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CITY OF CAPE TOWN ISIXEKO SASEKAPA STAD KAAPSTAD

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GENERAL INFORMATION

MEMBERS OF THE MAYORAL COMMITTEE

Alderman N Mfeketo	:	Executive Mayor - Chairperson of the Mayoral Committee
Councillor P Uys	:	Deputy Mayor - Mayoral Committee Member of Corporate Services
Alderman M Malan	:	Mayoral Committee Member of Finance
Councillor D Erleigh	:	Mayoral Committee Member of Safety & Security
Councillor J D Landingwe	:	Mayoral Committee Member of Transport, Roads & Stormwater
Councillor N Mlanjeni	:	Mayoral Committee Member of Amenities, Health & Sport
Councillor S Mowzer	:	Mayoral Committee Member of Trading Services
Councillor G Samuels	:	Mayoral Committee Member of Housing
Alderman C Sitonga	:	Mayoral Committee Member of Economic, Social Development & Tourism
Councillor T Sikhutshwa	:	Mayoral Committee Member of Planning & Environment
Councillor T Thee	:	Mayoral Committee Member of Human Resources

CHAIRPERSON OF THE PORTFOLIO COMMITTEES

Councillor P Uys	:	Chairperson of Corporate Services
Alderman C Sitonga	:	Chairperson of Economic Social Development and Tourism
Alderman M Malan	:	Chairperson of Finance
Councillor N Mlanjeni	:	Chairperson of Health, Amenities and Sport
Councillor G Samuels	:	Chairperson of Housing
Councillor T Sikhutswa	:	Chairperson of Planning and Environment
Councillor S Mowzer	:	Chairperson of Trading Services
Councillor J D Landingwe	:	Chairperson of Transport, Roads and Stormwater
Councillor D Erleigh	:	Chairperson of Safety & Security Services
Councillor J Thee	:	Chairperson of Human Resources

AUDITORS : Office of the Auditor-General

BANKERS : ABSA Bank

REGISTERED ADDRESS

Registered Office

P O Box 655 : 12 Hertzog Boulevard
CAPE TOWN : CAPE TOWN
8000 : 8000

CITY MANAGER

Dr W A Mgoqi

TOP MANAGEMENT TEAM

Dr S Fisher	:	Executive Director of Corporate Systems and Services
Mr A Ebrahim	:	Executive Director of Community Services
Mr D Daniels	:	Executive Director of Governance and Integration
Mr A Radhakrishna	:	Acting Chief Financial Officer
Mr M Marsden	:	Executive Director of Development and Infrastructure

