.5145 | 0.4581 |
| Public Service Infrastructure | 0.1838 | 0.1636 |
| Residential | 0.735 | 0.6545 |
| Vacant Land | 2.205 | 1.9635 |

Buffalo City Metropolitan Municipality grants rebates, in terms of the Municipality'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 Municipality does not supply some or all of the following services:

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
| --- | --- | --- |

### 29. Property rates (continued)

| | | |
| --- | --- | --- |
| 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 % |
| | **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 2013 was nil% (2012: 25%). The phase in discount in terms of Section 21 of the Municipal Property Rates Act (MPRA) lapsed in the 2011/12 financial year.
- 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.

### 30. Service charges

| | | |
| --- | --- | --- |
| Sale of electricity | 1,265,868,452 | 1,137,197,632 |
| Sale of water | 271,026,418 | 239,551,504 |
| Sewerage and sanitation charges | 223,023,307 | 197,957,711 |
| Refuse removal | 198,898,045 | 175,340,728 |
| Other service charges | 5,451,854 | 4,662,211 |
| | **1,964,268,076** | **1,754,709,786** |

### 31. Government grants and subsidies

| | | |
| --- | --- | --- |
| **Operating grants** | | |
| Government grants - operating projects | 14,333,655 | 26,062,309 |
| Government grants and subsidies - unconditional | 658,312,884 | 663,677,220 |
| Government grants - housing projects | 46,679,136 | 31,195,503 |
| | 719,325,675 | 720,935,032 |
| **Capital grants** | | |
| Government grants (capital: PPE) | 515,570,390 | 186,251,348 |
| | 515,570,390 | 186,251,348 |
| | **1,234,896,065** | **907,186,380** |

**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 23).

# Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

## 32. Other revenue

| | | | |
|---|---|---|---|
| Administration fees | | 44,584 | 26,055 |
| Admission fees | | 1,794,120 | 1,803,192 |
| Application: Town planning | | 70,832 | 33,388 |
| Cemetery fees | | 6,120,275 | 5,800,317 |
| Cold storage fees | | 413,910 | 487,416 |
| Commission | | 16,953,201 | 15,412,627 |
| Coupons and clip tickets | | 1,576,794 | 1,657,828 |
| Dog tax and penalties | | 728,981 | 620,211 |
| Fire brigade | | 337,514 | 180,558 |
| Fire levy charges | | 46,278,790 | 40,780,779 |
| Grazing fees | | 51,276 | 52,622 |
| Hire charges | | 371,402 | 400,385 |
| Insurance | | 1,132,222 | 2,713,626 |
| Levy on gates | | 45,564 | 90,757 |
| Library | | 23,738 | 24,130 |
| Meter test fees | | 31,071 | 34,492 |
| Parking meters | | 119,949 | 192,648 |
| Photocopies | | 94,532 | 103,523 |
| Plan approval fees | | 5,164,972 | 4,459,391 |
| Private works | | 1,400,278 | 1,261,309 |
| Sale of plants and animals | | 11,203 | 39,671 |
| Scrap | | 3,302,845 | 794,177 |
| Service connections and reconnections | | 11,999,197 | 7,077,038 |
| Street frontage and administration fees | | 281,838 | 270,807 |
| Sub division fees | | 1,036,732 | 545,545 |
| Sundry income | | 77,447,060 | 23,817,644 |
| Tender receipts | | 316,656 | 523,609 |
| Towing fees | | 33,808 | 51,824 |
| Vehicle registrations | | 30,695,641 | 28,802,345 |
| | | **207,878,985** | **138,057,914** |

| | | | |
|---|---|---|---|
| **Prior year errors** | 49 | | |
| Balance previously stated | | - | 117,759,465 |
| Other revenue - Scrap income for waste disposal sites overstated | | - | (1,978,231) |
| Other revenue - Reclaimed VAT for USD and MIG - sundry income | | - | 22,276,679 |
| **Restated** | | **-** | **138,057,913** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

