BUFFALO CITY METROPOLITAN MUNICIPALITY
UNAUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

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 **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, Bhisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas.
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Absa Bank / Standard Bank
Auditors	Auditor General of South Africa
Members of Audit Committee	Mr. V Pangwa (Chairperson) - appointment 01 November 2011 Mr. S Mkebe (Member) - appointment 01 November 2011 Ms. E Ameyaw - Gyarko (Member) - appointment 01 November 2011 Ms. W Dukuza (Member) - appointment 03 March 2014 Mr. H Marsberg (Member) - appointment 03 March 2014 Prof TM Jordan (Member) - appointment 03 March 2014
Legislation Governing the Municipality	The Constitution of the Republic of South Africa,1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

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

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated
Assets			
Current Assets			
Cash and cash equivalents	5	2,162,739,494	1,841,692,449
Inventories	6	84,508,538	71,653,231
Receivables from exchange transactions	7	375,936,967	383,984,497
Receivables from non-exchange transactions	8	190,209,752	212,232,174
VAT receivable	9	65,568,270	65,200,497
Current portion of operating leases	10	2,157,778	2,363,400
Current portion of long-term receivables	11	15,920	14,440
		2,881,136,719	**2,577,140,688**
Non-Current Assets			
Non-current portion of operating leases	10	64,286,181	61,815,348
Long-term receivables	11	26,992	42,913
Intangible assets	12	45,468,730	19,174,818
Investment property	13	333,278,305	302,981,202
Heritage assets	14	42,272,778	40,181,122
Property, plant and equipment	15	10,273,829,038	10,087,512,848
Non-current investment	16	-	892,235
Investments in associate	17	59,548,855	5,326,008
		10,818,710,879	**10,517,926,494**
Total Assets		**13,699,847,598**	**13,095,067,182**
Liabilities			
Current Liabilities			
Borrowings	18	54,633,001	49,970,261
Consumer deposits	19	44,837,812	45,519,265
Finance lease obligation	20	2,783,463	1,686,593
Provisions	21	126,385,663	117,411,611
Payables from exchange transactions	22	588,749,872	572,847,161
Unspent conditional grants and receipts	23	247,860,019	450,148,613
		1,065,249,830	**1,237,583,504**
Non-Current Liabilities			
Borrowings	18	542,573,901	597,206,903
Finance lease obligation	20	3,425,027	3,623,174
Provisions	21	57,755,878	49,968,510
Post-retirement medical obligation	24	399,048,859	341,562,823
		1,002,803,665	**992,361,410**
Total Liabilities		**2,068,053,495**	**2,229,944,914**
Net Assets		**11,631,794,103**	**10,865,122,267**
Reserves:			
Revaluation reserve	25	2,404,483,674	2,415,539,829
Accumulated surplus		9,227,310,429	8,449,582,435
Total Net Assets		**11,631,794,103**	**10,865,122,264**

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated
Revenue			
Licences and permits	28	14,160,878	15,299,244
Rental of facilities and equipment	28	15,017,944	15,485,474
Fines	28	5,909,971	5,979,206
Fuel levy	28	343,412,000	317,781,000
Property rates	28&29	672,956,899	580,100,409
Service charges	28&30	2,197,435,143	1,964,268,076
Government grants & subsidies	28&31	1,542,941,916	1,235,137,628
Other revenue	28&32	243,576,732	203,317,402
Interest received	28&37	123,609,078	106,143,844
Revaluation reserve realised	25	11,103,294	-
Total revenue	28	**5,170,123,855**	**4,443,512,283**
Expenditure			
Impairments	15	(6,819,197)	(71,393)
Loss on disposal of assets	15	(10,520,898)	(8,659,533)
General Expenses	33	(791,666,465)	(614,980,397)
Employee related costs	34	(1,129,245,617)	(982,560,038)
Remuneration of councillors	35	(45,087,768)	(43,331,310)
Debt impairment	36	(241,010,582)	(106,769,757)
Depreciation and amortisation	39	(643,559,729)	(699,225,738)
Finance costs	40	(65,775,074)	(67,258,510)
Contracted services	42	(9,742,994)	(7,763,365)
Grants and subsidies paid	43	(152,102,495)	(116,332,346)
Bulk purchases	44	(1,110,464,178)	(1,040,113,343)
Repairs and maintenance	64	(285,681,086)	(263,701,689)
Total expenditure		**(4,491,676,083)**	**(3,950,767,419)**
Fair value adjustments	13	30,297,103	(12,163,909)
Share of surplus of associate accounted for under the equity method	17	54,222,847	5,325,748
		84,519,950	**(6,838,161)**
Surplus for the year	63	**762,967,722**	**485,906,703**

Statement of Changes in Net Assets

Figures in Rand		Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported		2,446,637,596	7,912,850,017	10,359,487,613
Adjustments:				
Prior year adjustments	25&49	(12,520,389)	39,204,728	26,684,339
Balance at 01 July 2012 as restated		**2,434,117,207**	**7,952,054,745**	**10,386,171,952**
Change in net assets:				
Surplus for the year	49	-	485,906,703	485,906,703
Take on of Electricity assets	15	-	3,943,555	3,943,555
Adjustment to Recreational Facilities	15	-	253,616	253,616
Adjustments to Office Equipment	15	-	2,513,590	2,513,590
Adjustment to Furniture and Fittings	15	-	4,155,192	4,155,192
Depreciation transfer to income	25	(573,137)	573,137	-
Adjustment to Plant & Equipment	15	-	181,897	181,897
Revaluation reserve realised	25	(18,004,241)	-	(18,004,241)
Total changes		(18,577,378)	497,527,690	478,950,312
Restated Balance at 01 July 2013		**2,415,539,829**	**8,449,582,435**	**10,865,122,264**
Changes in net assets:				
Surplus for the year:	63	-	762,967,722	762,967,722
Take on PPE donated	15	-	19,240	19,240
Take on of Movable Assets	15	-	3,320,186	3,320,186
Take on of Intangible Assets	12	-	5,787,502	5,787,502
Take on of Motor Vehicles	15	-	5,657,274	5,657,274
Adjustment to Recreational Facilities	15	-	(106,657)	(106,657)
Take on Community Facilities	15	-	82,727	82,727
Revaluation reserve realised	25	(11,056,155)	-	(11,056,155)
Total changes		(11,056,155)	777,727,994	766,671,839
Balance at 30 June 2014		**2,404,483,674**	**9,227,310,429**	**11,631,794,103**
Note(s)		25		

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services	62	3,300,520,146	2,833,014,123
Government grants & subsidies	62	1,542,941,916	1,235,137,628
Interest received	37	123,609,074	106,143,844
		4,967,071,136	4,174,295,595
Payments			
Employee costs & Councillors remuneration	34&35	(1,174,333,385)	(1,025,891,348)
Suppliers	62	(2,310,062,958)	(1,884,047,757)
Finance costs	40	(65,775,074)	(67,258,510)
		(3,550,171,417)	(2,977,197,615)
Net cash flows from operating activities	45	**1,416,899,719**	**1,197,097,980**
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(818,335,424)	(608,431,268)
Proceeds from sale of property, plant and equipment	15	766,771	18,165,168
Purchase of intangible assets	12	(27,149,109)	(10,248,181)
Net movement on long-term receivables	11	14,441	13,098
Net movement on non-current investments	16	892,235	(35,634)
Net cash flows from investing activities		**(843,811,090)**	**(600,536,817)**
Cash flows from financing activities			
Net movement on borrowings	18	(49,970,262)	1,387,432
Net movement on consumer deposits	19	(681,453)	8,599,372
Net movement on finance leases	20	898,723	3,855,985
Net movement on unspent conditional grants	23	(202,288,593)	(289,389,748)
Net cash flows from financing activities		**(252,041,585)**	**(275,546,959)**
Net increase in cash and cash equivalents		**321,047,044**	**321,014,204**
Cash and cash equivalents at the beginning of the year		1,841,692,449	1,520,678,244
Cash and cash equivalents at the end of the year	5	**2,162,739,493**	**1,841,692,448**

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
2014											
Financial Performance											
Property rates	648,741,888	26,272,376	675,014,264	-		675,014,264	672,956,899		(2,057,365)	100 %	104 %
Service charges	2,203,041,479	(2,208,593)	2,200,832,886	-		2,200,832,886	2,197,435,143		(3,397,743)	100 %	100 %
Investment revenue	77,939,608	-	77,939,608	-		77,939,608	123,609,078		45,669,470	159 %	159 %
Transfers recognised - operational	917,094,020	(49,115,173)	867,978,847	-		867,978,847	808,439,128		(59,539,719)	93 %	88 %
Other own revenue	598,351,045	2,648,873	600,999,918	-		600,999,918	663,477,922		62,478,004	110 %	111 %
Total revenue (excluding capital transfers and contributions)	**4,445,168,040**	**(22,402,517)**	**4,422,765,523**	**-**		**4,422,765,523**	**4,465,918,170**		**43,152,647**	**101 %**	**100 %**
Employee costs	(1,123,244,549)	-	(1,123,244,549)	-	-	(1,123,244,549)	(1,129,245,617)	-	(6,001,068)	101 %	101 %
Remuneration of councillors	(48,847,465)	-	(48,847,465)	-	-	(48,847,465)	(45,087,768)	-	3,759,697	92 %	92 %
Debt impairment	(184,345,406)	-	(184,345,406)			(184,345,406)	(241,010,582)	-	(56,665,176)	131 %	131 %
Depreciation and asset impairment	(539,234,972)	-	(539,234,972)			(539,234,972)	(650,378,926)	-	(111,143,954)	121 %	121 %
Finance charges	(64,161,999)	138,001	(64,023,998)	-	-	(64,023,998)	(65,775,074)	-	(1,751,076)	103 %	103 %
Materials and bulk purchases	(1,135,788,777)	(24,857,715)	(1,160,646,492)	-	-	(1,160,646,492)	(1,110,464,178)	-	50,182,314	96 %	98 %
Transfers and grants	(246,488,066)	(40,900,000)	(287,388,066)	-	-	(287,388,066)	(152,102,495)	-	135,285,571	53 %	62 %
Other expenditure	(1,172,170,151)	20,663,462	(1,151,506,689)	-	-	(1,151,506,689)	(1,097,611,443)	-	53,895,246	95 %	94 %
Total expenditure	**(4,514,281,385)**	**(44,956,252)**	**(4,559,237,637)**	**-**	**-**	**(4,559,237,637)**	**(4,491,676,083)**	**-**	**67,561,554**	**99 %**	**99 %**
Surplus/(Deficit)	**(69,113,345)**	**(67,358,769)**	**(136,472,114)**	**-**		**(136,472,114)**	**(25,757,913)**		**110,714,201**	**19 %**	**37 %**

* See Note 4

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	705,450,307	135,226,891	840,677,198	-		840,677,198	734,502,788		(106,174,410)	87 %	104 %
Contributions recognised - capital and contributed assets	-	-	-	458,860		458,860	-		(458,860)	-	-
Surplus (Deficit) after capital transfers and contributions	**636,336,962**	**67,868,122**	**704,205,084**	**458,860**		**704,663,944**	**708,744,875**		**4,080,931**	**101 %**	**111 %**
Share of surplus (deficit) of associate	-	-	-	-		-	(54,222,847)		(54,222,847)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**636,336,962**	**67,868,122**	**704,205,084**	**458,860**		**704,663,944**	**762,967,722**		**58,303,778**	**108 %**	**120 %**

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	751,242,307	253,134,379	1,004,376,686	-		1,004,376,686	836,257,990		(168,118,696)	83 %	111 %
Sources of capital funds											
Transfers recognised - capital	705,450,307	135,226,891	840,677,198	-		840,677,198	734,502,788		(106,174,410)	87 %	104 %
Public contributions and donations	-	458,860	458,860	-		458,860	-		(458,860)	-	-
Internally generated funds	45,792,000	117,448,628	163,240,628	-		163,240,628	101,755,201		(61,485,427)	62 %	222 %
Total sources of capital funds	**751,242,307**	**253,134,379**	**1,004,376,686**	**-**		**1,004,376,686**	**836,257,989**		**(168,118,697)**	**83 %**	**111 %**

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	1,194,159,212	156,545,154	1,350,704,366	-		1,350,704,366	1,416,899,719		66,195,353	105 %	119 %
Net cash from (used) investing	(751,242,307)	(253,134,379)	(1,004,376,686)	-		(1,004,376,686)	(843,811,090)		160,565,596	84 %	112 %
Net cash from (used) financing	(49,970,261)	-	(49,970,261)	-		(49,970,261)	(252,041,585)		(202,071,324)	504 %	504 %
Net increase/(decrease) in cash and cash equivalents	**392,946,644**	**(96,589,225)**	**296,357,419**	**-**		**296,357,419**	**321,047,044**		**24,689,625**	**108 %**	**82 %**
Cash and cash equivalents at the beginning of the year	573,831,935	(573,831,935)	-	-		-	1,841,692,449		1,841,692,449	- %	321 %
Cash and cash equivalents at year end	**966,778,579**	**(670,421,160)**	**296,357,419**	**-**		**296,357,419**	**2,162,739,493**		**1,866,382,074**	**730 %**	**224 %**

Accounting Policies

1. Presentation of Unaudited Annual Financial Statements

The unaudited 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 unaudited 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 unaudited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the unaudited 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 unaudited 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.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

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.