COUNCIL MEMBERS OF THE CITY OF CAPE TOWN

COUNCILLOR/ALDERMAN

Abrahams, A	Haynie, R	McKenzie, X G	Purchase, F A
Adams, Y	Hemming, P J	Mdluli, V V	Qually, D L
Anderson, L O	Heradien, J	Mdoda, H	Rencontre, L J
Arnolds, A	Hermans, J	Mellet, G S W	Richardson, L K
Bayat, S	Hill, P A D	Merrington, G J	Robinson, D
Bazier, R	Holderness, N	Mfeketo, N C	Roelf, L E
Beerwinkel, C F	Ipser, C W	Mgxekeni, T M	Ross, N D
Benya, L	Jacobs, B M	Mhaga, N V	Rossouw, W F
Berry, E A	Jacobs, F A	Mgxekeni, T M	Rothman, L J
Beukes, J J	Jacobs, J	Mhaga, N V	Russo, M J
Billie, N E	Jacobs, N A	Mlanjeni, N	Samuels, G
Blaai, B C	January, G M	Mofoko, N M	Samuels, I
Botes, M	Jespersen, G A	Mohammed, M Y	Sasmn, D P
Botha, J N	Johnson, U L	Mokoena, J M	Sawant, E
Boyce, V L	Jonas, M M	Momberg, K J	Schafer, D E
Brady, W E	Jones, I	Moodley, S	Sentile, T W
Bredenhand, J C	Joshua, K H	Morkel, G N	Seppie, E R
Brey, Z	Joubert, D C J	Morkel, K	September, E E
Brinkhuis, A	Justus, C R	Mowzer, M S	Serritslev, A M
Britz, M T	Kearns, F	Mpongo, K	Seymour, V R
Brynard, J J	Kent, M E A	Mtini, V V	Sibani, P
Burger, J H H	Khan, M	Muna, B J	Sidina, W P
Busch, H E M	Kinahan, O M	Murray, D B	Sidinana, N W
Cavanagh, G V	Kirsten, I P	Mxolose, W S	Sikhutshwa, T R
Chapple, P H	Klein, T D	Ncedana, M	Simons, J M
Cuba, S L	Kleinsmidt, P J	Neilson, I D	Sinaze, D Z
Cupido, H B	Knox, A J	Neewat, D M	Siswana, Z
De La Cruz, D H	Koty, P N	Nel, L S	Sitonga, M C
Desai, M I	Kula, P	Ngomana, M M	Smith, G J
De Vries, D	Kwayinto, E N	Ngombane, M E	Smith J P
De Vries, F	Landingwe, N J	Nkwele, W A	Sotashe, X
Du Toit, J S Q	Lategan, K H	Nqubelani, O B	Syre, H
Dunn (De Villiers), E L	Lee, B E H	Ntamo, G T	Tabisher, C
Dunn, L R	Le Roux, B	Ntotoviyane, C	Taylor, M C
Elese, D	Leukes, G K	Nyakatya, N C	Thee, J W P
Erleigh, D P	Links, W J	Odendaal, B B	Thompson, T B
Esau, S	Ludidi, M T	Oliver, M J	Thuynsma, J
Ferris, C J	Lukas, F	Omar, A R	Tokwana, T
Fienies, M M	Maboee, B E	Omar, L	Traut, A
Fuchs, A H	Madikane, N F	Parker, H J S	Twigg, G G
Gabriel, P J	Magaxa, K E	Pascoe, G I	Uys, P
Gocini, M T	Magerman, H S	Paulse, G K	Van Der Bijl, W
Gophe, X O	Makanda, M	Petersen, I P	Van Der Ross, B A
Groenewald, E	Makeleni, A	Pick, U E	Van Rensburg, L J
Gutuza, F S	Malan, M	Pietersen, F J	Venter, P J
Hanekom, A	Marais, A J du T	Pietersen, J B	Vos, J
Hanekom, J J H	Matiwane, M P	Plato, D	Walker, B V M
Haskin, G	Matshikiza, A B	Pokwana, N C	Watkyns, B R W
Hassiem, W	Mavungavunga, V N	Price, D E	Williams, C
Hatting, C A	Mawela, X G	Pringle, S B	Zuma, B A

EXECUTIVE MAYOR: Alderman N Mfeketo

DEPUTY MAYOR: Councillor P Uys

SPEAKER: Alderman G Paulse

APPROVAL OF FINANCIAL STATEMENTS

The financial statements, which appear on pages 7 to 33 were approved by the City Manager and will be presented to Council for approval.

W A MGOQI
CITY MANAGER

A RADHAKRISHNA
ACTING CHIEF FINANCIAL OFFICER

DATE 9/12/2003

DATE 9/12/2003

FOREWORD

CHIEF FINANCIAL OFFICER'S REPORT

1. INTRODUCTION

This is the final set of financial statements drawn up in line with the guidelines set by the Institute of Municipal Finance Officers. In future financial statements will be drawn up to conform with the principles set by Generally Accepted Municipal Accounting Practices. (GAMAP)

During the current financial year the City of Cape Town transformed from utilising the financial system of former seven legacy administrations into a SAP financial system from January 2003 commencing with the general ledger, expenditure and procurement activities and the full integration is expected to be achieved during September 2003. This financial system should prove more effective and ensure improved financial management in future.

It was a challenging year during which many demands were made on staff and resources.

2. OPERATING RESULTS

The overall operating results for the City of Cape Town for the year ended 30 June 2003 are shown below. The classification of income and expenditure is included in Appendix D, while the detailed operating results per service are shown in Appendix E. The applicable statistics are shown in Appendix F.