## 33. General expenses

| | | |
|---|---|---|
| Advertising | 2,476,131 | 2,210,070 |
| Assessment rates & municipal charges | 1,669,591 | 2,195,640 |
| Assets expensed | 1,972,741 | 1,857,599 |
| Auditors remuneration | 9,219,239 | 7,328,872 |
| BCMET | 236,082 | 283,029 |
| Bank charges | 5,582,795 | 5,778,184 |
| Chemicals | 14,277,663 | 15,271,994 |
| Cities network | 321,539 | 292,308 |
| Cleaning | 3,323,398 | 4,056,593 |
| Commission paid | 12,431,331 | 11,133,109 |
| Community development and training | - | 7,218 |
| Computer expenses | 7,624,331 | 2,101,289 |
| Conferences and seminars | 3,258,715 | 2,062,661 |
| Consulting and professional fees | 30,712,954 | 29,598,390 |
| Consumables | 6,384,656 | 6,838,765 |
| DWAF | 5,850,062 | 4,227,598 |
| Disconnections | 6,344,239 | 3,768,702 |
| Electricity | 44,874,856 | 42,236,581 |
| Entertainment | 2,577,006 | 2,032,754 |
| Essential users cost | 13,028,671 | 11,862,533 |
| Fuel and oil | 41,114,758 | 31,455,269 |
| Hire (labour and plant) | 1,350,355 | 1,540,921 |
| Horticulture | 1,944 | - |
| IT expenses | 3,215,365 | 3,954,888 |
| Insurance | 15,859,288 | 15,520,704 |
| Lease rentals on operating lease | 51,172,482 | 40,672,197 |
| Levies | 13,646,090 | 13,225,798 |
| Magazines, books and periodicals | 1,563,835 | 2,443,226 |
| Marketing | 144,951 | 244,400 |
| Motor vehicle expenses | 4,259,245 | 3,985,988 |
| Operating and housing projects ex grants | 146,651,973 | 100,939,751 |
| Other expenses | 61,081,137 | 42,236,568 |
| Post-retirement medical obligation net cost | 14,065,645 | 74,121,339 |
| Postage and courier | 4,408,899 | 4,695,504 |
| Printing and stationery | 8,999,445 | 8,132,810 |
| Promotions | 423,574 | 342,366 |
| Refuse | 6,212,935 | 8,831,682 |
| Royalties and license fees | 8,772,290 | 8,366,907 |
| Security (Guarding of municipal property) | 189,097 | 386,217 |
| Software expenses | 941,938 | 326,682 |
| Special events | 2,908,093 | 1,159,801 |
| Subscriptions and membership fees | 9,801,914 | 9,500,000 |
| Telecommunication costs (telephones, faxes and cell phones) | 20,524,864 | 20,490,877 |
| Title deed search fees | 15,597 | 6,966 |
| Training | 3,008,454 | 3,133,866 |
| Travel - local | 7,009,710 | 6,233,208 |
| Travel - overseas | 1,659,289 | 1,114,021 |
| Uniforms | 6,980,293 | 6,832,462 |
| Water | 5,161,896 | 3,906,151 |
| | **613,311,356** | **568,944,458** |

| | | |
|---|---|---|
| **Amendment to general expenses previously disclosed** | | |
| General expenses previously reported | - | 593,470,081 |
| Medical aid obligation net cost(ex statement of financial performance) | - | 74,121,339 |
| Poor relief (now disclosed per note 43: grants & subsidies) | - | (98,646,962) |
| **Amended total** | **-** | **568,944,458** |

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 34. Employee related costs

| | | | |
|---|---|---|---|
| Basic emoluments | | 610,444,235 | 602,172,059 |
| Medical aid contributions | | 42,217,987 | 40,410,121 |
| UIF | | 6,610,236 | 6,005,373 |
| Leave pay contribution | | 21,858,807 | 25,319,589 |
| Pension fund contribution | | 112,547,443 | 110,355,566 |
| Overtime payments | | 62,098,630 | 50,915,706 |
| Long-service awards | | 13,224,861 | 12,194,233 |
| 13th Cheque's | | 49,567,189 | 50,148,188 |
| Car allowance | | 17,416,594 | 18,717,538 |
| Housing benefits and allowances | | 3,508,636 | 3,770,310 |
| Group life | | 5,248,707 | 5,333,247 |
| Other allowances | | 37,138,769 | 31,023,598 |
| | | **981,882,094** | **956,365,528** |

| | | | |
|---|---|---|---|
| **Prior year errors - Other allowances** | 49 | | |
| Previously reported | | - | 27,314,873 |
| Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year. | | - | 3,708,725 |
| **Restated** | | **-** | **31,023,598** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Remuneration | 1,055,584 | 803,225 |
| Travel Allowance | 90,000 | - |
| Contributions to UIF, Medical and Pension Funds | 29,306 | - |
| Allowance | 446,701 | - |
| Other | - | 535,483 |
| | **1,621,591** | **1,338,708** |

**Remuneration of Chief Financial Officer**

| | | |
|---|---|---|
| Remuneration | 313,222 | 702,740 |
| Housing subsidy | 1,478 | - |
| Travel Allowance | 65,589 | - |
| Allowance | 14,584 | - |
| UIF | 595 | - |
| Medical aid | 11,381 | - |
| Pension contributions | 39,669 | - |
| Group life | 3,924 | - |
| Other | - | 468,493 |
| | **450,442** | **1,171,233** |

The CFO position was filled in March 2013. Remuneration based on the position being filled for the full period equates to R1 351 352.

**Remuneration of Director Executive Support Services**

| | | |
|---|---|---|
| Remuneration | - | 527,055 |
| Travel allowance | - | 144,000 |
| Allowance | - | 78,681 |
| UIF | - | 1,123 |
| Medical aid | - | 14,922 |
| Pension contributions | - | 102,776 |
| Group life | - | 9,869 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 34. Employee related costs (continued)

| | | |
|---|---|---|
| | **-** | **878,426** |

The position was vacant for 2012/13. Remuneration based on the position being filled for the full period equates to R1 237 994.