The initial cost of a property interest held under a lease and classified as an investment property has been recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

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.

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, buildings, other properties, community properties 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

Accounting Policies

1.3 Property, plant and equipment (continued)

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
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.

1.4 Site restoration and dismantling cost (continued)

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.

1.5 Intangible assets (continued)

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.

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 unaudited 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.

Accounting Policies

1.6 Heritage assets (continued)

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.

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

A financial asset is:
- cash;
- 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.

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

A financial instrument is held for trading if:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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
VAT receivable	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 amortised cost

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
Unspent conditional grants	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
BCMET	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value
Other deposits	Financial liability measured at fair value

Accounting Policies

1.9 Financial instruments (continued)

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:

Accounting Policies

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.

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.

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.

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 unaudited 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.

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:
- the 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.

Service charges relating to solid waste, sanitation and sewerage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognised in the period when the consumption took place. Provisional estimates of consumption are made monthly when meter readings have not been performed. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

To include all revenue in the financial period, calculations and accruals are made to account for consumption that took place during the last meter reading dates and the financial year end.

Services provided on a prepayment basis are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end, based on the average consumption history.

1.16 Revenue from exchange transactions (continued)

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.

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.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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.

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 at the gross amount 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.

1.17 Revenue from non-exchange transactions (continued)

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.

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 unaudited 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 unaudited annual financial statements are disclosed in the relevant sections of the unaudited 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.

Accounting Policies

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 accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

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.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

2. Changes in accounting policy

The unaudited 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 25: Employee benefits
- GRAP 1 (as revised 2012): Presentation of Financial Statements
- GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors
- GRAP 7 (as revised 2012): Investments in Associates
- GRAP 9 (as revised 2012): Revenue from Exhange Transactions
- GRAP 12 (as revised 2012): Inventories
- GRAP 13 (as revised 2012): Leases
- GRAP 16 (as revised 2012): Investment Property
- GRAP 17 (as revised 2012): Property,Plant and Equipment
- GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)
- GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)
- IGRAP 16: Intangible assets website costs
- IGRAP 1 (as revised 2012): Apllying the probability test on initial recognition of revenue

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 25: Employee benefits	01 July 2013	No major impact expected
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

3.2 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 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	01 July 2014	No major impact expected
IGRAP 11: Consolidation – Special purpose entities	01 July 2014	No major impact expected

Notes to the Unaudited Annual Financial Statements

3. New standards and interpretations (continued)

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 July 2014	No major impact expected
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 July 2014	No major impact expected
GRAP 7 (as revised 2010): Investments in Associates	01 July 2014	No major impact expected
GRAP 8 (as revised 2010): Interests in Joint Ventures	01 July 2014	No major impact expected
GRAP32: Service Concession Arrangements: Grantor	01 July 2015	No major impact expected
GRAP108: Statutory Receivables	01 July 2015	No major impact expected
IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 July 2015	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 2014 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 June 2016	Not applicable
GRAP 105: Transfers of functions between entities under common control	01 July 2014	Not applicable
GRAP 106: Transfers of functions between entities not under common control	01 July 2014	Not applicable
GRAP 107: Mergers	01 July 2014	Not applicable

Notes to the Unaudited 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 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.

Other own revenue
Other own revenue is made up of numerous miscellaneous items. The material variance arose as a result of changes in fair value of investment properties which are valued on an annual basis and these are not budgeted for.

EXPENDITURE

Debt impairment
The debt impairment allowance is calculated as per an approved methodology/ policy in line with standard accounting policies. The allowance for 2013/14 increased based on the debt book and resulted in the variance.

Depreciation & asset impairment
The budgeted figures are 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 the actuals due to differing useful lives of the assets. The difference between the budgeted and actual amounts can also be attributed to an increase in capital expenditure.

Transfers and grants
This variance arose as a result of less payments being made for grant-in-aid than was originally predicted.

Transfers recognised - Capital
The 87% is exclusive of the reclaimed vat; the revenue recognised for capital is 96% when taking into account the reclaimed vat on conditional grants.

Contributions recognised - Capital

The annual contract between BCMM and the service provider has been cancelled due to poor performance by the service provider.

Notes to the Unaudited Annual Financial Statements

Figures in Rand

4. Explanation of significant variances on budget comparison to actuals (continued)
CAPITAL EXPENDITURE AND FUNDS SOURCES

Transfers recognised - Capital
The 87% is exclusve of the reclaimed vat; the revenue recognised for capital is 96% when taking into account the reclaimed vat on conditional grants.

Public contributions and donations
The annual contract between BCMM and the service provider has been cancelled due to poor performance by the service provider.

Internally generated funds
The major contributing factors on low expenditure are procurement and project management inefficiencies that resulted in the slow progress in implementing own funded capital projects, however most of the projects are already awarded and the funding of such projects is fully committed.

CASH FLOWS

Net cash from (used) investing
Only budget for capital payments, however actual reporting includes proceeds from sale of PPE, purchase of intangible assets and net movement of financial and non-current investments.

Net cash from (used) financing
Only budget for loan repayments, however actual reporting includes net movements on consumer deposits, finance leases and unspent conditional grants.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	65,257	72,639
Bank balances	197,518,350	144,322,157
Short-term deposits	1,965,155,887	1,697,297,653
	2,162,739,494	**1,841,692,449**
Current assets	2,162,739,494	1,841,692,449
	2,162,739,493	**1,841,692,449**

Allocation of external investments (short-term deposits)		
Unspent conditional grants and receipts	-	450,148,613
Housing collateral for employees housing loans with lending instutions	-	231,150
Borrowings - current repayments	-	25,528,353
Cash flow commited to operating and capital budgets	111,897,042	81,627,983
BCMET	1,134,278	1,645,346
Own funding (operating account commitments)	1,852,124,567	1,138,116,208
Total short-term deposits	**1,965,155,887**	**1,697,297,653**

Short-term deposits per institution		
ABSA (interest range 4.5%-5% : 2013 4.5%-5%)	469,688,343	424,335,564
Nedbank (interest range 4.5%-5% : 2013 4.5%-5%)	466,877,654	424,309,733
RMB (interest range 4.5%-5% : 2013 4.5%-5%)	469,276,744	422,974,683
Standard bank (interest range 4.5%-5% : 2013 4.5%-5%)	354,996,946	246,880,571
Stanlib (interest range 5.2%-5.85% : 2013 5.23%-5.7%)	204,316,200	178,797,102
	1,965,155,887	**1,697,297,653**

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 R8 362 058 (2013: R7 539 288).

5. Cash and cash equivalents (continued)

The municipality had the following bank accounts:

Account number / description	Bank statement balances 30 June 2014	30 June 2013	30 June 2012	Cash book balances 30 June 2014	30 June 2013	30 June 2012
STANDARD BANK - Primary Account - 081-221-495	-	-	117,205,269	-	-	48,486,521
STANDARD BANK - Market Account - 081-246-072	-	-	1,230,770	-	-	1,218,902
STANDARD BANK - Inter Authority Account - 081-246-250	-	-	1,476,139	-	-	1,476,138
STANDARD BANK - Prism Account - 081-246-048	-	-	-	-	-	5,105,086
STANDARD BANK - BCMET Account - 081-098-359	-	-	111,882	-	-	111,882
ABSA BANK - Primary Account - 408-009-0281	200,829,915	148,477,033	-	192,856,753	138,627,064	-
ABSA BANK - Prism Account - 408-009-0574	-	-	-	4,290,026	2,930,618	-
ABSA BANK - Market Account - 408-009-0639	108,809	2,465,727	-	371,570	2,764,475	-
ABSA BANK - Unpaid Account - 408-009-0697	33,668	53,575	-	-	-	-
Total	**200,972,392**	**150,996,335**	**120,024,060**	**197,518,349**	**144,322,157**	**56,398,529**

6. Inventories

	2014	2013
Electricity store (Electrical maintenance parts)	7,549,157	8,461,153
Workshop store (Mechanical maintenance parts)	352,891	302,265
General stores (Chiselhurst,Mdantsane,KWT)	19,395,291	29,838,932
Water store (Water maintenance parts)	21,068,303	20,913,219
Fuel (Diesel, Petrol)	1,872,745	2,147,473
Unsold water (Treated water in pipelines & reservoirs)	3,058,726	2,755,898
Housing stock (RDP Houses)	33,910,548	12,288,185
	87,207,661	76,707,125
Inventories (write-downs)	(2,699,123)	(5,053,894)
	84,508,538	**71,653,231**

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 write-downs is included under note 33:General Expenses - Other expenses.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

7. Receivables from exchange transactions

Gross balances		
Electricity	183,720,681	179,922,270
Water	312,083,349	272,677,143
Sewerage	147,738,739	138,386,707
Refuse	186,012,789	166,289,611
Housing rental	2,831,022	2,655,609
	832,386,580	**759,931,340**
Less: Allowance for impairment		
Electricity	(41,396,792)	(34,095,753)
Water	(186,971,015)	(153,995,448)
Sewerage	(99,819,496)	(82,214,605)
Refuse	(126,143,079)	(103,895,569)
Housing rental	(2,119,231)	(1,745,468)
	(456,449,613)	**(375,946,843)**
Net balance		
Electricity	142,323,889	145,826,517
Water	125,112,334	118,681,695
Sewerage	47,919,243	56,172,102
Refuse	59,869,710	62,394,042
Housing rental	711,791	910,141
	375,936,967	**383,984,497**
Electricity		
Current (0-30 days)	139,670,257	129,634,898
31 - 60 days	5,931,284	9,131,346
61 - 90 days	2,557,733	3,993,865
91 - 120 days	2,181,283	2,713,203
121 - 365 days	11,620,705	12,719,750
> 365 days	21,759,419	21,729,208
	183,720,681	**179,922,270**
Water		
Current (0-30 days)	52,857,480	45,569,128
31 - 60 days	14,009,568	15,485,030
61 - 90 days	13,679,276	11,522,850
91 - 120 days	11,575,537	12,358,324
121 - 365 days	72,274,700	59,571,476
> 365 days	147,686,788	128,170,335
	312,083,349	**272,677,143**
Sewerage		
Current (0-30 days)	16,958,604	17,156,112
31 - 60 days	7,214,315	7,540,485
61 - 90 days	4,450,849	6,357,435
91 - 120 days	4,055,850	6,908,407
121 - 365 days	34,961,279	28,903,566
> 365 days	80,097,842	71,520,702
	147,738,739	**138,386,706**

Figures in Rand	2014	2013 Restated

7. Receivables from exchange transactions (continued)

Refuse		
Current (0-30 days)	14,547,358	13,088,301
31 - 60 days	8,115,339	7,091,785
61 - 90 days	5,458,479	6,214,883
91 - 120 days	5,071,624	7,053,807
121 - 365 days	38,282,331	36,527,159
> 365 days	114,537,658	96,313,676
	186,012,789	**166,289,610**

Housing rental		
Current (0-30 days)	65,283	81,822
31 - 60 days	59,885	80,632
61 - 90 days	58,691	90,733
91 - 120 days	59,548	92,672
121 - 365 days	488,024	572,538
> 365 days	2,099,591	1,737,212
	2,831,022	**2,655,608**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 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)