It will be noted that the operating budget figures in this report reflect the revised budget figure after the virementing process.

Notwithstanding these differences in budget figures between certain services, the overall budget figures are still in balance.

The overall operating results for the 2002/2003 financial year reflect a surplus of R188,9 million.

	Actual 2002 R'000	Actual 2003 R'000	Variance Actual 2002/2003	Budget 2003 R'000	Variance Actual/ Budget %
Income	7.115.708	7.944.388	11,6	7.736.796	2,6
Expenditure	6.897.681	7.755.484	12,4	7.736.796	0,2
Surplus for the year before appropriations	218,027	188,904	-	-	-

The following table reflects the effect of the operating results on the Retained Income brought forward:

	Actual 2002 R'000	Actual 2003 R'000
Retained income at beginning of year	501,792	38,492
Operating surplus for the year	218,027	188,904
Appropriations during the year	(681,327)	(209,492)
Retained income at end of year	38,492	17,904

2.1 Rates and General Services

Rates and General Services	Actual 2002 R'000	Actual 2003 R'000	Variance Actual 2002/2003	Budget 2003 R'000	Variance Actual/ Budget %
Income	4.016.255	4.712.073	17,3	4.454.669	5,7
Expenditure	3.924.807	4.404.976	12,2	4.278.739	2,9
Surplus	91,448	307,097	234,7	175,930	74,0

Surplus as % of Total Income	2,3	6,5	-	3,9	-
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The operating results of the Rate and General Services reflect a surplus of R307,1 million compared to a budgeted surplus of R175,9 million, due to increased income.

2.2 Housing Service

Housing Service	Actual 2002 R'000	Actual 2003 R'000	Variance 2002/03 %	Budget 2003 R'000	Variance Actual/ Budget %
Income	84.549	91.492	8,2	102.053	(10,3)
Expenditure	205.787	230.990	12,2	247.884	(6,8)
Deficit	(121,238)	(139,498)	15,0	(145,831)	4,3
(Deficit) as % of Total Income	(143,7)	(152,4)		(142,8)	

2.2.1 Operating Income

The actual accrued operating income of R91,4 million for Housing in 2003 compares favourably with the budgeted amount of R102 million.

2.2.2 Operating Expenditure

The net actual expenditure incurred on housing operations amounted to R230,9 million for 2003 against a budget of R247,8 million.

2.2.3 Deficit

The final result is a deficit of R139,4 million against a budgeted deficit of R145,8 million.

2.3 Trading Services

Electricity Service

Electricity Service	Actual 2002 R'000	Actual 2003 R'000	Variance 2002/03 %	Budget 2003 R'000	Variance Actual/ Budget %
Income	2.303.362	2.403.318	4,4	2.474.227	(2,9)
Expenditure	2.122.706	2.400.668	13,1	2.466.352	(2,7)
Surplus	180,656	2,650	(98,6)	7,875	(66,3)
Surplus/(Deficit) as % of Total Income	7,84	0,1		0,3	

The final results of the service reflect a surplus of R2,6 million.

Water Service

Water Service	Actual 2002 R'000	Actual 2003 R'000	Variance 2002/03 %	Budget 2003 R'000	Variance Actual/ Budget %
Income	668.564	694.262	3,8	657.530	5,6
Expenditure	592.373	666.230	12,5	693.131	(3,9)
Surplus/(Deficit)	76,191	28,032	(63,4)	(35,601)	178,7
Surplus/(Deficit) as % of Total Income	11,4	4,03		(5,4)	

This service reflects a surplus of R28 million compared to a budgeted deficit of R35,6 million, which results

in a positive variance of R63,6 million.