**Remuneration of Chief Operations Officer**

| | | |
|---|---|---|
| Remuneration | - | 292,808 |
| Travel allowance | - | 80,000 |
| Allowance | - | 35,599 |
| UIF | - | 624 |
| Medical aid | - | 16,403 |
| Pension contributions | - | 57,098 |
| Group life | - | 5,483 |
| | **-** | **488,015** |

The position was vacant for 2012/13. Remuneration based on the position being filled for the full period equates to R1 237 994.

**Remuneration of Director Corporate Services**

| | | |
|---|---|---|
| Remuneration | 61,900 | 702,740 |
| Housing subsidy | 3,000 | 36,000 |
| Travel allowance | 15,000 | 180,000 |
| Allowance | 9,679 | 97,906 |
| UIF | 125 | 1,497 |
| Medical aid | 1,392 | 16,056 |
| Pension contributions | 12,070 | 137,034 |
| | **103,166** | **1,171,233** |

The Director of Corporate Services resigned on the 31 July 2012 and the position remained vacant for the remainder of the financial year. Remuneration based on the position being filled for the full period equates to R1 237 994.

**Remuneration of Director Health and Public Safety**

| | | |
|---|---|---|
| Remuneration | 495,198 | 702,740 |
| Allowance | 232,426 | 329,962 |
| UIF | 1,142 | 1,497 |
| Pension contributions | 96,564 | 137,034 |
| | **825,330** | **1,171,233** |

The contract for the Director of Health and Public Safety expired on 28 February 2013. He was appointed as Special Advisor to the Executive Mayor with effect from 01 June 2013. The payment for the period March to May 2013 is reflected under note 55: Irregular expenditure. Remuneration based on the position being filled for the full period equates to R1 237 994.

**Remuneration of Director Engineering Services**

| | | |
|---|---|---|
| Remuneration | 742,796 | 702,740 |
| Travel allowance | 168,000 | 168,000 |
| Allowance | 157,225 | 140,220 |
| UIF | 1,713 | 1,497 |
| Medical aid | 13,565 | 12,424 |
| Pension contributions | 144,845 | 137,034 |
| Group life | 9,849 | 9,318 |
| | **1,237,993** | **1,171,233** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 34. Employee related costs (continued)

**Remuneration of Director Development and Planning**

| | | |
|---|---|---|
| Remuneration | 742,796 | 702,740 |
| Travel allowance | 192,000 | 192,000 |
| Allowance | 121,232 | 105,115 |
| UIF | 1,713 | 1,497 |
| Medical aid | 21,499 | 19,688 |
| Pension contributions | 144,845 | 137,034 |
| Group life | 13,908 | 13,158 |
| | **1,237,993** | **1,171,232** |

**Remuneration of Director Community Services**

| | | |
|---|---|---|
| Remuneration | 742,796 | 702,740 |
| Travel allowance | 120,000 | 120,000 |
| Allowance | 214,731 | 196,803 |
| UIF | 1,713 | 1,497 |
| Pension contributions | 144,845 | 137,034 |
| Group life | 13,908 | 13,158 |
| | **1,237,993** | **1,171,232** |

### 35. Remuneration of Councillors

| | | |
|---|---|---|
| Executive Mayor | 640,892 | 607,480 |
| Deputy Mayor | 42,726 | 485,984 |
| Speaker | 512,714 | 485,984 |
| Chief Whip | 480,668 | 455,610 |
| Mayoral Committee Members (Allowance = R480 668: 9 Councillors) | 4,253,657 | 4,100,490 |
| Traditional leaders | 356,325 | - |
| Councillors (Allowance = R 224 312: 87 Councillors) | 20,282,120 | 24,842,828 |
| Councillors pension contribution | 2,626,833 | 1,767,177 |
| Councillors housing subsidy | 2,690,095 | 2,261,594 |
| Councillors medical aid | 1,031,476 | 795,151 |
| Travel allowance | 10,413,804 | 7,075,811 |
| UIF | - | 87,557 |
| | **43,331,310** | **42,965,666** |

**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 R2 710 857 (2012: R 2 486 553 ).

The Executive Mayor and Deputy Mayor each have the use of a Council owned vehicle for official duties. Operating costs of the vehicles amounts to R192 985 (2012: R 333 666). An amount of R396 833 (2012: R 304 444) was incurred for hired vehicles.

The Executive Mayor and Deputy Mayor each have full-time bodyguards and an official driver. Cost of the bodyguards and the drivers amounts to R1 664 084 (2012: R1 427 729 ).

These benefits are governed by MFMA circular 58 dated 14 December 2011 and the Government Gazette 35962 dated 07 December 2012. Certain benefits that were prohibited by MFMA circular 58 dated 14 December 2011 have been regularised by Government Gazette 35962 dated 07 December 2012. These benefits includes the provision of electronic devices and official accommodation and furniture for the Executive Mayor. House keeping costs in the amount of R32 869 are also included.

# Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

## 36. Debt impairment

| | | | |
|---|---|---|---|
| Contributions to debt impairment allowance account | | 106,769,757 | 58,206,738 |

## 37. Interest received

| | | | |
|---|---|---|---|
| **Interest revenue** | | | |
| Unlisted financial assets | | 75,756,373 | 51,472,891 |
| Bank | | 8,183,377 | 7,216,104 |
| Interest charged on trade and other receivables | | 22,196,338 | 23,911,632 |
| Interest on sporting body loans | | 7,756 | 8,252 |
| | | **106,143,844** | **82,608,879** |

## 38. 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 is 30 days. As the normal municipal receivables and payables terms are within 30 days and is consistent with established practice and legislation, no discounting needs to be performed.

## 39. Depreciation and amortisation

| | | | |
|---|---|---|---|
| Property, plant and equipment | 15 | 498,033,048 | 508,531,940 |
| Intangible assets - amortisation | 12 | 3,184,946 | 4,477,178 |
| | | **501,217,994** | **513,009,118** |

## 40. Finance costs

| | | | |
|---|---|---|---|
| Non-current borrowings | | 67,258,510 | 70,491,430 |

## 41. Auditor General remuneration

| | | | |
|---|---|---|---|
| Expenses | | 9,219,239 | 7,328,872 |

## 42. Contracted services

| | | | |
|---|---|---|---|
| Other Contractors | | 7,763,365 | 6,839,654 |

## 43. Grants and subsidies paid

| | | | |
|---|---|---|---|
| **Grants-in-Aid** | | | |
| Libraries | | 2,016,324 | - |
| Subsidies-Churches,sport and other welfare org. | | 1,636,935 | - |
| Buffalo City Development Agency | | 468,181 | 1,363,650 |
| Mayoral Social Responsibility | | 400,047 | 420,901 |
| Publicity Association Grant | | 3,763,505 | 1,115,717 |
| Sponsored Sporting Events | | 13,127,110 | 12,036,803 |
| Poor relief | | 94,920,244 | 98,646,964 |
| | | **116,332,346** | **113,584,035** |

## 44. Bulk purchases

| | | | |
|---|---|---|---|
| Electricity | | 900,088,648 | 787,947,122 |
| Water | | 140,024,695 | 127,440,041 |
| | | **1,040,113,343** | **915,387,163** |

# Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 45. Net cash flows from operating activities

| | | | |
|---|---|---|---|
| Surplus | | 714,696,424 | 140,916,168 |
| **Non-cash movements** | | | |
| Depreciation and amortisation | 39 | 501,217,994 | 513,009,118 |
| Loss on the sale of property, plant and equipment | 15 | 176,871 | 1,486,310 |
| Share of deficit of associate | 17 | - | 12,087,832 |
| Impairment deficit | 15 | - | 1,798,575 |
| Debt impairment | 36 | 106,769,757 | 58,206,738 |
| Movement in operating leases | 10 | (2,605,046) | (1,582,011) |
| Movement in post retirement medical aid benefit obligation | 24 | 136,794 | 60,662,209 |
| Movement in provisions relating to landfill sites | 21 | (25,593,669) | 27,088,842 |
| Adjustment of prior year transactions | 49 | - | (17,821,522) |
| Revaluation of property, plant and equipment | 15 | - | 67,929 |
| Non-cash property, plant and equipment additions | 15 | (7,575,969) | (27,906,561) |
| Non-cash property, plant and equipment transfers | 15 | 25,593,669 | - |
| Movement in inventory | 6 | 45,462,930 | 20,303,946 |
| Movement in receiveables from non-exchange transactions | 8 | (69,846,572) | (62,258,787) |
| Movement in receivables from exchange transactions | 7 | (178,281,050) | (159,620,632) |
| Movement in payables from exchange transactions | 22 | 120,538,997 | 80,203,858 |
| Movement in VAT receivables | 9 | (31,070,914) | 3,330,159 |
| | | **1,199,620,216** | **649,972,171** |

### 46. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Approved and contracted for - Property, Plant and Equipment** | | |
| • Community | 167,425,695 | 32,930,069 |
| • Infrastructure | 807,740,428 | 227,001,502 |
| • Other | 196,737,090 | 121,217,979 |
| | **1,171,903,213** | **381,149,550** |

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

**Operating leases - as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 6,927,809 | 6,357,433 |
| - in second to fifth year inclusive | 17,157,685 | 24,085,494 |
| | **24,085,494** | **30,442,927** |

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

## Notes to the Annual Financial Statements



### 47. Contingencies

**Contingent assets**

A counterclaim of R27 140 802 has been instituted by Council against Dormell Properties trading as Allaince Communications for repayment of amounts paid to them relating to the forensic investigation on Dr Zitha's appointments.

The estimated amount of recoverable traffic fines for 2013 is R1 544 400 (2012: R1 495 800) at year end.

BCMM purchased property in the amount of R762 440 (2012: 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 R492 050 (2012: 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 (2012: 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.

### 48. Related parties

| | |
| --- | --- |
| Associate | Refer to note 17 |

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 municipality issued grants of R (VAT exclusive) to the development agency during the current financial year R410 685 (2012: R1 196 185 - VAT exclusive).

BCDA has paid no consumer accounts during the current and 2012 financial years.

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.

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

For key management and councillors remuneration refer to notes 34 and 35.

# Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

## 49. 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:

| | | | |
|---|---|---|---|
| **Accumulated Surpluses** | | | |
| Resort rental income erroneously disclosed as caravan deposits | 22 | | 1,203,931 |
| IDZ rebate on rates overcharged 07/08, 08/09, 09/10, 10/11 financial years | 8 | | (3,013,101) |
| IDZ overcharged on electricity 09/10 financial year | 8 | | (1,400,484) |
| Scrap income for waste disposal sites overstated 09/10, 10/11 financial years | 8 | | (902,070) |
| Reclaimed VAT for MIG grant not claimed for the 10/11 financial year | 23 | | 25,850,895 |
| **Total changes to accumulated surpluses** | | | **21,739,171** |
| **Statement of Financial Position 2012** | | | |
| Adjustment to deposits erroneously disclosed - should be rental income | 22 | | (2,435,729) |
| IDZ rebate on rates overcharged 07/08, 08/09, 09/10, 10/11 financial years | 8 | | 3,013,101 |
| IDZ overcharged on electricity 09/10 financial year | 8 | | 1,400,484 |
| Scrap income for waste disposal sites overstated 09/10, 10/11, 11/12 financial years | 8 | | 2,880,301 |
| Reclaimed VAT for MIG grant not claimed for the 10/11 financial year | 23 | | (48,127,574) |
| Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year | 22 | | 3,708,724 |
| **Total changes to the Statement of Financial Position 2012** | | | **(39,560,693)** |
| **Accumulated Surplus 2012** | | | |
| Write out of water assets - cost | 15 | | (370,426,036) |
| Write out of water assets - accumulated depreciation | 15 | | 245,306,641 |
| Write on of bridges & stormwater assets - cost | 15 | | 4,653,059 |
| Write on of bridges & stormwater assets - accumulated depreciation | 15 | | (269,282) |
| Write on of heritage assets - cost | 14 | | 41,101,019 |
| **Total changes to Accumulated Surplus 2012** | | | **(79,634,599)** |

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 49. Prior period adjustments (continued)

| | | | |
|---|---|---|---|
| **Statement of Financial Performance 2012** | | | |
| Surplus for the year as per audited financial statements | | | 123,094,646 |
| Resort rental income erroneously disclosed as caravan deposits | 28 | | 1,231,798 |
| Scrap income for waste disposal sites overstated 11/12 financial year | 32 | | (1,978,231) |
| Reclaimed VAT for MIG and USD grants not claimed for the 11/12 financial year | 32 | | 22,276,679 |
| Scarce skills allowances to be paid in the 13/14 financial year iro the 11/12 financial year | 34 | | (3,708,724) |
| **Net effect on surpluses for 2012** | | | **17,821,522** |
| **Restated surpluses for 2012** | | | **140,916,168** |

| | |
|---|---|
| **Summary: Adjustments affecting Net Assets** | |
| Changes to operating income and expenditure accounts in the 2011 and earlier years | 21,739,171 |
| Changes to the operating income and expenditure accounts in the 2012 year | 17,821,522 |
| Changes to accumulated surpluses for 2012 | (79,634,599) |
| **Total changes affecting Net Assets** | **(40,073,906)** |

| | |
|---|---|
| **Reconciliation of the restated balance of the accumulated surpluses as at 1July 2012** | |
| Balance as per audited statements | 11,290,886,670 |
| Changes effecting net assets | (40,073,906) |
| **Balance as at 1 July 2012 as restated** | **11,250,812,764** |

| | |
|---|---|
| **Reconciliation of the restated balance of the accumulated surpluses as at 1July 2011** | |
| Balance as per audited statements | 11,180,532,264 |
| Prior year adjustments | 21,739,171 |
| **Balance as at 1 July 2011 as restated** | **11,202,271,435** |

### 50. Risk management

**Capital risk management**

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

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

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

**Financial risk management**

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

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

**Liquidity risk**

### 50. Risk management (continued)

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

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

**Interest rate risk**

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

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

**Cash flow interest rate risk**

| Financial instrument | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|---|---|---|---|---|---|
| Trade and other receivables - normal credit terms | 7.50 % | 665,344,530 | - | - | - | - |
| Cash in current banking institutions | 4.50 % | 144,895,809 | - | - | - | - |
| Call investment deposits | 4.67 % | 1,697,297,653 | - | - | - | - |
| Trade and other payables - extended credit terms | 10.50 % | (422,559,849) | - | - | - | - |
| Long term borrowings | 10.09 % | (49,970,261) | (104,603,263) | (150,700,458) | (201,409,489) | (445,767,676) |

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 2013 | Discounted value at current rate | Discounted value at current rate (-1%) | Discounted value at current rate (+1%) |
|---|---|---|---|---|---|
| Trade and other receivables - normal credit terms | 7.50 % | 665,344,530 | 618,925,144 | 624,736,648 | 613,220,765 |
| Trade and other payables | 10.50 % | (397,080,511) | (359,348,879) | (362,630,604) | (356,126,019) |
| Cash in current banking institutions | 4.50 % | 144,895,809 | 138,656,277 | 139,995,951 | 137,341,999 |
| Call investment deposits | 4.67 % | 1,697,297,653 | 1,621,570,319 | 1,637,211,974 | 1,606,224,712 |

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 5 ) and trade debtors (refer notes 7&8). The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

### 51. Going concern

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 52. Events after the reporting date

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

### 53. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 8,116,451 | 8,116,451 |
| Unauthorised expenditure for the year | - | - |
| 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.