Domestic Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	116,353,041	104,165,166
31 - 60 days	39,035,746	41,452,212
61 - 90 days	30,547,882	34,503,781
91 - 120 days	27,556,746	36,915,306
121 - 365 days	199,305,176	180,385,821
> 365 days	510,056,631	448,282,560
	922,855,222	845,704,846
Less: Allowance for debt impairment	(628,531,869)	(517,679,422)
	294,323,353	**328,025,424**
Industrial/ commercial (including rates and other receivables (billing))		
Current (0 -30 days)	146,699,103	138,520,545
31 - 60 days	11,250,866	13,182,174
61 - 90 days	5,343,870	6,679,649
91 - 120 days	4,411,964	4,634,651
121 - 365 days	23,138,515	23,193,900
> 365 days	54,313,698	40,440,547
	245,158,016	226,651,466
Less: Allowance for debt impairment	(57,594,431)	(47,436,659)
	187,563,585	**179,214,807**
National and provincial government (including rates and other receivables (billing))		
Current (0 -30 days)	15,268,090	12,871,484
31 - 60 days	1,036,282	1,317,899
61 - 90 days	403,669	197,480
91 - 120 days	165,675	135,216
121 - 365 days	3,630,085	1,117,195
> 365 days	2,351,730	909,032
	22,855,531	**16,548,306**
Total Debtors (including rates & other receivables (billing))		
Current (0 -30 days)	278,318,234	255,557,195
31 - 60 days	51,322,895	55,952,284
61 - 90 days	36,295,421	41,380,910
91 - 120 days	32,134,385	41,685,173
121 - 365 days	226,073,777	204,696,916
> 365 days	566,724,058	489,632,140
	1,190,868,770	1,088,904,618
Less: Allowance for debt impairment	(686,126,301)	(565,116,082)
	504,742,469	**523,788,536**
Ageing of allowance for debt impairment (including rates & other receivables (billing))		
Current (0 -30 days)	(327,964)	(270,122)
31 - 60 days	(49,107,272)	(40,446,357)
61 - 90 days	(40,634,507)	(33,467,910)
91 - 120 days	(27,924,036)	(22,999,150)
121 - 365 days	(159,273,405)	(131,182,790)
> 365 days	(408,859,116)	(336,749,752)
	(686,126,300)	**(565,116,081)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

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 2014, consumer debtors of R 456,449,614 (2013: R 375,946,844) were impaired and provided for.

Amounts totaling R 88,003,373 (2013: R 61,842,336) were written off as uncollectable against the debt impairment allowance account. This represents 0.017 % (2013: 0.014 %) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(375,946,844)	(343,926,548)
Contributions during the year	(168,482,333)	(93,838,491)
Amounts written off as uncollectable	88,003,373	61,842,336
Other income	(23,810)	(24,141)
	(456,449,614)	**(375,946,844)**

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 2014, 4632 (2013: 5 048) debtors had active outstanding arrangements to the value of value of R15 982 796 (2013: 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 Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

8. Receivables from non-exchange transactions

Property rates	235,652,416	218,657,712
Other receivables (billing)	124,369,801	110,315,565
Accrued income	50,985,055	59,875,675
Other debtors	8,879,168	12,552,461
Impairment property rates	(229,676,688)	(189,169,239)
	190,209,752	**212,232,174**

Property rates age analysis		
Current (0-30days)	44,329,208	40,707,209
31-60 days	11,729,779	13,132,137
61-90 days	6,839,589	10,068,020
91-120 days	5,629,840	9,102,428
121-365 days	46,073,549	41,922,724
> 365 days	121,050,451	103,725,193
	235,652,416	**218,657,711**

Other receivables (billing)		
Current (0-30days)	9,890,444	9,319,725
31-60 days	4,262,725	3,490,869
61-90 days	3,250,805	3,133,125
91-120 days	3,560,703	3,456,332
121-365 days	22,373,189	24,479,702
> 365 days	81,031,935	66,435,813
	124,369,801	**110,315,566**

Trade and other receivables pledged as security

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

No security is held for any accounts receivable.

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

Credit quality of trade and other receivables

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

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

Trade and other receivables impaired

As at 30 June 2014, trade and other receivables from non-exchange transactions of R 229,676,688 (2013: R 189,193,380) were impaired and provided for.

Amounts totaling R32,020,799 (2013: R8,731,599) were written off as uncollectable against the debt impairment allowance account.This represents 0.006 % (2013: 0.002 %) of the total operating income for the year.

Reconciliation of allowance for impairment of non-exchange transactions

Opening balance	(189,169,239)	(184,969,572)
Contributed during the year	(72,528,248)	(12,931,266)
Amounts written off as uncollectable	32,020,799	8,731,599
	(229,676,688)	**(189,169,239)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

8. Receivables from non-exchange transactions (continued)

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	65,568,270	65,200,497

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

10. Operating leases

Operating lease rentals	66,443,958	64,178,748

Operating lease rentals		
Current assets	2,157,778	2,363,400
Non-current assets	64,286,181	61,815,348
	66,443,959	**64,178,748**

Municipality as lessor: Operating leases minimum future receivables		
No later than one year	1,911,318	2,235,772
Later than one year no later than 5 years	6,707,830	7,499,728
Later than 5 years	131,976,797	157,969,982
	140,595,945	**167,705,482**

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 2013/14 financial year the net amount of R2 265 211 (2013: R2 605 046) has been accrued.

There are no sublease arrangements.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

11. Long-term receivables

	2014	2013
Financial assets at amortised cost		
Sporting bodies and other loans	42,912	57,353
Non-current assets		
Financial assets at amortised cost	26,992	42,913
Current assets		
Financial assets at amortised cost	15,920	14,440
	42,912	**57,353**

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

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	24,432,090	(15,205,537)	9,226,553	15,205,548	(14,350,339)	855,209
Intangible assets under development	36,242,177	-	36,242,177	18,319,609	-	18,319,609
Total	**60,674,267**	**(15,205,537)**	**45,468,730**	**33,525,157**	**(14,350,339)**	**19,174,818**

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Non-cash additions	Amortisation	Total
Computer software	855,208	3,439,039	5,787,502	(855,198)	9,226,551
Intangible assets under development	18,319,609	17,922,568	-	-	36,242,177
	19,174,817	**21,361,607**	**5,787,502**	**(855,198)**	**45,468,728**

Figures in Rand	2014	2013 Restated

12. Intangible assets (continued)

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	4,040,162	-	(3,184,945)	855,209
Intangible assets under development	8,071,428	10,248,181	-	18,319,609
	12,111,590	**10,248,181**	**(3,184,945)**	**19,174,818**

	Note	2014	2013 Restated
Prior period errors			
Balance previously reported		-	19,174,824
Prior period adjustment	49	-	(6)
Restated		**-**	**19,174,818**

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

	2014			2013		
	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	333,278,305	-	333,278,305	302,981,202	-	302,981,202

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Investment property	302,981,202	30,297,103	333,278,305

Reconciliation of investment property - 2013

	Opening balance	Fair value adjustments	Total
Investment property	315,175,814	(12,194,612)	302,981,202

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 R16,343,801 (2013: R12,682,400), 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.

Per accounting policies note 1.2 the municipality is on the fair value model for investment property.

Figures in Rand		2014	2013 Restated

13. Investment property (continued)

There are no restrictions on investment properties.

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

The values were determined 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 R8,613,691 (2013: R9,051,892).

Investment properties			
Balance previously reported		-	308,191,202
Prior period adjustment	49	-	(5,210,000)
Restated		**-**	**302,981,202**

14. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Heritage sites	42,272,778	-	42,272,778	40,181,122	-	40,181,122

Reconciliation of heritage assets - 2014

	Opening balance	Additions	Disposals	Total
Heritage sites	40,181,122	2,554,604	(462,948)	42,272,778

Reconciliation of heritage assets - 2013

	Opening balance	Total
Heritage sites	40,181,122	40,181,122

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. (This is an accounting disclosure)

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

14. Heritage assets (continued)

Heritage assets			
Balance previously reported		-	40,181,119
Prior period adjustment	49	-	3
Restated		**-**	**40,181,122**

15. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	449,310,105	-	449,310,105	449,642,105	-	449,642,105
Buildings	6,238,143	(1,023,686)	5,214,457	6,238,142	(817,660)	5,420,482
Plant and equipment	85,206,115	(55,263,541)	29,942,574	81,585,061	(44,952,888)	36,632,173
Furniture and fittings	34,793,118	(14,374,123)	20,418,995	31,543,805	(12,571,589)	18,972,216
Motor vehicles	300,975,932	(137,494,497)	163,481,435	288,824,330	(120,949,162)	167,875,168
Office equipment	36,536,403	(17,540,819)	18,995,584	23,158,461	(14,038,127)	9,120,334
Electricity	3,190,322,939	(1,849,287,313)	1,341,035,626	3,090,181,186	(1,755,302,912)	1,334,878,274
Other properties	1,119,739,668	(505,760,034)	613,979,634	1,104,445,514	(475,021,700)	629,423,814
Work in progress (WIP)	1,118,476,270	-	1,118,476,270	739,324,696	-	739,324,696
Recreational facilities	279,930,720	(159,348,613)	120,582,107	280,037,379	(148,686,252)	131,351,127
Finance Leased Assets	11,265,435	(3,702,303)	7,563,132	8,235,359	(2,096,182)	6,139,177
Roads	7,919,495,921	(4,030,955,371)	3,888,540,550	7,857,008,320	(3,779,086,502)	4,077,921,818
Wastewater network	3,383,331,489	(2,482,736,910)	900,594,579	3,300,214,464	(2,376,599,632)	923,614,832
Water network	3,514,768,319	(2,375,966,504)	1,138,801,815	3,402,100,194	(2,319,645,227)	1,082,454,967
Community buildings	1,022,297,325	(565,405,150)	456,892,175	1,006,018,759	(531,277,094)	474,741,665
Total	**22,472,687,902**	**(12,198,858,864)**	**10,273,829,038**	**21,668,557,775**	**(11,581,044,927)**	**10,087,512,848**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Non-cash additions	Disposals	Transfers	Adjustments	WIP capitalised	Depreciation	Impairment loss	Impairment reversal	Total
Land	449,642,105	-	-	(268,000)	(64,000)	-	-	-	-	-	449,310,105
Buildings	5,420,482	-	-	-	-	-	-	(206,025)	-	-	5,214,457
Plant and equipment	36,632,172	3,553,370	-	-	-	59,807	7,881	(10,310,656)	-	-	29,942,574
Furniture and fittings	18,972,217	1,753,888	-	-	-	973,488	521,937	(1,802,535)	-	-	20,418,995
Motor vehicles	167,875,167	10,800,174	5,657,274	(1,206,620)	-	-	-	(12,813,902)	(6,830,658)	-	163,481,435
Office equipment	9,120,335	9,228,553	-	-	-	2,286,891	1,862,496	(3,502,691)	-	-	18,995,584
Electricity	1,334,878,277	82,709,357	-	-	-	-	17,432,398	(93,984,406)	-	-	1,341,035,626
Other properties	629,423,814	63,336	-	(658,339)	16,761,420	-	-	(31,610,597)	-	-	613,979,634
Work in progress (WIP)	739,324,697	567,039,527	-	-	-	-	(187,887,955)	-	-	-	1,118,476,270
Recreational facilities	131,351,127	-	(106,659)	-	-	-	-	(10,662,361)	-	-	120,582,107
Finance Leased Assets	6,139,178	-	3,030,074	-	-	-	-	(1,606,120)	-	-	7,563,132
Roads	4,077,921,818	93,589,171	-	(8,197,075)	-	-	2,707,883	(277,421,315)	(59,932)	-	3,888,540,550
Wastewater network	923,614,832	5,972,356	-	(12,307)	-	-	77,329,272	(106,309,574)	-	-	900,594,579
Water network	1,082,454,961	24,642,037	-	-	-	-	88,026,088	(56,321,271)	-	-	1,138,801,815
Community buildings	474,741,665	18,983,655	-	(945,328)	146,727	-	-	(36,153,077)	-	118,533	456,892,175
	10,087,512,847	**818,335,424**	**8,580,689**	**(11,287,669)**	**16,844,147**	**3,320,186**	**-**	**(642,704,530)**	**(6,890,590)**	**118,533**	**10,273,829,038**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Non-cash additions	Disposals	Adjustments	Transfers	WIP capitalised	Depreciation	Impairment loss	Total
Land	434,200,223	15,441,882	-	-	-	-	-	-	-	449,642,105
Buildings	5,626,506	-	-	-	-	-	-	(206,024)	-	5,420,482
Plant and equipment	45,631,009	2,019,745	-	(7,067)	181,897	-	-	(11,193,411)	-	36,632,173
Furniture and fittings	14,932,315	1,461,312	-	-	4,155,191	-	-	(1,576,602)	-	18,972,216
Motor vehicles	155,130,976	25,645,938	-	(874,854)	-	-	-	(12,026,892)	-	167,875,168
Office equipment	5,922,452	3,447,847	-	(1,186)	2,513,590	-	-	(2,762,369)	-	9,120,334
Electricity	1,393,866,164	29,218,571	3,943,555	-	-	-	-	(92,150,011)	-	1,334,878,279
Other properties	670,429,600	-	-	-	-	(11,464,486)	-	(29,541,300)	-	629,423,814
Work in progress (WIP)	358,805,110	442,723,582	-	-	-	-	(62,203,996)	-	-	739,324,696
Recreational facilities	140,820,701	623,147	253,617	(215,882)	-	-	758,080	(10,888,536)	-	131,351,127
Finance Leased Assets	2,070,455	-	5,004,172	-	-	-	-	(935,450)	-	6,139,177
Roads	4,288,949,689	82,999,036	-	(25,725,712)	-	-	61,445,916	(329,747,111)	-	4,077,921,818
Wastewater network	1,029,106,006	1,184,848	-	-	-	-	-	(106,676,022)	-	923,614,832
Water network	1,137,573,862	3,228,490	-	-	-	-	-	(58,347,391)	-	1,082,454,961
Community buildings	514,418,002	436,870	-	-	-	-	-	(39,989,673)	(123,535)	474,741,664
	10,197,483,070	**608,431,268**	**9,201,344**	**(26,824,701)**	**6,850,678**	**(11,464,486)**	**-**	**(696,040,792)**	**(123,535)**	**10,087,512,846**