Abattoir Service

Abattoir Service	Actual 2002 R'000	Actual 2003 R'000	Variance 2002/03 %	Budget 2003 R'000	Variance Actual/ Budget %
Income	11,075	7,134	(41,0)	17,308	(58,7)
Expenditure	20,105	19,534	(2,8)	20,511	(4,8)
Surplus/(Deficit)	(9,030)	(12,400)	43,9	(3,203)	(287,1)
Surplus/(Deficit) as % of Total Income	(81,5)	(173,8)		(18,5)	

The operating results yielded a deficit of R12,4 million as a result of the operational activities of the abattoir declining as stated in the statistical information in Appendix F. Of concern is the Accumulated Deficit of this service now amounting to R43,6 million, which will increase further in the 2003/2004 financial year.

Epping Fresh Produce Market

Epping Fresh Produce Market	Actual 2002 R'000	Actual 2003 R'000	Variance 2002/03 %	Budget 2003 R'000	Variance Actual/ Budget %
Income	31,903	36,109	12,6	31,009	16,4
Expenditure	31,903	33,086	3,7	30,180	9,6
Surplus/(Deficit)	-	3,023	-	829	264,6
Surplus/(Deficit) as % of Total Income	-	8,3	-	2,7	

The operating results yielded a surplus of R3 million, against a budgeted surplus of 0.8 million.

3. CAPITAL EXPENDITURE AND FINANCING

The expenditure incurred with regard to fixed assets during the year, amounted to R1,333,7 million. The actual expenditure is 67,7% of the budgeted amount. Expenditure from own funding source was 70,6% of budget whilst expenditure from grant funding was 58,4%.

Capital Expenditure per Service	Actual 2002 R'000	Actual 2003 R'000	Budget 2003 R'000	Variance Actual/ Budget %
Rates and General	981,465	821,530	1,141,348	(28,02)
Housing	85,652	151,590	338,642	(55,2)
Trading Services: Electricity	241,079	227,120	275,370	(17,5)
Trading Services: Water	105,262	129,473	207,438	(37,5)
Market	2,739	2,407	5,519	(56,4)
Abattoir	1,583	1,592	1,635	(2,61)
	1,417 780	1,333,712	1,969,952	(32,3)

The aforementioned fixed assets were financed from the following sources.

Source of Finance	Actual 2002 R'000	Budget 2003 R'000	Actual 2003 R'000
Consolidated Loans Fund	1,152,295	1,287,859	982,777
Contribution from:			
→ Operating Account	2,286	404	4,109
→ Reserves	107,285	216,811	75,476
→ Grants and Subsidies	162,560	464,878	271,350
→ Consolidated Loans Fund: Direct Appropriation	2,457		-
→ Temporary Advances	(10,539)		-
→ Unfunded Capital	1,436		-
	1,417,780	1,969,952	1,333,712

A complete analysis of capital expenditure (budgeted and actual) per classification is included in Appendix C. More details regarding external loans and internal advances used to finance fixed assets are shown in Appendix B.

4 EXTERNAL LOANS, INVESTMENTS AND CASH

External Loans outstanding on 30 June 2003 amounted to R2,122,9 million as set out in Appendix B. During the year, loans of R81,6 million were repaid and loans to the value of R520 million taken up. The DBSA loans were consolidated.

The net increase in external loans amounts to R452,5 million.

Investments on 30 June 2003 amounted to R989,3 million of which only R394,6 million is available to cash back a portion of the reserves as per appendix A. The bank balance on 30 June 2003 reflects a total amount of R177,1 million.

Additional information regarding loans and investments is disclosed in notes 4 and 7 and Appendix B to the financial statements.

5 FUNDS AND RESERVES

Additional information regarding funds and reserves is disclosed in notes 1 to 3, and Appendix A to the financial statements. It is important to note that the funds and reserves are not fully represented by cash or investments as these funds were partially used to make advances to the CLF, from which in turn, the funds are utilised to make advances to borrowing accounts to fund capital projects.

Interest at an average rate of 12,21 % p.a. (Applying the average method) was paid on funds invested in the Consolidated Loans Fund.

6 DEBTORS

The Debtors amount to R3,205 million of which R1,437,3 million is covered by a bad debt provision.

7 STATUTORY BODIES / JOINT VENTURES / PUBLIC PRIVATE PARTNERSHIP

During the 2002/2003 financial year the Council rendered a financial service to the following bodies.

