

Chapter 4: AUDITED STATEMENTS & OTHER FINANCIAL INFORMATION

4.1 Overview

Rating History:	2010	2009
Long-term	za.A	za.A
Short-term	za.A1-	za.A1-

Financial and Operating Statistics		
Years ended 30 June: (R million)	2010	2009
Net Assets	12,401	12,346
Borrowings	536,7	578,3
Investments	4,4	3,7
Net current assets	360,0	388,5
Receivables from exchange transactions	388,2	264,8
Cash and cash equivalents	558,3	694,6
Total revenue	2 681,7	2 172,9
Operating expenses	2 749,9	2 367,0
Operating surplus / (deficit)	(68,2)	(194,1)



4.1.1 Revenue and expenditure overview

Revenue sources of Buffalo City are similar to most local municipalities and comprise primarily income from property taxes, service charges and from the sale of water and electricity. A breakdown of the gross revenue sources of Buffalo City is as follows:

Revenue Sources				
	2010		2009	
	Rm	%	Rm	%
Property Rates	427,0	15,9	363,5	16,7
Grants	801,8	29,9	576,7	26,5
Electricity	802,5	29,9	603,0	27,8
Water	201,6	7,5	181,1	8,3
Other Service Charges	281,8	10,5	287,1	13,2
Other Income	167,0	6,3	161,5	7,5
	2 681,7	100,0	2 172,9	100,0

In 2009 and 2010 financial periods, grants and subsidies from government remained at just over a quarter of Buffalo City's income. In 2010 the City received 29,9% of its revenue from grants, compared to 27,0% in 2005, 25,3% in 2006, 27,5% in 2007, 28,6% in 2008 and 26,5% in 2009. Total grants of R801,8 million include the equitable share and provincial grants. Future grants appear to be on the increase, based on the central government's policy to improve the service delivery at municipal level.

The primary future revenue source is property rates levied on the value of the land, including the value of improvements. In 2010 this revenue source of R427,0 million contributed 15,9% of the total revenue. Buffalo City's property valuation demonstrates a well-diversified and stable tax base.

Trading services such as water and electricity sales jointly comprise 37,4% of total revenue. Water distribution losses remain high at 39,9% compared to the national standard of 20%. The City has set a target to reduce the distribution losses to 30% over the medium term.

The sale of electricity contributed 29,9% to the City's income. Buffalo City provides electricity to the urban and semi-urban areas in its jurisdiction whereas Eskom provides to the rural areas. Distribution losses of 8,59 % of units bought are acceptable when compared to the industry average and reflect a well-managed electricity distribution network.



The operating expenditure for 2000 of Buffalo City is largely inflexible and requires sound budgeting and discipline to keep costs within budget. The various Directorates were within budget for the 2010 financial year.

Overall the actual costs were slightly below budget. Although the growth in expenses of 16,2% was below the revenue growth of 23,4%, there was an operating deficit of R68,2 million after taxation and including share of surplus of associate. The following table reflects a breakdown of the operating expenditure of the municipality:

Operating Expenses				
	2010		2009	
	Rm	%	Rm	%
Bad Debts	24,3	0,9	138,1	5,8
Electricity Purchases	487,5	17,7	363,7	15,4
Water Purchases	106,2	3,9	103,0	4,4
Depreciation	516,5	18,8	412,3	17,4
Employee Costs	791,1	28,8	669,5	28,3
Interest Paid	62,0	2,2	62,2	2,6
Other expenses	587,6	21,4	501,4	21,2
Repairs and maintenance	174,7	6,3	116,8	4,9
	2 749,9	100,0	2 367,0	100,0

Municipal services are labour intensive and staff remuneration normally constitutes a large proportion of the municipality's expense budget. The staff-to-income ratio of Buffalo City is at 29,5% which reflects a slight decrease from the 30,8% in 2009. This is currently just below the norm of 30%. Councillor's costs comprise a minor portion of total expenditure.

Electricity purchases comprise 17,7% of total expenditure. This cost item might be transferred to a Regional Electricity Distributor (RED) over the following year or two.

The purchase of water comprises only 3,9% of expenses as Buffalo City controls most of its water resources. The city purchases below 20% of its water supply from the Amatola Water Board.

Maintenance expenditure on existing infrastructure is a very crucial expense item and is sometimes given less priority than others. The deferment of maintenance is common practice



among municipalities. While the deferment of maintenance expenditure has short term cash flow benefits, it has adverse long-term effects on operating costs and the sustainability of quality service delivery. Buffalo City's external maintenance costs comprise 6,3% of total expenses (4,9% - 2009) and 1,38% of the carrying value of its fixed assets (0,93% - 2009). Council remains concerned that the maintenance is not at the optimum level.

4.1.2 Liquidity management

Buffalo City's liquidity position is considered to be under severe pressure given the net cash resources and monthly cash flows. The city has an active cash management system in operation to control this crucial aspect of its finances. Over the last decade municipalities have been burdened by a culture of non-payment for services, resulting in generally low collection rates and increasing outstanding debtor's balances.