Proceeds on disposal of PPE			
Balances as previously stated		-	(8,166,366)
Prior year adjustments	49	-	(493,167)
Restated balance		**-**	**(8,659,533)**

15. Property, plant and equipment (continued)

Proceeds on disposal of PPE	**2014**	**2013**
Carrying value of PPE	11,287,669	26,824,701
Net gain/(loss) on disposal of assets	(10,520,898)	(8,659,533)
Total	**766,771**	**18,165,168**

	Note		
Finance leased assets			
Balance previously reported			6,467,038
Prior period adjustment	49		(327,860)
Restated			**6,139,178**
Plant and equipment			
Balance previously reported			36,633,798
Prior period adjustment	49	-	(1,626)
Restated			**36,632,172**
Furniture and fittings			
Balance previously reported		-	24,897,692
Prior period adjustment	49	-	(5,925,475)
Restated		**-**	**18,972,217**
Motor vehicles			
Balance previously reported		-	149,290,398
Prior period adjustment	49	-	18,584,769
Restated		**-**	**167,875,167**
Office equipment			
Balance previously reported		-	13,354,260
Prior period adjusted	49	-	(4,233,925)

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

15. Property, plant and equipment (continued)

Restated		**-**	**9,120,335**
Electricity			
Balance previously reported		-	1,258,312,121
Prior period adjustment	49	-	76,566,156
Restated		**-**	**1,334,878,277**
Work in progress (WIP)			
Balance previously reported		-	805,069,886
Prior period adjustment	49	-	(65,745,186)
Restated		**-**	**739,324,700**
Roads			
Balance previously reported		-	4,072,717,524
Prior period adjustment	49	-	5,204,294
Restated		**-**	**4,077,921,818**
Water network			
Balance previously reported		-	1,083,978,735
Prior period adjustment	49	-	(1,523,774)
Restated		**-**	**1,082,454,961**
Other properties			
Balance previously reported		-	623,318,797
Prior period adjustment	49	-	6,105,017
Restated		**-**	**629,423,814**
Community buildings			
Balance previously reported		-	453,715,745
Prior period adjustment	49	-	21,025,920

15. Property, plant and equipment (continued)

	Note	2014	2013 Restated
Restated		**-**	**474,741,665**
Land			
Balance previously reported		-	464,574,105
Prior period adjustment	49	-	(14,932,000)
Restated		**-**	**449,642,105**
Non-cash movements			
Property, plant and equipment adjustments to opening balances	45&62	9,348,430	(11,227,469)

Impairment loss of R123 535 disclosed under 2013 impairment loss above differs from the disclosure of R71 393 within the Statement of Financial Performance due to Community assets 2013 impairment released from revaluation reserve as offset against impairment expenditure.

There are currently 6 500 assets that have carrying values between R0.00 and R1.00, which are still in use.

As at 30 June 2014 there are 6 buses that are temporary idle with a carrying value of R 9 960 755.

As at 30 June 2014 the total cost of all fully depreciated assets amount to R 1 075 169 233 (2013 restated: R 939 183 915).

As at 30 June 2014 there are vehicles retired from active use and held for disposal.

For future capital commitments refer to note 46.

Pledged as security

No assets were pledged as security except for those assets subject to finance lease as disclosed below.

BCMM maintains a separate register for approximately 15 000 properties whereby BCMM holds title but does not exercise control over these properties which have therefore not been recognised in the financial statements.

Borrowing costs capitalised

No borrowing costs were capitalised during the year.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

15. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Leases - Office equipment	7,563,132	6,139,178

Revaluations

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 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

Land and buildings are re-valued every 4 years. The last valuation was performed on 01 July 2013.

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

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 methodologies and practices 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 were 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 in 2013 were invested with Nedbank at interest rates of 2% - 5.17%

Fixed deposits long term	-	892,235
	-	**892,235**

Figures in Rand		2014	2013 Restated

17. Investment in associate

Name of entity	% holding 2014	% holding 2013	Carrying amount 2014	Carrying amount 2013
East London Industrial Development Zone (Pty) Ltd (IDZ)	26.00 %	26.00 %		
BCMM share in IDZ - 26,000 shares @ 0,01c included in the carrying amount	26.00 %	26.00 %	59,548,855	5,326,008
			59,548,855	5,326,008

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

Movements in carrying value

		2014	2013
Opening balance		5,326,008	260
Share of surplus/(deficit)	45	54,222,847	5,325,748
		59,548,855	**5,326,008**

Investment in associate at 30 June 2014 amounted to R 59,548,855 (2013: R 5,326,008).

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

	2014	2013
Total equity	59,548,855	5,326,008
Total liabilities	430,517,856	437,174,803
Total assets	490,066,711	442,500,811
Deficit	54,222,847	25,208,363
Revenue	17,487,481	15,780,740

Associate with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited are prepared for the accounting period 01 April 2013 to 31 March 2014 and the quarter ending 30 June 2014.

18. Borrowings

Held at amortised cost	2014	2013
Annuity loans	597,206,902	647,177,164
	597,206,902	**647,177,164**

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.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

18. Borrowings (continued)

Non-current liabilities		
At amortised cost	542,573,901	597,206,903
Current liabilities		
At amortised cost	54,633,001	49,970,261
	597,206,902	**647,177,164**

19. Consumer deposits

Electricity	25,425,246	27,165,932
Water	19,412,566	18,353,333
	44,837,812	**45,519,265**

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 R17 103 000 (2013: R13 190 628).

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

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated
20. Finance lease obligation			
Minimum lease payments due			
- within one year		3,974,784	2,765,600
- in second to fifth year inclusive		3,959,196	4,580,592
		7,933,980	7,346,192
less: future finance charges		(1,725,490)	(2,036,425)
Present value of minimum lease payments		**6,208,490**	**5,309,767**
Present value of minimum lease payments due			
- within one year		2,783,463	1,686,593
- in second to fifth year inclusive		3,425,027	3,623,174
		6,208,490	**5,309,767**
Non-current liabilities		3,425,027	3,623,174
Current liabilities		2,783,463	1,686,593
		6,208,490	**5,309,767**
Prior period error			
Finance leases previously reported		-	5,627,651
Prior period adjustments	49	-	(317,884)
Restated		**-**	**5,309,767**

The average lease term was 3-5 years and the average effective borrowing rate was17.16% (2013: 7.35%).

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 rentals 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.

There are no sublease arrangements.

The contingent rent for the current year amounted to R3 572 870 (2013: 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 Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

21. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Adjustment	Total
Landfill sites	167,380,121	16,761,420	184,141,541

Reconciliation of provisions - 2013

	Opening Balance	Adjustment	Total
Landfill sites	178,844,607	(11,464,486)	167,380,121

	2014	2013
Non-current liabilities	57,755,878	49,968,510
Current liabilities	126,385,663	117,411,611
	184,141,541	**167,380,121**

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 10.13% (2013: 10.09%).

- 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.

The expense relating to the provision is included under note 33:General Expenses - Other expenses.

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

22. Payables from exchange transactions

Trade payables		341,686,540	353,631,332
Payments received in advanced		72,542,881	84,942,460
Retension monies		44,932,360	25,479,338
Market creditors		42,879	858,561
Accrued leave pay		58,342,567	55,546,070
Deposits received		5,340,051	4,595,780
Other creditors		65,862,594	46,148,273
BCMET		-	1,645,347
		588,749,872	**572,847,161**

Prior period errors - Trade payables	49		
Trade payables previously reported		-	353,121,737
Adjusted		-	509,595
Restated		**-**	**353,631,332**

Prior period errors - Deposits received	49		
Deposits received previously reported		-	5,884,942
Adjusted		-	(1,289,162)
Restated		**-**	**4,595,780**

Prior period errors - Other creditors	49		
Other creditors previously reported		-	43,958,774
Adjusted for scarce skills iro 2011/12		-	520,790
Adjusted for scarce skills iro 2012/13		-	1,668,709
Restated		**-**	**46,148,273**

Summary of prior period errors	49		
Previously reported		-	571,437,229
Adjusted for Trade payables		-	509,595
Adjusted for Deposits received		-	(1,289,162)
Adjusted for Other creditors		-	2,189,499
Restated		**-**	**572,847,161**

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 Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

23. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	43,293,784	251,848,937
Provincial grants	44,370,344	45,631,619
Other conditional grants	18,427,926	16,825,353
Agency - Land Affairs	141,767,965	135,842,704
	247,860,019	**450,148,613**

23. Unspent conditional grants and receipts (continued)

Movements on grants

Grant description	Unspent balance 30 June 2013	Receipts	Interest	Transfer operating expenditure	Transfer capital expenditure	Other transfers	Unspent balance 30 June 2014
Transitional Grant	113,769	-	-	-	-	-	113,769
Finance Management Grant	-	1,500,000	-	(1,293,920)	(93,744)	(19,155)	93,181
Land Affairs Grant	72,301,797	-	3,711,739	(138,904)	-	(525,344)	75,349,288
Urban Settlement Development Grant	208,179,390	613,305,000	-	(20,854,559)	(693,213,596)	(75,511,135)	31,905,100
Municipal Infrastructure Grant	8,244,260	-	-	-	51,378	-	8,295,638
Public Transport Infrastructure Systems Grant	33,677,758	20,000,000	-	-	-	(53,677,758)	-
Energy Efficient Technology Grant	5,588,975	-	-	-	-	-	5,588,975
European Commission Grant	840,024	-	39,502	-	-	-	879,526
Land Affairs Grant	63,540,906	-	3,057,087	(179,314)	-	-	66,418,679
Infrastructure Skills Development Grant	1,079,583	5,800,000	-	(3,946,103)	(23,022)	(28,649)	2,881,809
Department of Water Affairs Grant	-	2,626,919	-	(2,313,360)	-	(313,559)	-
Expanded Public Works Program Grant	554,177	2,705,000	-	(3,277,969)	-	18,792	-
Municipal Support Programme Grant	289,906	-	-	(318,500)	-	28,594	-
Local Economic Development Grant	3,312,282	-	-	-	-	-	3,312,282
Provincial Government Premiers Grant	67,421	-	-	-	-	-	67,421
Mdantsane Urban Renewal Grant (Mount Ruth)	8,248,497	-	387,886	-	-	-	8,636,383
Health Management Systems Grant	176,266	1,287,826	-	-	-	(1,287,826)	176,266
Aids Training Information Centre Grant	10,975,781	-	-	-	-	(247,751)	10,728,030
Department of Sports Recreation Arts & Culture	10,437,047	-	-	-	(1,045,967)	-	9,391,080
Ward Committee Training Grant	375,372	-	-	-	-	-	375,372
Amatole District Municipality Grant	1,979,270	-	-	-	-	-	1,979,270
Buffalo City Metropolitan Transport Grant	18,006	710,460	-	-	(1,143,182)	1,116,273	701,557
Donation and Public Contribution Grant	5,497,294	247,496	-	-	-	-	5,744,790
Sector Education Training Authority Grant	-	3,129,882	-	-	-	(2,794,606)	335,276
Department Economic Affairs and Tourism Grant	127,126	-	-	-	-	-	127,126
Vuna Award Grant	1,048,758	-	-	-	-	-	1,048,758
Gavle Grant	532,959	345,453	30,121	(162,351)	-	-	746,182
Glasgow Partnership Grant	89,858	-	-	-	-	-	89,858