7.1 Cape Metropolitan Transport Fund

Council is responsible for the preparation of separate financial statements for the Cape Metropolitan Transport Fund, which as a separate entity is being audited separately.

7.2 Cape Metropolitan Tourism (CMT)

Council is responsible for the preparation of separate financial statements for the CMT organisation, which as a separate entity is being audited separately.

7.3 Joint Ventures / Public Private Partnerships

The Council is currently involved in a number of joint ventures (JV's)/Public Private Partnerships (PPP's). For more details see Appendix H.

8. EXPRESSION OF APPRECIATION

I wish to convey my sincere appreciation to Her Worship the Executive Mayor, Deputy Executive Mayor, the other Mayoral Committee members, the Chairperson and the Deputy Chairperson of the Finance Portfolio Committee, City Manager, Top Management Team of the City of Cape Town for their support and co-operation received during the year.

I also wish to convey a special word of appreciation to the staff responsible for compiling the financial statements for their dedication, as well as to all other financial staff for their support. This is a major milestone which was achieved.

I wish to extend a special gratitude to the staff of the Auditor-General for their assistance and support during the year.

A RADHAKRISHNA
ACTING CHIEF FINANCIAL OFFICER
CITY OF CAPE TOWN

ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

- 1.1_ These financial statements have been prepared as far as possible so as to conform to the standards laid down by the Institute of Municipal Finance Officers (IMFO) in its Code of Practice for Local Government Accounting (1997) and the Published Annual Financial Statements for Local Authorities (2nd edition 1996, as amended).
- 1.2_ The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3 below.
- 1.3_ The financial statements are prepared on the accrual basis as stated hereunder: -
- ➔ Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received.
 - ➔ RSC levies are accrued on declarations made by levy payers.
 - Provisional assessments are not shown as debtors or income until a declaration has been submitted, even if payment has been made on the assessment.
 - ➔ Expenditure is accrued in the year it is incurred.

2. CONSOLIDATION

- 2.1 The financial statements include RSC levy funded services, Rate and General Services, Housing Service, Trading Services and the different funds, reserves and provisions. However Bulk Service charges (i.r.o. Water, Electricity, Sewerage and Solid Waste) and other inter-administration charges are set off at consolidation where possible.

3. FIXED ASSETS

- 3.1 Fixed assets are stated:

- ➔ at historical costs, or
- ➔ at valuation based on the market value at date of acquisition where assets have been acquired by grant or donation.

- 3.2 Fixed assets acquired during the year with a cost of R1 000 or more are capitalised.

3.3 Disposal of Assets

Assets are written off on disposal.

3.4 Depreciation

The Council does not directly depreciate assets.

The balance shown against the heading **“Loans Redeemed and other Capital Receipts”** on the balance sheet is tantamount to a provision for depreciation, however, certain structural differences exist. By way of this **“Provision”** assets are written down over their estimated useful life. Apart from advances from the various Council funds, assets may also be acquired through:

- ➔ Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income, and therefore it is unnecessary to make any further provision for depreciation.
- ➔ Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the **“Loans Redeemed and Other Capital Receipts”** account.

- 3.5** All net proceeds from the sale of fixed property, and all other assets are credited to the relevant Consolidated Loans Fund except where otherwise provided.
- 3.6** Capital assets are financed from various sources, including external loans, operating income, internal advances, grants and external contributions. These loans and advances are repaid, within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

4. INVENTORY

- 4.1** Stores and material are valued at the lower of cost, determined on the weighted average basis, and net realisable value.
- 4.2** Redundant and slow moving inventories are identified and written down with regard to their estimated economic or realisable values. Consumables are written down with regard to their age, condition and utility.

5. STATUTORY FUNDS

5.1 Consolidated Loans Fund

The object of the Fund is to centralize all loans raised and moneys on hand in one fund in order to facilitate the control and management thereof. Internal advances from the Fund are used to finance capital assets.

Advances are made to borrowing services at an interest rate approximating the cost of external funding as more fully described in terms of the Asset Policy.