During 2010 Buffalo City's gross debtors grew by 21,3% to R735,4 million before contribution to the bad debt provision from the operating account of R24,3 million. The net debtors after provisions for bad debt increased from R264,8 million to R388,2 million. The debtors' collection period as a percentage of billings is 93,58%. This ratio is less than ideal, it does however compare well with that of the other large cities in South Africa.

The age analysis of Buffalo City's outstanding debtors indicates balances older than 120 days of R463,1 million but provisions of only R347,2 million were raised against them.

Debtors Age Analysis				
Days	2007	2008	2009	2010
	Rm	Rm	Rm	Rm
Current	134,8	144,6	144,7	191,5
60 Days	21,8	24,6	31,3	37,1
90 Days	13,1	20,0	21,8	23,3
120 Days	12,5	12,0	27,3	20,4
120+ Days	320,9	344,9	381,2	463,1
Gross debtors	503,1	546,1	606,3	735,4
Provisions	199,1	242,0	341,5	347,2
Net debtors	304,0	304,1	264,8	388,2



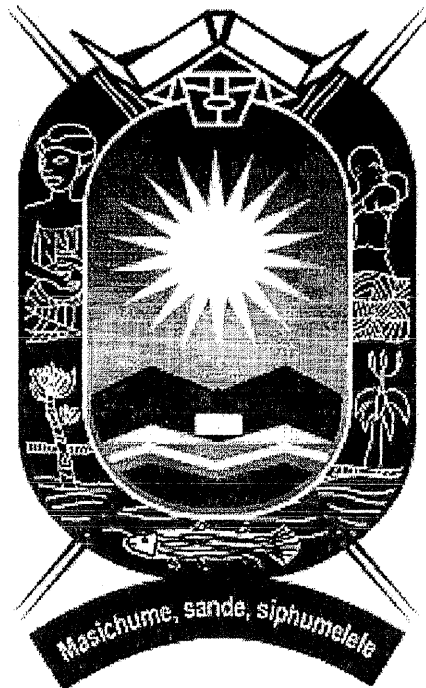
Maintaining and improving the current collection rate is crucial for the financial sustainability of the city and it remains a key rating consideration. The city's current ratio of 1,45 : 1 (2009 = 1,53 : 1) has been adversely affected by the additional write-off during the current year.

Investment and bank balances have decreased during the year from R694,6 million to R558,3 million. However, the cash investments reflect the cash backing of certain reserves, as well as unspent conditional grants of R268,1 million.

4.1.3 Summary

The Buffalo City Municipality's overall financial profile is considered to be under severe pressure. The revenue collection and debt management is strong and the sustainability of the municipality in the short to long term is promising. Finally, the municipality is well placed to deal with the demands for improved service delivery.


4.2 Audited Financial Statements



BUFFALO CITY ECONOMIC ENTITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

I am responsible for the preparation of these Annual Financial Statements, which are set out herewith, in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Economic Entity.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Mr. A. Fani
Acting Municipal Manager

Date 10/12/2010

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2010

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The reports and statements set out below comprise the annual financial statements presented to the Auditor General:

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BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2010	2009	2010	2009
Assets					
Current Assets					
Cash and cash equivalents	4	559,471,089	695,870,441	558,293,844	694,578,376
Inventories	5	91,419,656	64,213,171	91,419,656	64,213,171
Trade and other receivables from non-exchange transactions	6	19,382,719	26,758,364	18,909,287	26,731,850
VAT receivable	7	51,059,163	37,532,147	51,059,163	37,532,147
Operating lease asset	8	55,116,068	52,211,305	55,116,068	52,211,305
Consumer debtors	9	388,160,580	264,772,865	388,160,580	264,772,865
Long term receivables	10	10,776	17,806	10,776	17,806
Current tax receivable	11	122,107	122,107	-	-
		1,164,742,158	1,141,498,206	1,162,969,374	1,140,057,520
Non-Current Assets					
Intangible assets	12	12,070,565	11,089,916	12,070,563	11,089,916
Investment property	13	201,198,657	201,198,657	201,198,657	201,198,657
Long term receivables	10	82,330	93,106	82,330	93,106
Non current investments	14	4,410,946	3,709,525	4,410,946	3,709,525
Property, plant and equipment	15	12,615,739,211	12,581,581,457	12,615,684,565	12,581,486,325
Investment in associate	16	-	3,626,888	-	3,626,888
Deferred tax	17	36,345	42,119	-	-
		2,833,538,054	12,801,341,668	12,833,447,061	12,801,204,417
Total Assets		13,998,280,212	13,942,839,874	13,996,416,435	13,941,261,937
Liabilities					
Current Liabilities					
Borrowings	18	29,905,379	41,319,522	29,905,379	41,319,522
Consumer deposits	19	30,375,105	28,308,327	30,375,105	28,308,327
Finance lease obligation	20	834,147	744,716	834,147	744,716
Provisions	21	119,308,428	101,369,867	119,308,428	101,369,867
Trade and other payables	22	344,669,828	298,904,737	344,417,870	298,167,786
Unspent conditional grants and receipts	23	268,647,600	282,167,087	268,102,441	281,621,928
VAT payable	62	405,894	681,545	-	-
		794,146,381	753,495,801	792,943,370	751,532,146
Non-Current Liabilities					
Borrowings	18	506,805,746	536,989,896	506,805,746	536,989,896
Finance lease obligation	20	861,800	531,813	861,800	531,813
Provisions	21	33,207,701	71,613,709	33,207,701	71,613,709
Retirement benefit obligation	24	261,331,883	233,792,235	261,331,883	233,792,235
		802,207,130	842,927,653	802,207,130	842,927,653
Total Liabilities		1,596,353,511	1,596,423,454	1,595,150,500	1,594,459,799
Net Assets		12,401,926,701	12,346,416,420	12,401,265,935	12,346,802,138
Net Assets					
Revaluation reserve	25	16,620,963	17,194,100	16,620,963	17,194,100
Accumulated surplus		12,385,305,736	12,329,222,325	12,384,644,974	12,329,608,038
Total Net Assets		12,401,926,699	12,346,416,425	12,401,265,937	12,346,802,138