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

23. Unspent conditional grants and receipts (continued)

Public Development Areas Development Fund	1,066,087	92,219	-	-	-	-	1,158,306
Eastern Cape Development Agency Grant	67,359	-	-	-	-	-	67,359
Umsobomvu Youth Grant	710,406	-	34,179	-	-	-	744,585
Compost Waste Management Grant	60,640	-	-	-	-	-	60,640
Leiden Grant	191,490	-	8,561	(46,158)	-	-	153,893
Human Settlement Development Grant	-	122,263,353	1,310,593	(114,162,221)	(9,459,944)	48,219	-
Housing and Infrastructure Development Grant	362,801	-	16,793	-	-	-	379,594
Electricity Demand Side Management Grant	-	4,579,000	-	-	(4,577,766)	-	1,234
Integrated National Electrification Programme	-	25,000,000	-	-	(24,996,945)	-	3,055
Mdantsane Upgrade Water Supply Grant	32,901	-	1,523	-	-	-	34,424
Mdantsane Upgrade Water and Sewerage Grant	153,772	-	7,118	-	-	-	160,890
Water Supply to Cove Rock Grant	327,858	-	-	-	-	-	327,858
Bequests	132,903	-	3,882	-	-	-	136,785
Sundry Grants	3,997,921	-	12,798	-	-	-	4,010,719
Other Grants ex Amatole District Council	427,011	-	753	-	-	-	427,764
Sundry Housing Grants	5,320,981	-	93,756	(207,436)	-	-	5,207,301
	450,148,612	**803,592,608**	**8,716,291**	**(146,900,795)**	**(734,502,788)**	**(133,193,905)**	**247,860,023**

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

24. Post - retirement medical obligation

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

		2014	2013
Carrying value			
Balance at beginning of year		341,562,823	341,426,029
Interest cost		30,252,855	24,583,110
Current service cost		15,115,233	12,647,770
Actual employer benefit payments		(14,779,624)	(13,928,851)
Actuarial loss/(gain) recognised in the year		26,897,572	(23,165,235)
Net liability		**399,048,859**	**341,562,823**

		2014	2013
Net costs			
Interest cost		30,252,855	24,583,110
Current service cost		15,115,233	12,647,770
Actuarial loss/(gain) recognised in the year		26,897,572	(23,165,235)
Net cost per Statement of Financial Performance	33	**72,265,660**	**14,065,645**

The municipality employees contribute to 5 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med 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 1 August 2014 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 2014/15 financial period is expected to be R15 867 891 (The actual employer benefit payments in the 2013/14 financial period was R14 779 624).

Key assumptions used

Assumptions used at the reporting date:

	2014	2013
Discount rates used	8.38 %	7.88 %
Medical aid inflation rate	7.36 %	6.62 %
Net effective discount rate	0.94 %	1.19 %
Post retirement subsidy	60.00 %	60.00 %

	2014	2013
Retirement age		
Males	63	63
Females	63	63
Number of eligible members	2,469	2,514
Number of pensioners	515	518
1% change in the assumed medical inflation:		
Projected liability increase/(decrease) - 2014	51,876,352	(47,885,863)
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.

Figures in Rand	2014	2013 Restated

25. Revaluation reserve

Opening balance	2,415,539,829	2,434,117,207
Depreciation transfer to income	-	(573,137)
Revaluation realised	(11,056,155)	(18,004,241)
	2,404,483,674	**2,415,539,829**

Refer to the Statement of Changes in Net Assets for movements in the reserve.

26. Financial assets by category

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

2014

		Financial assets at amortised cost	Total
Long-term receivables: Other financial assets	11	42,913	42,913
Trade and other receivables from exchange transactions	7	375,936,967	375,936,967
Other receivables from non-exchange transactions	8	190,209,752	190,209,752
Cash and cash equivalents	5	2,162,739,493	2,162,739,493
Vat receivable	9	65,568,270	65,568,270
		2,794,497,395	**2,794,497,395**

2013

		Financial assets at amortised cost	Total
Long-term receivables: Other financial assets	11	57,353	57,353
VAT receivable	9	65,200,497	65,200,497
Trade and other receivables from exchange transactions	7	383,984,496	383,984,496
Other receivables from non-exchange transactions	8	212,232,174	212,232,174
Cash and cash equivalents	5	1,841,692,450	1,841,692,450
Non-current investments	16	892,235	892,235
		2,504,059,205	**2,504,059,205**

Figures in Rand	2014	2013 Restated

27. Financial liabilities by category

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

2014

		Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	22	58,342,567	-	58,342,567
Payments received in advance	22	72,542,881	-	72,542,881
Borrowings: Other financial liabilities	18	597,206,902	-	597,206,902
Trade and other payables	22	452,524,372	-	452,524,372
Consumer deposits	19	-	44,837,812	44,837,812
Other deposits	22	-	5,340,051	5,340,051
Unspent conditional grants	23	247,860,019	-	247,860,019
		1,428,476,741	**50,177,863**	**1,478,654,604**

2013

		Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	22	55,546,070	-	55,546,070
BCMET	22	1,645,347	-	1,645,347
Payments received in advance	22	84,942,460	-	84,942,460
Borrowings: Other financial liabilities	18	647,177,164	-	647,177,164
Trade and other payables	22	426,117,504	-	426,117,504
Consumer deposits	19	-	45,519,265	45,519,265
Other deposits	22	-	4,595,780	4,595,780
Unspent conditional grants	23	450,148,613	-	450,148,613
		1,665,577,158	**50,115,045**	**1,715,692,203**

Adjustment of financial liabilities previously reported	49		
Previously reported		-	1,714,282,271
Resort rental income erroneously disclosed as caravan deposits 2008/09 and 2009/10	**22**	-	(1,289,162)
Reversal of prior year 2011/12 accruals erroneously raised as creditors	**22**	-	509,595
Scarce skills allowance paid in 2013/14 iro 2011/12	**22**	-	2,189,499
Restated		**-**	**1,715,692,203**

28. Revenue

	2014	2013
Service charges	2,197,435,143	1,964,268,076
Rental of facilities and equipment	15,017,944	15,485,474
Licences and permits	14,160,878	15,299,244
Royalties received	11,103,294	-
Other revenue	243,576,732	203,317,402
Interest received - investment	123,609,078	106,143,844
Property rates	672,956,899	580,100,409
Government grants & subsidies	1,542,941,916	1,235,137,628
Fines	5,909,971	5,979,206
Fuel levy	343,412,000	317,781,000
	5,170,123,855	**4,443,512,283**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

28. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	2,197,435,143	1,964,268,076
Rental of facilities and equipment	15,017,944	15,485,474
Licences and permits	14,160,878	15,299,244
Royalties received	11,103,294	-
Other revenue	243,576,732	203,317,402
Interest received - investment	123,609,078	106,143,844
	2,604,903,069	**2,304,514,040**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	672,956,899	580,100,409
Transfer revenue		
Government grants and subsidies	1,542,941,916	1,235,137,628
Fines	5,909,971	5,979,206
Fuel levy	343,412,000	317,781,000
	2,565,220,786	**2,138,998,243**

Figures in Rand	2014	2013 Restated

29. Property rates

Rates received

Residential	339,969,835	302,755,675
Commercial	317,876,795	271,383,807
Municipal	256,354	2,557,395
Public Benefit Organisation	52,545	41,092
Educational	9,094,469	4,389
Agricultural	3,775,429	3,251,927
Public Service Infrastructure	563,765	503,298
Vacant land	27,583,998	22,369,422
Less: Income forgone	(26,216,291)	(22,766,596)
	672,956,899	**580,100,409**

Valuations

Residential	41,611,111,930	41,099,633,920
Commercial	15,459,429,730	14,769,186,800
Public Benefit Organisation	25,557,000	22,357,000
Municipal	23,027,790	1,709,490,766
Rural Communal Land and Special	3,197,894,420	3,361,122,618
Educational	1,579,723,610	853,000
Agricultural	1,836,298,340	1,769,274,990
Public Service Infrastucture	274,204,940	273,829,000
Vacant land	1,117,937,840	1,014,486,202
	65,125,185,600	**64,020,234,296**

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 first valuation in terms of the MPRA was done in 2008 and the implementation date was 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2015. 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 R/cents

Agricultural	0,002056	0.001838
Business	0,020562	0.018375
Educational	0,005757	0.005145
Public Service Infrastructure	0,002056	0.001838
Residential	0,008225	0.007350
Vacant Land	0,024674	0.022050

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:

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 %

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

29. Property rates (continued)

	75.00 %	**75.00 %**

- 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	1,382,359,002	1,265,868,452
Sale of water	325,359,981	271,026,418
Sewerage and sanitation charges	248,672,891	223,023,307
Refuse removal	228,894,570	198,898,045
Other service charges	12,148,699	5,451,854
	2,197,435,143	**1,964,268,076**

31. Government grants and subsidies

Operating grants		
Government grants - operating projects	32,751,565	19,206,555
Government grants and subsidies - unconditional	662,471,336	652,442,674
Government grants - housing projects	113,216,227	47,918,009
	808,439,128	719,567,238
Capital grants		
Government grants (capital: PPE)	734,502,788	515,570,390
	734,502,788	515,570,390
	1,542,941,916	**1,235,137,628**

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 Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated
32. Other revenue		
Administration fees	37,833	44,584
Admission fees	2,449,545	1,794,120
Application: Town planning	46,467	70,832
Cemetery fees	6,680,255	6,120,275
Cold storage fees	547,131	413,910
Commission	18,700,954	16,953,201
Coupons and clip tickets	1,197,039	1,576,794
Dog tax and penalties	733,935	728,981
Fire brigade	788,389	337,514
Fire levy charges	52,485,446	46,278,790
Grazing fees	54,750	51,276
Hire charges	211,969	371,402
Insurance	860,945	1,132,222
Levy on gates	79,320	45,564
Library	26,816	23,738
Meter test fees	21,995	31,071
Parking meters	41,747	119,949
Photocopies	84,065	94,532
Plan approval fees	7,247,343	5,164,972
Private works	2,584,608	1,400,278
Sale of plants and animals	14,377	11,203
Scrap	3,759,514	3,302,845
Service connections and reconnections	28,868,629	11,999,197
Street frontage and administration fees	339,033	281,838
Sub division fees	1,271,954	1,036,732
Sundry income	80,743,338	72,885,477
Tender receipts	716,871	316,656
Towing fees	43,233	33,808
Vehicle registrations	32,939,231	30,695,641
	243,576,732	**203,317,402**