### 54. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 3,721,269 | 2,729,196 |
| Acts of negligence, damage to municipal properties and theft of goods. | 421,177 | 828,514 |
| Payment made iro yearly bus licences. | 119,880 | - |
| Interest charged on overdue accounts due to late payment and sheriff fees. | - | 103,004 |
| Payments made in respect of Council Litigations. | 393,253 | 60,555 |
| | **4,655,579** | **3,721,269** |

Staff members involved in acts of negligence, damage to vehicles, theft of goods and overpayment of overtime, resulted in the municipality incurring losses totalling R421 177 (2012: R 828 514). 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 R393 253 (2012: R60 555).

Payment made iro yearly bus licences in terms of the National Road Traffic Act of 1996 to the amount of R119 880. The busses are not in use due to litigation.

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the condonement and future actions to be taken in regards to irregular, fruitless and wasteful expenditure.

### 55. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 663,835,980 | 227,141,742 |
| Irregular Expenditure - current year | 163,847,235 | 436,694,238 |
| | **827,683,215** | **663,835,980** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

### 55. Irregular expenditure (continued)

**Analysis of expenditure awaiting condonation per age classification**

| | | |
|---|---|---|
| Current year | 163,847,235 | 436,694,238 |
| Prior years | 663,835,980 | 227,141,742 |
| | **827,683,215** | **663,835,980** |

| **Details of irregular expenditure** | | |
|---|---|---|
| Procurement made outside SCM regulations | 14,995,128 | - |
| BCC contracts | 19,731,519 | 67,623,247 |
| Annual contracts | 118,201,216 | 9,390,425 |
| Expired contracts | 101,881 | 186,920,051 |
| Expired leases on machinery and other expired leases | 2,232,333 | 2,400,297 |
| Expired leases on hygiene products | 305,684 | 1,972,725 |
| Irregular expenditure made on 3 quotation system | 5,460,881 | 103,585,743 |
| Completeness of SCM documentation | 1,791,473 | - |
| Payment iro employment contract - Section 57 employee | 309,499 | - |
| Stock purchases | - | 177,354 |
| Payments iro Councillors | - | 15,175,427 |
| ED contracts | - | 48,852,489 |
| Informal tenders | - | 596,480 |
| Non-approved deviations by Council - MFMA Regulation 36 on SCM | 717,621 | - |
| | **163,847,235** | **436,694,238** |

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the condonement and future actions to be taken in regards to irregular, fruitless and wasteful expenditure.

Amounts condoned by Council at the Council meeting on 31 July 2013 were R75 786 430 and R143 410 018 in respect of 2011 and 2012 respectively.

**Details of irregular expenditure recoverable**

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

### 56. In-kind donations and assistance

| | | |
|---|---|---|
| FELZOO donated assistance to BCMM | 23,800 | 193,378 |

### 57. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | | |
|---|---|---|
| Current year subscription / fee | 9,800,000 | 9,500,000 |
| Amount paid - current year | (9,800,000) | (9,500,000) |
| | **-** | **-** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

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

**Contributions to SA Cities Network**

| | | |
|---|---|---|
| Current year subscription / fee | 321,539 | 292,308 |
| Amount paid - current year | (321,539) | (292,308) |
| | - | - |

**Audit fees**

| | | |
|---|---|---|
| Current year fee | 9,219,239 | 7,328,872 |
| Amount paid - current year | (9,219,239) | (7,328,872) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 122,422,574 | 118,498,259 |
| Amount paid - current year | (122,422,574) | (118,498,259) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 230,482,775 | 221,671,814 |
| Amount paid - current year | (230,482,775) | (221,671,814) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 65,200,497 | 34,129,583 |

VAT output payables and VAT input receivables are shown in note 9 as net VAT receivable.

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

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

### Councillors and officials arrear consumer accounts

Arrear Councillors accounts totalling R8 515 were outstanding for more than 90 days at 30 June 2013 (2012: R2 912) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

| 30 June 2013 | Outstanding more than 90 days |
|---|---|
| Councillor R Angelbeck - since 30 June 2013 amount paid | 1,115 |
| Councillor S Gomba - since 30 June 2013 amount paid | 3,644 |
| Councillor N. Mekani - since 30 June 2013 amount paid | 150 |
| Councillor M Nkula - since 30 June 2013 amount paid | 1,447 |
| Councillor G Norexe - since 30 June 2013 amount paid | 185 |
| Councillor R Thiele - since 30 June 2013 outstanding amount less than 90 days | 1,974 |

| 30 June 2012 | Outstanding more than 90 days |
|---|---|
| Councillor A.M. Matana | 502 |
| Councillor N.E. Maqidlana | 652 |
| Councillor R.N. May | 530 |
| Councillor N. Mekani | 633 |
| Councillor L.J. Mentoor | 358 |
| Councillor L. Quse | 237 |

During the year officials accounts totalling R879 397 (2012: R461 723) were outstanding for more than 90 days.