All advances bear the effective average market interest rate for the financial year in which the expenditure was incurred, or the earmarked rate applicable to a specific advance. The fund is administered in terms of Section 10G(6) of the Local Government Transitional Act and the conditions and criteria for the raising of loans by municipalities published under R412 dated 27 March 1998 in the Government Gazette and fifty percent of the surplus of the Fund's operating account is capitalized, the balance being credited to the Rate and General Service Account.

5.2 Housing Development Fund

Section 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, require that the municipality maintains a separate operating account. This legislated separate operating account will be known as the Housing Development Fund.

The Housing Act also requires, in terms of Section 14(4)(d)(ii)(aa) read with, inter alia, Section 16(2) that the net proceeds of any letting, sale of property or alienation, financed previously from government housing funds, be paid into a separate operating account and to be utilized by the Municipality for housing development in accordance with the National Housing Policy.

5.3 Dog Tax Fund

Ordinance No 19 of 1978 permits Council to maintain a special account relating to the control of dogs. The net proceeds from this account are credited to the Dog Tax Fund.

5.4 Parking Areas Development Fund

The Fund is established in terms of Section 10G of the Local Government Transitional Act. The net proceeds from the operation of parking meters and parking areas are credited to this fund. The fund is utilized for improvements or regulation of traffic conditions including installing and maintaining parking meters or parking areas.

5.5 Electricity Capital Development Fund

The annual contribution to the fund is assessed as a percentage of the previous year's estimated income on the operating account of the Electricity Service. Advances from the Fund are utilized to finance Electricity capital assets and the interest on advances from the Fund is charged at the same rate as that pertaining to advances from the Consolidated Loans Fund. Fifty percent of the interest received is credited to the Income and Expenditure Account of the Electricity Service.

5.6 Water (Distribution) Capital Development Fund

The annual contribution made to the Fund is based on a rate per kilolitre of the estimated water sales during the year within the Municipal Area. Advances from the Fund are used to finance Water (Distribution) capital assets. The interest on advances from the fund is charged at the same rate as that pertaining to the Consolidated Loans Fund and fifty percent of the interest received is credited to the Income and Expenditure Account of the Water Service.

5.7 Social Development Capital Fund

The fund was established for specific housing schemes or related infrastructure and the upgrading of projects.

5.8 Insurance Fund

A General Insurance Fund has been established and, subject to reinsurance where deemed necessary, covers claims that may occur. Premiums are charged to the respective Services, taking into account claims history and replacement value of the insured assets.

6. PROVISIONS

Certain general provisions have been established to meet liabilities or contingencies which are known at the date of the balance sheet, but for which the amounts cannot be determined with substantial accuracy. Where considered necessary, reserves are established to meet possible future eventualities.

6.1 Post Retirement Benefits

6.1.1 Pensions / Retirement Funds

The Council and its employees contribute to various Pension Funds and its councillors contribute to the Pension Fund for Municipal Councillors. Both provide retirement benefits to such employees and councillors.

The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed on a regular basis.

Current contributions are charged against the operating account of the Council at a percentage of the basic salary paid to employees, or allowances in the case of councillors.

Pension contributions in respect of employees who were not members of a pension fund are recognized as an expense when incurred.

A Staff Provident Fund is maintained to accommodate personnel who, due to age, cannot join or be part of the various Pension/Retirement Funds. Council contributes annually to the Fund.

6.1.2 Medical Aid: Continued Members

Council provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which Council is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and Council for the remaining 70%.

These contributions are charged to the operating account. Council will contribute annually during the employees employment period towards funding the post retirement and current obligations. Actuarial valuations are to be performed every three years and the most recent valuation took place on 1 January 2001.

The arrear contribution for post retirement medical aid obligation as actuarially valued at 1 July 2003 will be provided for over a period of 10 years, beginning 1 July 2003, in equal amounts per annum. This financial obligation to be reviewed every 3 years during the 10 year period and the provision adjusted to provide full provision for the remaining determined liability over the remaining portion of the 10 year period, in equal annual instalments.