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

33. General expenses

Advertising		2,984,268	2,476,131
Assessment rates & municipal charges		1,810,173	1,669,591
Assets expensed		1,579,393	1,972,741
Auditors remuneration		11,692,400	9,219,239
BCMET		109,729	236,082
Bank charges		7,409,956	5,582,795
Chemicals		12,800,852	14,277,663
Cities network		353,692	321,539
Cleaning		5,277,334	3,323,398
Commission paid		13,498,746	12,431,331
Computer expenses		4,082,237	7,624,331
Conferences and seminars		2,825,016	3,258,715
Consulting and professional fees		39,259,418	30,712,954
Consumables		6,166,756	6,384,656
DWAF		5,622,063	5,850,062
Disconnections		8,757,614	6,344,239
Electricity		50,667,131	44,874,856
Entertainment		2,423,254	2,577,006
Essential user cost		14,396,321	13,028,671
Fuel and oil		40,568,403	41,114,758
Hire (labour and plant)		2,044,385	1,350,355
Horticulture		-	1,944
IT expenses		4,160,236	3,215,365
Insurance		16,112,196	15,859,288
Lease rentals on operating lease		57,899,675	51,208,276
Levies		19,350,154	13,646,090
Magazines, books and periodicals		762,110	1,563,835
Marketing		548,449	144,951
Motor vehicle expenses		4,698,359	4,259,245
Operating and housing projects ex grants		180,176,258	147,271,362
Other expenses		71,924,194	58,798,870
Post-retirement medical obligation net cost		72,265,660	14,065,645
Postage and courier		5,858,606	4,408,899
Printing and stationery		7,313,583	8,999,445
Projects ex surplus		29,375,599	3,296,125
Promotions		593,361	423,574
Refuse		10,290,040	6,212,935
Royalties and license fees		7,883,985	8,772,290
Security (Guarding of municipal property)		862,161	189,097
Software expenses		920,857	941,938
Special events		3,150,662	2,908,093
Subscriptions and membership fees		10,407,362	9,801,914
Telecommunication costs (telephones, faxes and cell phones)		21,988,947	20,524,864
Title deed search fees		19,265	15,597
Training		3,018,416	3,008,454
Travel - local		12,183,104	7,009,710
Travel - overseas		1,098,776	1,659,289
Uniforms		6,925,609	6,980,293
Water		7,549,700	5,161,896
		791,666,465	**614,980,397**

Prior period errors	49		
Lease rentals on operating lease		-	51,172,482
Adjusted		-	35,794
Restated		**-**	**51,208,276**

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated
33. General expenses (continued)			
Summary of prior period errors	**49**		
Previously reported		-	614,944,603
Adjusted		-	35,794
Amended total		**-**	**614,980,397**

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

34. Employee related costs

Basic emoluments		657,584,732	610,444,235
Medical aid contributions		46,872,273	42,217,987
UIF		7,262,800	6,610,236
Leave pay contribution		22,094,145	20,868,042
Pension fund contribution		120,364,342	112,547,443
Overtime payments		80,707,106	62,098,630
Long-service awards		14,839,638	13,224,861
13th Cheque's		53,860,105	49,567,189
Car allowance		18,630,906	17,416,594
Housing benefits and allowances		3,219,132	3,508,636
Group life		5,468,219	5,248,707
Other allowances		45,006,419	38,807,478
Job evaluation settlement agreement		53,335,800	-
		1,129,245,617	**982,560,038**

Prior period errors - Other allowances	49		
Other allowances previously reported		-	37,138,769
Adjusted		-	1,668,709
Restated		**-**	**38,807,478**

Summary of prior period errors	**49**		
Balance previously reported		-	980,891,329
Adjusted		-	1,668,709
Restated		**-**	**982,560,038**

Remuneration of City Manager

Remuneration	966,587	1,055,584
Travel Allowance	180,000	90,000
Contributions to UIF, Medical and Pension Funds	208,562	29,306
Allowance	357,250	446,701
	1,712,399	**1,621,591**

Remuneration of Chief Financial Officer

Remuneration	856,200	313,222
Housing subsidy	-	1,478
Travel Allowance	288,000	65,589
Allowance	64,072	14,584
UIF	1,785	595
Medical aid	35,597	11,381
Pension contributions	166,958	39,669
Group life	14,387	3,924
	1,426,999	**450,442**

The CFO position was filled in March 2013. Remuneration based on the position being filled for the full period equates to R1 351 352. Acting allowance to the value of R 155 012 was paid in the 2012/13 financial year in respect of the vacant CFO position.

Remuneration of Director Corporate Services

Remuneration	-	61,900
Housing subsidy	-	3,000

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

34. Employee related costs (continued)

Travel allowance	-	15,000
Allowance	-	9,679
UIF	-	125
Medical aid	-	1,392
Pension contributions	-	12,070
	-	**103,166**

The position was vacant for 2013/14.
Remuneration based on the position being filled for the full period equates to R1 307 322. Acting allowance to the value of R149 526 was paid in the 2013/14 financial year in respect of the vacant Director Corporate Services position.

Remuneration of Director Health and Public Safety

Remuneration	-	495,198
Allowance	-	232,426
UIF	-	1,142
Pension contributions	-	96,564
	-	**825,330**

The positions was vacant for 2013/14.
Remuneration based on the position being filled for the full period equates to R1 307 322. Acting allowance to the value of R183 699 was paid in the 2013/14 financial year in respect of the vacant Director Health and Public Safety position.

Remuneration of Director Engineering Services

Remuneration	784,393	742,796
Travel allowance	168,000	168,000
Allowance	174,814	157,225
UIF	1,785	1,713
Medical aid	14,972	13,565
Pension contributions	152,957	144,845
Group life	10,401	9,849
	1,307,322	**1,237,993**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

34. Employee related costs (continued)

Remuneration of Director Development and Planning

Remuneration	653,661	742,796
Travel allowance	112,000	192,000
Allowance	203,190	121,232
UIF	1,487	1,713
Medical aid	19,571	21,499
Pension contributions	89,225	144,845
Group life	10,301	13,908
	1,089,435	**1,237,993**

The position was vacant for February and March 2014.
If the position was filled for the entire financial year the remuneration would have amounted to R1 307 322.

Remuneration of Director Community Services

Remuneration	275,990	742,796
Travel allowance	60,000	120,000
Allowance	116,750	214,731
UIF	892	1,713
Pension contributions	76,478	144,845
Group life	7,344	13,908
	537,454	**1,237,993**

In the 2013/14 financial year the encumbent was suspended up and until he was dismissed on the 28th of November 2013.
If the position was filled for the entire financial year the remuneration would have amounted to R1 307 322. Acting allowance to the value of R441 565 was paid in the 2013/14 financial year in respect of the vacant Director Community Service position.

Guarantees by the municipality in respect of commercial bank housing loans for official amount to R195 820 (2013: R231 150).

35. Remuneration of Councillors

Executive Mayor	672,937	640,892
Deputy Mayor (2013: appointed on 01 June 2013)	538,349	42,726
Speaker	538,349	512,714
Chief Whip	480,668	480,668
Mayoral Committee Members (Allowance = R504 702: 8 Councillors)	4,061,650	4,609,982
MPAC - Chairperson (2013: appointed on 01 December 2012)	471,055	261,697
Councillors (Allowance = R 224 312: 87 Councillors)	20,803,186	20,020,423
Councillors pension contribution	2,833,204	2,626,833
Councillors housing subsidy	2,524,589	2,690,095
Councillors medical aid	1,368,179	1,031,476
Travel allowance	10,795,602	10,413,804
	45,087,768	**43,331,310**

The Traditional leaders allowances to the amount of R356 325 previously disclosed seperately is included in the total amount of Mayoral Committee Members.

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

35. Remuneration of Councillors (continued)

In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R 4 826 411 (2013: R 2 710 857).

The House Keeper's cost to Council amounts to R 61 710 (2013: R 32 869).

The Executive Mayor, Deputy Mayor, and Speaker each have the use of a Council owned vehicle for official duties. Operating costs of the vehicles amounts to R 95 286 (2013: R 192 985). An amount of R 1 472 147 (2013: R 396 833) was incurred for hired vehicles.

The Executive Mayor, Deputy Mayor and Speaker each have full-time bodyguards and an official driver. Cost of 12 bodyguards amounts to R 5 051 767 (2013: R1 664 084).

These benefits are governed by MFMA circular 58 dated 14 December 2011 and the Government Gazette 37281 dated 29 January 2014. Certain benefits that were prohibited by MFMA circular 58 dated 14 December 2011 have been regularised by Government Gazette 37281 dated 29 January 2014. These benefits includes the provision of electronic devices and official accommodation and furniture for the Executive Mayor.

36. Debt impairment

Contributions to debt impairment allowance account	241,010,582	106,769,757

37. Interest received

Interest revenue		
Unlisted financial assets	85,781,445	75,756,373
Bank	10,650,128	8,183,377
Interest charged on trade and other receivables	27,057,186	22,196,338
Interest on sporting body loans	6,426	7,756
Interest received - SARS	113,893	-
	123,609,078	**106,143,844**

38. Fair value adjustments and discounting of receivables and payables

In terms of GRAP 104 Paragraph AG 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	642,704,531	696,040,792
Intangible assets - amortisation	12	855,198	3,184,946
		643,559,729	**699,225,738**

Prior period errors	49		
Property, plant and equipment previously reported		-	696,162,153
Adjusted		-	(121,361)
Restated		**-**	**696,040,792**

40. Finance costs

Non-current borrowings	65,775,074	67,258,510

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

41. Auditor General remuneration

Audit fees	33	11,692,400	9,219,239

42. Contracted services

Other Contractors	9,742,994	7,763,365

43. Grants and subsidies paid

Grants-in-Aid		
Other Organisations	1,148,925	-
Grants And Subsidies	-	2,016,324
Subsidies-Churches,sport and other welfare org.	2,927,522	1,636,935
Buffalo City Tourism	3,629,544	-
Buffalo City Development Agency	838,679	468,181
Mayoral Social Responsibility	434,930	400,047
Publicity Association Grant	-	3,763,505
Sponsored Sporting Events	14,118,462	13,127,110
Social Welfare Grant (Poor relief)	129,004,433	94,920,244
	152,102,495	**116,332,346**

44. Bulk purchases

Electricity	952,084,304	900,088,648
Water	158,379,874	140,024,695
	1,110,464,178	**1,040,113,343**

45. Net cash flows from operating activities

Surplus		762,967,720	485,906,703
Non-cash movements			
Depreciation and amortisation	39	643,559,729	699,225,738
(Gain)/Loss on the sale of property, plant and equipment	15	10,520,898	8,659,533
Share of profit of associate	17	(54,222,847)	(5,325,748)
Fair value adjustment on Investment Property revalued	13	(30,297,103)	12,163,909
Impairment deficit	15	6,819,197	71,393
Debt impairment	36	241,010,582	106,769,757
Movement in operating leases	10	(2,265,211)	(2,605,046)
Movement in post retirement medical aid benefit obligation	24	57,486,036	136,794
Movement in provisions relating to landfill sites	21	16,761,420	(11,464,485)
Revaluation realisation	25	(11,103,294)	(18,577,378)
Adjustment of transactions prior to 2012 refer to SoCNA	62	-	39,204,728
Non-cash PPE adjustments	15	9,348,430	(11,227,469)
Non-cash property, plant and equipment adjustments	15	-	573,137
Non-cash property, plant and equipment additions	15	(8,580,689)	(9,201,344)
Non-cash property, plant and equipment transfers	15	(16,844,147)	11,464,486
Movement in inventory	6	(12,855,307)	45,462,930
Movement in receiveables from non-exchange transactions	8	22,022,423	(65,919,211)
Movement in receivables from exchange transactions	7	(232,963,052)	(178,281,050)
Movement in payables from exchange transactions	22	15,902,711	121,131,517
Movement in VAT receivables	9	(367,773)	(31,070,914)
		1,416,899,723	**1,197,097,980**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

46. Commitments

Authorised capital expenditure

Approved and contracted for - Property, Plant and Equipment		
▸ Community (including housing)	775,166,176	167,425,695
▸ Infrastructure	622,556,840	807,740,428
▸ Other	182,489,219	196,737,090
	1,580,212,235	**1,171,903,213**

This committed expenditure relates to Infrastructure, Community and other Property, Plant and Equipment.
The above amounts exclude VAT.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	10,660,877	6,927,809
- in second to fifth year inclusive	10,312,984	17,157,685
- later than five years	193,253	-
	21,167,114	**24,085,494**

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 rental increases escalates between 0% and 12% annually.

47. Contingent assets

Contingent assets

A counterclaim of R27 140 802 (2013: R27 140 802) has been instituted by Council against Dormell Properties trading as Alliance 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 2014 is R1 296 000 (2013: R1 544 400) at year end.