### Material losses

Electricity losses for the current year amounted to 9.54% i.e. R85 345 229 (2012: 12.61% i.e. R97 544 542). These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 5% i.e. R44 723 885 (2012: 6.5% i.e. R50 285 375). Non-technical losses, being theft, faults, billing errors etc., account for 4.54% R40 621 344 (2012: 6.11% i.e. R47 259 167). Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 45.67% i.e R102 924 479 (2012: 47.28% i.e. R105 221 795 ). 41.06% i.e R92 503 445 (2012: 37.56% i.e. R83 590 522) of these losses can be accounted for in terms of the National Guidelines for non-revenue water. 4.61% i.e. R10 421 034 (2012: 9.72% i.e. R21 631 273) 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.

## 58. Utilisation of Long-term liabilities reconciliation

| | 2013 | 2012 |
|---|---|---|
| Long-term liabilities raised | 45,368,396 | - |
| Finance leases raised | 5,004,171 | 749,790 |
| Used to finance property, plant and equipment | (50,372,567) | (749,790) |
| | - | - |

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.

# Notes to the Annual Financial Statements



### 59. Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 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 totaling R16 182 283 (2012: R21 666 617) 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.

### 60. Retirement benefit information

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

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

The Cape Joint Pension Fund's last actuarial valuation was at 30 June 2012 conducted by S. Neethling from Metropolitan Life Limited. The fund was 99.4% funded at valuation date. BCMM has both defined contributions (8) and defined benefit (29) 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 2012 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 2021 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 funding level level was at 99.67% at valuation date.

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 interim valuation was at 28 February 2011 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 13.9 million.

### 60. Retirement benefit information (continued)

An amount of R157 million (2012: R 151.9 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 | 2013 | 2012 Restated |
|---|---|---|

## 61. Contingent liabilities

| Litigation Issues | | |
|---|---|---|
| A claim has been instituted against Council by T.L. Rayi due to alleged defamation. Legal advice has been sought and Council will defend the claim. | 100,000 | 100,000 |
| Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims. | 2,368,494 | 1,162,631 |
| 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 |
| 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). (Resolved) | - | 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 Conveyance work done on Council's behalf (Date of incident August 2011 and summons received by BCMM September 2011). | 3,948,000 | 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 | 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 | 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 | 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 | 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. (Resolved) | - | 680,000 |
| 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. | 20,474,866 | 20,983,535 |
| A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013). | 15,812,736 | - |
| A claim has been instituted against Council by Evaluations Enhanced Property Appraisals (Pty) Ltd for an application to set aside an award made by BCMM to a competing tenderer under contract 2953 - General Valuation Project (Summons received November 2012). | 29,642,513 | - |
| A claim has been instituted against Council by Ranamane Mokalane Incorporated for professional fees owed for services rendered by them (Date of incident April and May 2010 and summons received March 2013). | 2,724,871 | - |
| **Total Contingent Liabilities in respect of Litigation Issues** | **137,565,803** | **96,334,024** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|
| **61. Contingent liabilities (continued)** | | |
| **Labour Issues** | | |
| Directors bonuses | 3,074,537 | 2,105,653 |
| Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims. | 9,267,008 | 4,815,057 |
| 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. | 37,000,000 | 35,000,000 |
| 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 | 10,000,000 |
| 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). (Resolved) | - | 4,800,000 |
| Certain former R293 employees received a lesser total package when they were transferred to the Municipality in April 2000. | 5,000,000 | 5,000,000 |
| **Total Contingent Liabilities in respect of Labour Issues** | **64,341,545** | **61,720,710** |
| **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. | 5,805,000 | 6,582,866 |
| Claims have been instituted against Council due to various damage claims. | 1,010,472 | 256,854 |
| 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). | 2,300,235 | 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). (Resolved) | - | 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 | 2,500,000 |
| A claim has been instituted against Council by T Beija and D.H.E. Beija in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012). | 7,001,518 | - |
| **Total Contingent Liabilities in respect of Insurance issues** | **18,617,225** | **15,403,602** |
| **Other issues not yet under litigation** | | |
| Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims. | 60,792 | 75,147 |
| **Total Contingent Liabilities** | **220,585,365** | **173,533,483** |