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2010	2009	2010	2009
Revenue	28&61	2,561,885,911	2,072,698,556	2,561,908,544	2,072,718,288
Other revenue	32	119,803,960	102,585,102	119,803,960	100,239,449
Operating expenses	33	(2,748,910,128)	(2,366,286,356)	(2,749,928,271)	(2,363,390,506)
Operating deficit		(67,220,257)	(191,002,698)	(68,215,767)	(190,432,769)
Investment revenue	49&38&61	87,066,244	83,532,134	87,009,341	83,343,492
Fair value adjustments	39	(3,087,502)	61,762	(3,087,502)	61,762
Income from equity accounted investments		-	1,189,087	-	1,189,087
Net Gain/ (Loss) on disposal of assets		1,076,212	3,383,856	1,076,212	3,383,856
Finance costs	41	(108,121,292)	(112,131,447)	(108,121,128)	(112,128,079)
Deficit before taxation		(90,286,595)	(214,967,306)	(91,338,844)	(214,582,651)
Taxation	64	(5,774)	(2,636)	-	-
Deficit for the year from continuing operations		(90,292,369)	(214,969,942)	(91,338,844)	(214,582,651)
Fair value movements in trade and other payables		241,801	2,515,473	241,801	2,515,473
Deficit for the year		(90,050,568)	(212,454,469)	(91,097,043)	(212,067,178)

BUFFALO CITY ECONOMIC ENTITY

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Economic entity			
Balance at 01 July 2008	182,038,156	6,156,917,447	6,338,955,603
Changes in net assets			
Surplus for the year	-	(212,454,469)	(212,454,469)
Transactions - Revaluation reserve	(164,844,056)	-	(164,844,056)
Asset take on	-	1,400,087,021	1,400,087,021
Adjustment of interest allocated to coid and insurance	-	(3,997,670)	(3,997,670)
VAT adjustment	-	(245,285)	(245,285)
Total changes	(164,844,056)	1,183,389,597	1,018,545,541
Opening balance as previously reported	17,194,100	7,340,307,044	7,357,501,144
Adjustments			
Prior year adjustments	-	4,988,915,281	4,988,915,281
Balance at 01 July 2009 as restated	17,194,100	12,329,222,325	12,346,416,425
Changes in net assets			
Surplus for the year	-	(90,050,568)	(90,050,568)
Take on of properties at deemed cost	-	145,560,842	145,560,842
Offset depreciation	(573,137)	573,137	-
Total changes	(573,137)	56,083,411	55,510,274
Balance at 30 June 2010	16,620,963	12,385,305,736	12,401,926,699
Note(s)	25		
Controlling entity			
Balance at 01 July 2008	182,038,156	6,156,670,579	6,338,708,735
Changes in net assets			
Surplus / (Deficit) for the year	-	(212,067,178)	(212,067,178)
Transactions - Revaluation reserve	(164,844,056)	-	(164,844,056)
Asset take on	-	1,400,087,026	1,400,087,026
Adjustment of interest allocated to coid and insurance	-	(3,997,670)	(3,997,670)
Total changes	(164,844,056)	1,184,022,178	1,019,178,122
Opening balance as previously reported	17,194,100	7,340,692,757	7,357,886,857
Adjustments			
Prior year adjustments	-	4,988,915,281	4,988,915,281
Balance at 01 July 2009 as restated	17,194,100	12,329,608,038	12,346,802,138
Changes in net assets			
Surplus / (Deficit) for the year	-	(91,097,043)	(91,097,043)
Take on of properties at deemed cost	-	145,560,842	145,560,842
Offset depreciation	(573,137)	573,137	-
Total changes	(573,137)	55,036,936	54,463,799
Balance at 30 June 2010	16,620,963	12,384,644,974	12,401,265,937
Note(s)	25,49,		