BCMM purchased property in the amount of R762 440 (2013: 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 (2013: 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 R515 946 (2013: R515 946) 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.

A claim in reconvention of R7 327 965 has been instituted by Council against Phumelela Africa Professional Engineers t/a Phumaf Consulting Engineers (Pty) Ltd for repayment of amounts paid to them as the procurement processes were not followed.

A claim in reconvention of R11 672 660 has been instituted by Council against Ronnies Motors Trust for repayment of amounts paid to them due to the cancellation of the contract and return of the buses.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

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 R735 854 (VAT exclusive) to the development agency during the current financial year (2013: R410 685 - VAT exclusive).

BCDA has paid no consumer accounts during the current and 2013 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.

BCMM paid an amount of R1 208 204 (2013: R128 200) VAT inclusive in respect of grass mowing on behalf of East London IDZ.

South African Cities Network is an organ of state. BCMM's Mayor and City Manager serves on the board.
BCMM paid an amount of R22 860 691 (2013: R14 379 534) VAT exclusive in respect of professional fees for services rendered to BCMM.

BCDA - New Board members were appointed with effect from 01 February 2014.

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

Figures in Rand		2014	2013 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:

		2014	2013 Restated
Accumulated Surpluses			
Resort rental income erroneously disclosed as caravan deposits prior periods	22&27		1,289,162
Reversal of prior year 2011/12 accruals erroneously raised as creditors	22&27		(509,595)
Scarce skills allowance paid in 2013/14 iro 2011/12	22&27		(520,790)
Motor vehicles - Buses depreciation in 2010/11 increased for take-on date corrected	15	-	(311,273)
Electricity - write out festive lighting	15	-	(5,324,989)
Movable assets write out	15	-	(16,346,941)
Water assets write out	15	-	(1,601,242)
Other properties take on	15	-	18,289
Correct allocation of operating expenditure from WIP	15	-	(42,384,220)
Electricity assets take on	15	-	78,595,321
Roads - take on railway sidings	15	-	1,906,394
Heritage assets take on	14	-	3
Land write out	15	-	(14,932,000)
Investment properties write out	13	-	(5,152,667)
Community buildings take on	15	-	44,479,276
Total changes to accumulated surpluses			**39,204,728**

		2014	2013 Restated
Statement of Financial Position 2013			
Resort rental income erroneously disclosed as caravan deposits prior periods	22&27		(1,289,162)
Reversal of prior year 2011/12 accruals erroneously raised as creditors	22&27		509,595
Scarce skills allowance paid in 2013/14 iro 2011/12	22&27		520,790
Finance leased liability overstated in 2012/13	20		353,678
Finance leased assets overstated in 2012/13	15		(353,678)
Finance leased assets write out	15		327,860
Plant and equipment write out	15		1,626
Furniture and fittings write out	15		5,925,475
Motor vehicles take on	15		(18,584,769)
Office equipment write out	15		4,233,925
Electricity take on	15		(76,566,156)
Work in progress transferred	15	-	65,745,186
Roads take on	15	-	(5,204,294)
Water network write out	15	-	1,523,774
Other properties take on	15	-	(6,105,017)
Community buildings take on	15	-	(21,025,920)
Fair Value Adjustment of Investment Properties	13	-	88,036
Investment properties write out	15	-	5,121,964
Land write out	15	-	14,932,000
Intangible assets write out	12	-	6
Heritage assets take on	14	-	(3)
Scarce skills Sundry creditors	22&27	-	1,668,709
Finance leased liability overstated in 2012/13	20	-	(317,881)
Restatement in associate financials 2013	17	-	(5,325,748)
Total changes to the Statement of Financial Position 2013			**(33,820,004)**

		2014	2013 Restated
Accumulated Surplus 2012			
Take on of electricity assets	15		3,943,559

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

49. Prior period adjustments (continued)

Statement of Financial Performance 2013

		2014	2013 Restated
Surplus for the year as per audited financial statements			482,714,597
Resort rental income erroneously disclosed as caravan deposits	34		(1,668,709)
Finance lease payment iro 2012/13 reversed	20&33		(35,794)
Finance lease depreciation reversed	15&39		25,818
Loss on sale of assets	15		(493,166)
Depreciation - Adjustments made due to the review,update and reclassification of immovable assets	15		95,543
Fair value - Adjustments made due to the review,update and reclassification of immovable assets	13		(57,333)
Restatement in associate financials 2013	17	-	5,325,748
Net affect on surpluses for 2013			**3,192,107**
Restated surpluses for 2013			**485,906,704**

Summary: Adjustments affecting Net Assets

Changes to operating income and expenditure accounts in the 2012 and prior years		39,204,728
Changes to operating income and expenditure accounts in the 2013		3,192,107
Changes to accumulated surpluses 2013		3,943,559
Total changes affecting Net Assets		**46,340,394**

Reconciliation of the restated balance of the accumulated surpluses as at 1July 2013

Balance as per audited statements		8,403,242,044
Changes affecting net assets		46,340,394
Balance as at 1 July 2013 restated		**8,449,582,438**

Reconciliation of the restated balance of the accumulated surpluses as at 1July 2012

Balance as per audited financial statements	-	7,912,850,015
Changes affecting net assets	-	39,204,728
Balance as at 1 July 2012 restated	**-**	**7,952,054,743**

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

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 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 (1/7/2013-31/1/2014 = 8%)	8.50 %	631,714,988	-	-	-	-
Cash in current banking institutions	5.00 %	197,583,606	-	-	-	-
Call investment deposits	4.77 %	1,965,155,887	-	-	-	-
Trade and other payables - extended credit terms	7.50 %	(452,524,372)	-	-	-	-
Long term borrowings	10.13 %	(54,633,001)	(100,730,197)	(151,439,228)	(199,080,792)	(398,126,111)

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.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

50. Risk management (continued)

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 (1/7/2013-31/1/2014 = 8,00%)	8.00 %	631,714,988	584,921,285	590,387,839	579,555,035
Trade and other payables	10.50 %	(452,524,372)	(409,524,319)	(413,264,267)	(405,851,455)
Cash in current banking institutions	4.50 %	197,583,606	189,075,221	190,902,035	187,283,039
Call investment deposits	4.77 %	1,965,155,887	1,875,685,680	1,893,761,094	1,857,952,054

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 note5) and trade debtors (refer notes7&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 unaudited 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.

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

	2014	2013 Restated
Opening balance	14,478,000	-
Unauthorised expenditure for the year	211,194,645	-
Approved by Council or condoned	-	-
	-	-
Unauthorised expenditure awaiting authorisation	-	14,478,000
Closing balance	**225,672,645**	**14,478,000**

The main contributing factors for unauthorised expenditure result from non cash items including depreciation on infrastructure investment, loss arising from the actuarial valuation of medical fund obligation and an increase in provision for doubtful debts. These amounts were budgeted at levels below the final actual information determined at year-end.

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

54. Fruitless and wasteful expenditure

Opening balance	4,262,326	3,721,269
Acts of negligence.	244,168	421,177
Payment made iro yearly bus licences.	130,032	119,880
Interest charged on overdue accounts due to late payment.	26,497	-
	4,663,023	**4,262,326**

Staff members involved in acts of negligence resulted in the municipality incurring losses totalling R244 168 (2013: R421 177).

Payment made iro yearly bus licences in terms of the National Road Traffic Act of 1996 to the amount of R130 032 (2013: 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 write off and future actions to be taken in accordance with the provisions in terms of Section 32 of the MFMA.

55. Irregular expenditure

Opening balance	781,134,272	664,006,652
Irregular Expenditure - current year	438,279,943	117,127,620
Less: Amounts written-off approved by Council	(1,123,747,972)	-
	95,666,243	**781,134,272**

Figures in Rand	2014	2013 Restated

55. Irregular expenditure (continued)

Analysis of expenditure written-off and awaiting condonation per age classification

Current year	438,279,943	117,127,620
Prior years	781,134,272	664,006,652
Less: Amounts written-off approved by Council	(1,123,747,972)	-
	95,666,243	**781,134,272**

Details of irregular expenditure		
Procurement made outside SCM regulations	6,372,890	13,153,621
BCC contracts	3,607,639	17,308,350
Annual contracts	46,234,371	77,233,540
Expired contracts	-	89,370
Expired leases on machinery and other expired leases	853,827	1,958,187
Expired leases on hygiene products	356,803	261,265
Irregular expenditure made on 3 quotation system	11,248,093	4,705,137
Completeness of SCM documentation	-	1,571,468
Payment iro employment contract	-	271,490
Formal contracts	9,759,847	-
Informal contracts	678,549	-
Non-approved deviations by Council - MFMA Regulations 36 on SCM	16,554,224	575,192
	95,666,243	**117,127,620**

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 write off and future actions to be taken in accordance with the provisions in terms of Section 32 of the MFMA.

Historically the institution has received audit opinions varying in opinion from disclaimer and adverse to qualification. In each financial year, the opinion pertaining to irregular expenditure has been identified as an issue of concern in that the Auditor General has identified instances where not all irregular expenditure has been recorded. In order to correct the historical disclosure of irregular expenditure, the institution will be required to review each procurement transaction since the inception of the Municipal Finance Management Act in order to analyse the procurement process that was undertaken and determine whether the process utilised was irregular or not. The institution will be required to undertake this process either internally, through the utilisation of existing staff, or externally through the appointment of a service provider.

Further consideration needs to be given, that should a project of such a nature be undertaken, any additional expenditure will need to be taken to Council for consideration and write off. The chance of recovering any such expenditure from individuals would be almost impossible in that the prescription period of 3 years as prescribed by the Prescription Act 68 of 1969 would have passed within which the debt should have been raised. It also needs to be recognised that considering the Auditor General assessment of Supply Chain Management it would be difficult to achieve any successful disciplinary or criminal proceedings.

Furthermore, the Auditor General has historically identified limitations with the availability of supporting documentation providing details surrounding the procurement process which had been undertaken. These limitations and internal control weaknesses may have resulted in supporting documentation that was originally available at the time of undertaking the procurement being subsequently misplaced following the assessment of the Auditor General.

The accounting standard paragraph 45 of GRAP 3 does allow for instances where prior period restatement is not possible. It states that “when it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.” Paragraph 50 states further that “in some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including for the purpose of para 51 – 53 its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.” Impracticable is defined in the statement as “applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

55. Irregular expenditure (continued)
error if:

- The effects of the retrospective application or retrospective restatement are not determinable;
- The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
- Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
- Would have been available when the financial statements for that prior period were authorised for issue from other information."

Management has assessed the above considerations and is of the view that:

1. It does not have the internal resources to allocate to this project as they are currently all focused on daily operations.
2. Any external service provider to be appointed would result in a cost exceeding the benefit. This is further compounded by service delivery pressures being experienced and any funding being allocated to such a project would reduce funding available for a service delivery project.
3. Items which would be disclosed as irregular expenditure would be based on the information available currently which may have not been the actual situation historically and has occurred through internal control limitations.
4. Individuals who were historically involved in explaining documentation and potentially being involved with irregular expenditure may not be currently employed in the institution.
5. There may be a concluding difference of opinion between the Auditor General and the institution surrounding the determination of irregular expenditure which could result in the total project not achieving the desired result of an unqualified audit opinion relating to irregular expenditure.
6. Council and the Municipal Public Accounts Committee (MPAC) will be limited in terms of the oversight functions it can perform other than writing off the amount and there would be no benefit for the institution. The success of any disciplinary and criminal proceedings would also be doubtful considering internal control weaknesses and staff changes which have occurred.

56. In-kind donations and assistance

FELZOO donated assistance to BCMM	67,210	23,800
FELA donated assistance BCMM	18,600	-
	85,810	**23,800**

57. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	10,400,000	9,800,000
Amount paid - current year	(10,400,000)	(9,800,000)
	-	-

Contributions to SA Cities Network

Current year subscription / fee	353,692	321,539
Amount paid - current year	(353,692)	(321,539)
	-	-

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

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

Audit fees

Current year fee	11,692,400	9,219,239
Amount paid - current year	(11,692,400)	(9,219,239)
	-	-

PAYE, UIF and Skills

Current year subscription / fee	170,654,949	131,332,923
Amount paid - current year	(170,654,949)	(131,332,923)
	-	-

Amounts in respect of June 2014 were paid by 07 July 2014 as per legislation, therefor there were no outstanding amounts for the financial year 2013/2014.