## Notes to the Annual Financial Statements

| Figures in Rand | | 2013 | 2012 Restated |
|---|---|---|---|

### 62. Cash flows from operating activities

| | | | |
|---|---|---|---|
| **Receipts: Sale of goods and services** | | | |
| Total revenue as per Statement of Financial Performance. | | 4,447,832,303 | 3,612,666,791 |
| Less: Interest received | 37 | (106,143,844) | (82,608,879) |
| Less: Public contributions and donations | 28 | - | (599,152) |
| Less: Government grants and subsidies received | 28 | (1,234,896,065) | (907,186,380) |
| Less: Public contributions- PPE | 28 | - | (730,105) |
| Gain/(Loss) on sale of assets | 15 | 176,871 | 1,486,310 |
| Movement from non-exchange transactions | 8 | (69,846,572) | (62,258,787) |
| Movement in receivables from exchange transactions | 7 | (178,281,050) | (159,620,632) |
| Movement in VAT receivables | 9 | (31,070,914) | 3,330,159 |
| Movement in operating lease receivable | 10 | (2,605,046) | (1,582,011) |
| **Net revenue from sale of goods and services as per the cash flow statement** | | **2,825,165,683** | **2,402,897,314** |

| | | | |
|---|---|---|---|
| **Payment: Suppliers** | | | |
| Total expenditure as per the Statement of Financial Performance. | | (3,733,135,876) | (3,459,662,787) |
| Employee costs | 34&35 | 1,025,213,404 | 999,331,194 |
| Interest paid | 40 | 67,258,510 | 70,491,430 |
| Depreciation and amortisation | 39 | 501,217,994 | 513,009,117 |
| Reversal of impairments | 15 | - | 1,798,575 |
| Debt impairment | 36 | 106,769,757 | 58,206,738 |
| Non-cash property, plant and equipment transfers | 15 | 25,593,669 | - |
| Movement in post retirement medical aid benefit obligation | 24 | 136,794 | 60,662,209 |
| Movement in provisions relating to landfill sites | 21 | (25,593,669) | 27,088,842 |
| Ajustment of prior year transactions | 49 | - | (17,821,522) |
| Revaluation of property plant and equipment | 15 | - | 67,929 |
| Movement in payables from exchange transaction | 45 | 120,538,997 | 80,203,858 |
| Non-cash asset additions-leases | 15 | (7,575,969) | (27,906,561) |
| Movement in inventory | 45 | 45,462,930 | 20,303,946 |
| **Net payments to suppliers as per cash flow statement** | | **(1,874,113,459)** | **(1,674,227,032)** |

| | | | |
|---|---|---|---|
| **Government grants, subsidies and public contributions and donations** | | | |
| Government grants & subsidies | 31 | 1,234,896,065 | 907,186,381 |
| Public contributions and donations - operating | 28 | - | 599,152 |
| Public contributions and donations - PPE | 28 | - | 730,105 |
| **Total as per cash flow statement** | | **1,234,896,065** | **908,515,638** |

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

| | | |
|---|---|---|
| **Reconciliation of actual operating results to net income/ (deficit)** | | |
| Net income for the period | 714,696,424 | 140,916,172 |
| Offset depreciation | 423,793,015 | 473,029,283 |
| Items not provided for in the operating budget | (176,871) | (13,574,142) |
| Capital expenditure ex grant funding | (515,570,387) | (187,131,453) |
| **Actual operating results** | **622,742,181** | **413,239,860** |

| | | |
|---|---|---|
| **Items not provided for in the operating budget** | | |
| (Loss) on disposal of assets and liabilities | (176,871) | (1,486,310) |
| Share of deficit of associate accounted for under the equity method | - | (12,087,832) |
| **Other income and expenditure not bugeted for** | **(176,871)** | **(13,574,142)** |

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 transactions). 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.

# Notes to the Annual Financial Statements

| Figures in Rand | 2013 | 2012 Restated |
|---|---|---|

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

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

| | | |
|---|---|---|
| **Repairs and maintenance summary** | | |
| Repairs and maintenance - Buildings | 12,682,400 | 12,445,133 |
| Repairs and maintenence - Vehicles | 12,914,335 | 11,011,960 |
| Repairs and maintenance - Equipment | 6,047,438 | 6,204,702 |
| Repairs and maintenance - Minor improvements | 2,790,570 | 2,700,551 |
| Repairs and maintenance - Office machines | 4,241,485 | 4,069,482 |
| Repairs and maintenance - Roads | 35,859,297 | 22,048,981 |
| Repairs and maintenance - Furniture | 173,693 | 121,624 |
| Repairs and maintenance - Electricity | 13,866,930 | 12,691,835 |
| Repairs and maintenance - Deffered maintenance | 76,584,866 | 55,779,001 |
| Repairs and maintenance - Sewerage | 9,000,089 | 8,242,751 |
| Repairs and maintenance - Water network | 15,558,749 | 19,314,642 |
| Repairs and maintenance - Mechanical repairs | 1,792,541 | 1,656,041 |
| Repairs and maintenance - Stormwater | 6,758,996 | 5,064,405 |
| Repairs and maintenance - Radio equipment | 87,685 | 162,762 |
| Repairs and maintenance - Maintenance contracts | 50,569,944 | 43,249,967 |
| Repairs and maintenance - Grounds | 704,326 | 667,907 |
| Repairs and maintenance - General | 2,065,049 | 954,443 |
| Repairs and maintenance - Extinguishers | 88,591 | 127,658 |
| Repairs and maintenance - Health and Public safety | 330,211 | 1,051,305 |
| Repairs and maintenance - Community services | 2,861,738 | 3,018,962 |
| **Total Repairs and maintenance** | **254,978,933** | **210,584,112** |