6.2 Accrued Leave Pay

Liabilities for annual leave are recognized as they accrue to employees. Provision is based on the potential cash liability.

6.3 Accounts Receivable

Accounts Receivable consist of amounts owed to the municipality by ratepayers and consumers. A provision for doubtful accounts is established based on past experience in the collection of accounts receivable and analysis of outstanding balances.

In order to achieve this required level of provision, the shortfall as determined on 30 June 2003 will be phased in over five years commencing 1 July 2003. In addition, for each year after 1 July 2003, provision will be included in the annual operating budget for doubtful debts, which provision will be provided in full, based on the annualized payment levels experienced to the date of the budget submission to Council in the financial year in which the budget is prepared.

7. TRUST FUNDS

A number of Trust Funds are operated and consist of money contributed, donated or bequeathed for specific use.

8. UNREALISED HOUSING PROCEEDS

In order to comply with Section 14(4)(d)(i) and (ii) of the Housing Act, (Act 107 of 1997) where all net proceeds need to be paid into the Housing Development Fund, it was necessary to create a holding account which represents the unrealized funds due by long-term housing selling schemes and sponsored loan debtors. This account is reduced when debtors are billed for their payment.

9. SURPLUSES AND DEFICITS

Contributions from the electricity and water services to the Rate and General Account are made as provided for in the budget for the year. After making these contributions the surpluses or deficits of the abovementioned trading undertakings are transferred to appropriate reserves.

10 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The cost of internal support services is transferred to the different services in accordance with the IMFO's Report on Accounting for Support Services, where practicable or according to criteria laid down by Council.

11 LEASED ASSETS

Assets leased in terms of finance leases are capitalised at their cash cost equivalent and a corresponding liability is raised.

Lease finance charges are allocated to accounting periods over the duration of the leases by the effective interest rate method, which reflects the extent and cost of lease finance utilized in each accounting period. The capitalized value of a leased asset is written off to the operating account over the term of the relevant lease.

All other leases are treated as operating leases and the relevant rentals are charged to the operating account.

12 INVESTMENT

Investments are shown at the lower of cost or market value, if a permanent decline in the value occurred, and are invested in terms of relevant legislation. Interest due, not yet paid is accrued as at 30 June annually.

13 DEFERRED CHARGES

- 13.1** Represent the balance outstanding on the costs incurred in raising loans on the capital market, which is recovered from operating income of the Consolidated Loans Fund over the periods of the various loans involved or/and
- 13.2** The outstanding balance on any advance in respect of assets written off prior to the advance being fully repaid.

14 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transactions. Where the transaction is covered by a forward exchange contract, the rate specified in the contract is used.

15 REVENUE RECOGNITION

Revenue is derived from a variety of sources which include Rates levied, grants from other spheres of government and revenue from trading activities and other services provided. Except as noted below, revenue is recognized when earned and is reported in the financial period to which it relates.

- 15.1** Revenue from rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Interest on unpaid rates is recognized on a time proportion basis.

A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers.

- 15.2** Service charges relating to Electricity and Water are based on consumption. Meters are read on a monthly basis and are recognized as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognized as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognized as revenue in the invoicing period.

A flat rate per month will be levied as a water recovery charge where either no meters are installed or not registered and will be recognized at time of billing.

- 15.3** Certain legal processes have to be implemented before fines are enforceable. As a result revenue arising from fines is only recognised when collected.
- 15.4** Various services are provided on a prepayment basis in which case no formal billing takes place and income is accrued when received.
- 15.5** The Regional Establishment Levy and Regional Services Levy is recognised at the time of receipt of the RSC4 return submitted by all registered levy payers. Where the RSC4 return is not submitted an estimated account is issued. Council however does not recognise these estimates as income for the year.
- 15.6** Income in respect of housing rental and instalments is accrued monthly in advance.

16 GRANTS-IN-AID

Council transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, Council does not:

- ◆ Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- ◆ Expect to be repaid in future; or
- ◆ Expect a financial return, as would be expected from an investment.
- ◆ These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

17 VALUE ADDED TAX

The Council accounts for Value Added Tax on the payment basis.