Pension and Medical Aid Deductions

Current year subscription / fee	251,027,630	230,482,775
Amount paid - current year	(251,027,630)	(230,482,775)
	-	-

Amounts in respect of June 2014 were paid by 07 July 2014 as per legislation, therefor there were no outstanding amounts for the financial year 2013/2014.

VAT

VAT receivable	65,568,270	65,200,497

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.

Figures in Rand	2014	2013 Restated

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

Councillors and officials arrear consumer accounts

Arrear Councillors accounts totalling R21 860 were outstanding for more than 90 days at 30 June 2014 (2013: R8 515) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor.

30 June 2014	Outstanding more than 90 days R
Councillor N.P. Peter - water leak query and existing stop order deduction	19,128
Councillor N.D. Mgezi - existing stop order deduction	2,295
Councillor D. Rwexu - since 30 June 2014 amount paid	348
Councillor Z. Makatala - since 30 June 2014 amount paid	88

30 June 2013	Outstanding more than 90 days R
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

During the year officials accounts totalling R765 036 (2013: R879 397) were outstanding for more than 90 days.

Material losses

Electricity losses for the current year amounted to 12.46% i.e. R118 388 812 (2013: 9.54% i.e. R85 345 229). 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. R47 507 549 (2013: 5% i.e. R44 723 885). Non-technical losses, being theft, faults, billing errors etc., account for 7.46% R70 881 263 (2013: 4.54% i.e. R40 621 344). Attempts are currently being made to reduce these non-technical losses.

Non revenue water i.e. non billed water amounted to 39.47 % i.e R99 400 416 (2013: 45.67% i.e. R102 924 479) 35.80 % i.e R89 924 151 (2013: 41.06% i.e. R92 503 445) of these losses can be accounted for in terms of the National Guidelines for non-revenue water. 3.67% i.e. R9 476 265 (2013: 4.61% i.e. R10 421 034) 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.

The above losses include rural areas and informal settlements.

58. Utilisation of Long-term liabilities reconciliation

	2014	2013
Long-term liabilities raised	-	45,368,396
Finance leases raised	3,030,075	5,004,171
Used to finance property, plant and equipment	(3,030,075)	(50,372,567)
	-	-

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 Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

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 unaudited annual financial statements.

During the financial year under review goods/services totaling R36 436 061 (2013: R19 128 922) 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.

Nature of deviation	No of contracts	Value of contracts
Emergency	6	3,130,110
Sole supplier	6	3,796,718
Other exceptional cases	8	29,509,233
	20	**36,436,061**

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
- Municipal Employees Pension Fund
- Municipal Councillors Pension Fund
- National Fund for Municipal Workers

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 (28) 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 2013 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 2012 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 99.58% at valuation date.

The Government Employees Pension Fund's last valuation was at 31 March 2012 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.J. Potgieter from Towers Watson (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 2012 conducted by J.F. Rosslee of Genesis Actuarial Solutions. The fund was 100% 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.

Figures in Rand	2014	2013 Restated

60. Retirement benefit information (continued)

The Municipal Employees Pension Fund's last interim valuation was at 29 February 2011 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The funding level at this date was 107.9%.

The Municipal Councillors Pension Fund's last interim valuation was at 28 February 2012 prepared by A. Botha from Simeka Consultants and Actuaries (Pty) Ltd. The report stated that the funding level was 99.5% at the time of valuation.

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 14.8 million.

An amount of R169 million (2013: R 157 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 is a fixed/defined contribution fund. It is therefore not necessary to perform an actuarial valuation for this fund.

The National Fund for Municipality Worker's last Actuarial Valuation was at 30 June 2010 and prepared by W Kritzinger from Simeka Consultants & Actuaries (Pty) Ltd. The funding level at this date was 99.77%

Figures in Rand	2014	2013 Restated

61. Contingent liabilities

Litigation Issues		
A claim has been instituted against Council by due to alleged assault and defamation. Legal advice has been sought and Council will defend the claim.	400,000	100,000
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	4,654,219	2,617,040
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 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 September 2011 and letter of demand received by BCMM June 2014).	11,333,916	-
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). (Resolved)	-	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). (Resolved)	-	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
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	20,474,866
A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013).	15,812,736	15,812,736
An application for specific performance has been instituted against Council by Evaluations Enhanced Property Appraisals (Pty) Ltd to set aside an award made by BCMM to a competing tenderer under contract 2953 - General Valuation Project. (Resolved)	-	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	2,724,871
A claim has been instituted against Council by Willards Travel Services (PTY) Ltd for fees owed for services rendered by them (Date of incident November 2013 to January 2014 and letter of demand received February 2014).	1,324,451	-
Total Contingent Liabilities in respect of Litigation Issues	**111,432,462**	**137,814,349**

Labour Issues

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated
61. Contingent liabilities (continued)		
Directors bonuses	4,795,228	3,074,537
Employees who could have been incorrectly placed during the placement process in 2003 and other labour disputes have resulted in possible claims.	2,632,001	6,878,488
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
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
Certain former R293 employees received a lesser total package when they were transferred to the Municipality in April 2000.	3,720,000	5,000,000
Unfair Labour Practice in relation to progression of Fire Fighters with effect from 01 April 2010.	6,345,582	-
Total Contingent Liabilities in respect of Labour Issues	**17,492,811**	**61,953,025**
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.	7,286,082	5,805,000
Claims have been instituted against Council due to various damage claims.	1,004,140	1,010,472
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	2,300,235
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. Bejia in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012).	7,001,517	7,001,518
A claim has been instituted against Council by S. Tsolekile in respect of personal injury caused by tripping in an open manhole (Date of incident January 2013 and Summons received by BCMM November 2013).	4,000,000	-
A claim has been instituted against Council by B.B. Sparks in respect of personal injury and vehicle damages caused by smoke from fire (Date of incident November 2013 and claim received by BCMM February 2014).	1,950,000	-
A claim has been instituted against Council by K. Kapu and T. Lawu in respect of death of their child as a result of electrocution caused by a live wire (Date of incident March 2014 and claim received by BCMM June 2014).	3,000,000	-
A claim has been instituted against Council by R.J. Janse Van Rensburg in respect of personal injury caused by an open stormwater manhole (Date of incident May 2014 and claim received by BCMM August 2014).	1,550,000	-
A claim has been instituted against Council by A.N. Ndzamela in respect of financial loss caused by the incorrect approval of a plan (Date of incident October 2007 and claim received by BCMM August 2014).	1,500,000	-
Total Contingent Liabilities in respect of Insurance issues	**32,091,974**	**18,617,225**
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
Total Contingent Liabilities	**161,017,247**	**218,445,391**

Notes to the Unaudited Annual Financial Statements

Figures in Rand		2014	2013 Restated

62. Cash flows from operating activities

	Note	2014	2013 Restated
Receipts: Sale of goods and services			
Total revenue as per Statement of Financial Performance		5,170,123,855	4,443,512,283
Less: Fair value adjustments	13	30,297,103	(12,163,909)
Less: Interest received	37	(123,609,078)	(106,143,844)
Less: Government grants and subsidies received	28	(1,542,941,916)	(1,235,137,628)
Loss on sale of assets	15	10,520,898	8,659,533
Movement in receivables from non-exchange transactions	8	22,022,423	(65,919,211)
Fair value adjustment on Investment Property revalued	13	(30,297,103)	12,163,909
Movement in receivables from exchange transactions	7	(232,963,052)	(178,281,050)
Movement in VAT receivables	9	(367,773)	(31,070,914)
Movement in operating lease receivable	10	(2,265,211)	(2,605,046)
Net revenue from sale of goods and services as per the cash flow statement		**3,300,520,146**	**2,833,014,123**
Payment: Suppliers			
Total expenditure as per the Statement of Financial Performance		(4,491,676,083)	(3,950,767,419)
Employee costs and Councillors remuneration	34&35	1,174,333,385	1,025,891,348
Interest paid	40	65,775,074	67,258,510
Depreciation and amortisation	39	643,559,729	699,225,738
Reversal of impairments	15	6,819,197	71,393
Debt impairment	36	241,010,582	106,769,757
Non-cash property, plant and equipment transfers	15	(16,844,147)	11,464,486
Movement in post retirement medical aid benefit obligation	24	57,486,036	136,794
Movement in provisions relating to landfill sites	21	16,761,420	(11,464,485)
Adjustment to transaction prior to 2012 refer to SoCNA	49	-	39,204,728
Non-cash prior PPE adjustments	15	9,348,430	(11,227,469)
Movement in payables from exchange transaction	45	15,902,711	121,131,517
Non-cash asset additions	15	(8,580,689)	(9,201,344)
Movement in inventory	45	(12,855,307)	45,462,930
Revaluation reserve realisation	25	(11,103,294)	(18,577,378)
Non-cash property, plant and equipment adjustments	15	-	573,137
Net payments to suppliers as per cash flow statement		**(2,310,062,956)**	**(1,884,047,757)**
Government grants, subsidies and public contributions and donations			
Government grants & subsidies	31	1,542,941,916	1,235,137,629

63. Surplus / (Deficit) for the year

	Note	2014	2013 Restated
Reconciliation of actual operating results to net income/ (deficit)			
Net income for the period		762,967,720	485,906,703
Offset depreciation		656,323,701	423,793,015
Items not provided for in the operating budget		(152,191,275)	14,079,819
Capital expenditure ex grant funding	31	(734,502,788)	(515,570,390)
Actual operating results		**532,597,358**	**408,209,147**
Items not provided for in the operating budget			
(Loss) on disposal of assets and liabilities	15	(10,520,898)	(8,659,533)
Fair value adjustment on Investment property revalued	13	30,297,103	(12,163,909)
Actuarial adjustments	24	57,150,427	1,417,875
Share of deficit of associate accounted for under the equity method	17	54,222,847	5,325,748
Other income and expenditure not bugeted for		**152,191,275**	**(14,079,819)**

Notes to the Unaudited Annual Financial Statements

Figures in Rand	2014	2013 Restated

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

When items of property, plant and equipment are financed from government grants these grants are recorded as revenue in the Statement of Financial Performance. (Revenue from non-exchange 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.

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

	2014	2013
Repairs and maintenance summary		
Repairs and maintenance - Buildings	16,343,801	12,682,400
Repairs and maintenence - Vehicles	15,780,049	12,914,335
Repairs and maintenance - Equipment	9,966,750	6,047,438
Repairs and maintenance - Minor improvements	2,595,254	2,790,570
Repairs and maintenance - Office machines	4,200,984	4,241,485
Repairs and maintenance - Roads	38,091,193	35,859,297
Repairs and maintenance - Furniture	138,850	173,693
Repairs and maintenance - Electricity	12,727,601	13,866,930
Repairs and maintenance - Deffered maintenance	81,490,768	76,584,866
Repairs and maintenance - Sewerage	12,709,838	9,000,089
Repairs and maintenance - Water network	16,292,785	15,558,749
Repairs and maintenance - Mechanical repairs	1,680,317	1,792,541
Repairs and maintenance - Stormwater	6,773,800	6,758,996
Repairs and maintenance - Radio equipment	46,615	87,685
Repairs and maintenance - Maintenance contracts	59,153,793	50,569,944
Repairs and maintenance - Grounds	1,961,144	704,326
Repairs and maintenance - General	2,257,441	10,787,805
Repairs and maintenance - Extinguishers	57,974	88,591
Repairs and maintenance - Health and Public safety	637,790	330,211
Repairs and maintenance - Community services	2,774,339	2,861,738
Total repairs and maintenance	**285,681,086**	**263,701,689**

65. Bids awarded to family of employees in service of BCMM

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of an employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

Connected person	**Position held in State**	**2014**	**2013**
N. Mtwebana	Admin clerk	-	2,890
V. Mayekiso	Ward committee	-	14,400
N. Ntho	Electrician intern	-	10,500
S. Gantana	L.R. Practitioner	-	7,720
Z. Garishe	Overseer: Coastal	-	29,000
C. Sam	Office Manager	371,669	-
Total		**371,669**	**64,510**