

**ACCOUNTING POLICIES  
TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**1. OBJECTIVE**

The objective of the annual financial statements is to be a source of information on the financial position, performance and changes in financial status of the Steve Tshwete Local Municipality and demonstrates accountability useful to a wide range of users in making economic or political decisions.

**2. BASIS OF PRESENTATION**

The financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost basis unless otherwise stated. Under this basis the effects of transactions and other events are recognised when they occur and are recorded in the financial statements within the period to which they relate.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General Notices 991 and 992 of 2005.

These standards are summarised as follows:

- GRAP 1 Presentation of financial statements.
- GRAP 2 Cash flow statements.
- GRAP 3 Accounting policies, changes in accounting estimates and errors.
- GAMAP 4 Effects of changes in foreign exchange rates.
- GAMAP 6 Consolidated financial statements and accounting for controlled entities.
- GAMAP 9 Revenue.
- GAMAP 7 Accounting for investments in associates.
- GAMAP 8 Financial reporting of interests in joint ventures.
- GAMAP 12 Inventories.
- GAMAP 17 Property, plant and equipment.
- GAMAP 19 Provisions, contingent liabilities and contingent assets.

GAMAP 6, 7 and 8 have been complied with to the extent that the requirements in these standards related to the municipality's separate financial statements.

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Accounting policies for material transactions, events or conditions not covered by the above GRAP and/or GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 552 of 2007 exempted compliance with certain of the above-mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual statements. An application for deviating from Gazette 30013 of 29 June 2007 to fully comply with IAS 19/AC 116, IAS 17/AC105 and IAS 38/AC129 for the 2007/2008 financial year was granted by National Treasury.

These accounting policies are consistent with those of the previous financial year.

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

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

**3. PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand and are rounded to the nearest Rand.

**4. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

**5. HOUSING DEVELOPMENT FUND**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund.

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Monies standing to the credit of the Housing Development Fund are used to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Proceeds from housing development fund schemes which include rental income and sale of houses are recognised as revenue in the statement of financial performance and a corresponding transfer is made to the Fund.

Expenditure allowed in terms of the Housing Act is expensed in the Statement of Financial Performance and a corresponding transfer is made to and from the Fund.

**6. RESERVES**

**6.1 Capital Replacement Reserve (CRR)**

The purpose of the CRR is to set aside cash to provide infrastructure and other items of property, plant and equipment from internal sources.

All cash received from the Council's coal reserves is being transferred to the CRR account. All surplus cash on the sale of erven are also transferred to the CRR to set aside cash for future property developments.

The cash is transferred to a designated CRR account and can only be used to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised. The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

**6.2 Capitalisation Reserve**

The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from the Capitalisation Reserve to the accumulated surplus/(deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit).

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When an item of property, plant and equipment is disposed of, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

### **6.3 Government Grant Reserve**

When items of property, plant and equipment are purchased from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury.

When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit).

The purpose of this reserve is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation expenses that will be incurred over the estimated useful lives of the items of property, plant and equipment funded from government grants.

When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grants Reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment financed from government grants is disposed of, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

### **6.4 Donations and Public Contributions Reserve**

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/(deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury.

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The purpose of this reserve is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment financed from donations and public contributions is disposed of, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/(deficit).

#### **6.5 Self-Insurance Reserve**

A Self-Insurance Reserve has been established and, subject to external insurance 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.

The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception. These surpluses arose from the differences between premiums charged against claims paid and various administrative expenditure incurred.

The Self-Insurance Reserve is maintained to provide for non-claimable losses as well as for motor vehicle claims until aggregated excess payment to the amount of R200 000 per annum is reached.

The Self-Insurance Reserve for electricity is mainly used for theft of distribution networks and cables, which are uncovered items in terms of the insurance contract of Council.

Contributions to and from the reserve are transferred via the Statement of Changes in Net Assets. The total amount of insurance premiums paid to external insurers are regarded as expense and is shown in the Statement of Financial Performance. Repair and replacement costs not covered by external insurance are financed from the insurance reserve. This cost is regarded as an expense and is reflected in the Insurance Reserve.

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The balance of the Self-Insurance Reserve is fully cash backed and invested in fixed and negotiable deposits.

**7. PROPERTY, PLANT & EQUIPMENT**

An item of property, plant and equipment which qualifies for recognition as an asset shall initially be measured at cost. Property, plant and equipment is stated at historical cost, less accumulated depreciation and impairment losses. Such assets are financed either by external loans, capital replacement reserve, government grants and contributions and donations.

The cost of an item of property, plant and equipment comprises of its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to working condition for its intended use.

Any trade discounts and rebates are deducted in arriving at the purchase price.

Directly attributable costs include the following:

- Cost of site preparation.
- Initial delivery and handling costs.
- Installation cost.
- Professional fees.
- Estimated cost of dismantling the asset.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

Where an item of property, plant and equipment is acquired at no cost, it is initially recognised at its fair value as at the date of acquisition.

Incomplete construction work is stated at historical cost and depreciated only when the asset is commissioned into use, and are accounted for in accordance with the exemptions in terms of Gazette 30013 of 29 June 2007.

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The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### Residual value

The residual value of an asset is determined as the estimate amount that could currently be obtained from the disposal of the asset. The residual values of assets are reviewed at each financial year end.

#### Depreciation

Depreciation is calculated at historical cost, using the straight-line method over the useful lives of the asset. Assets will be depreciated according to their annual depreciation rates based on the following estimated asset lives:

<u>Infrastructure Assets</u>	<u>Years</u>
Roads, pavements, bridges and storm water	10-30
Street names, signs and parking meters	5
Water reservoirs and reticulation	15-20
Water meters	7
Car parks, bus terminals and taxi ranks	20
Electricity reticulation	15-30
Electricity meters	10
Sewerage purification and reticulation	15-20
Housing	30
Street lighting	20-25
Refuse sites	30
 <u>Community Assets</u>	 <u>Years</u>
Parks and gardens	10-30
Sport fields	20-30
Community halls	30
Libraries	30
Recreation facilities	20-30
Clinics	30
Fire services	30
Cemeteries	30

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<u>Other Assets</u>	<u>Years</u>
Motor vehicles	4-7
Plant and equipment	2-15
Security measures	3-10
Buildings	30
IT equipment	3-5
Office equipment	3-7
Specialised vehicles	15-20

Land is not depreciated as it is regarded as having an infinite life.

The useful life or depreciation method for items of property, plant and equipment that have been recognised was not reviewed as permitted in terms of Gazette 30013 of 29 June 2007.

#### Impairment

The testing for and impairing of any items of property, plant and equipment were not accounted for as permitted in terms of Gazette 30013 of 29 June 2007

#### *Heritage assets*

These are assets that are defined as culturally significant resources and are not depreciated as they are regarded as having an infinite life. However, if improvements to heritage assets are conducted and registered as sub-assets and the useful life of the improvements can be determined, the depreciation charge of the relevant property, plant and equipment category is used for the depreciation of the sub-asset which was capitalised against the heritage asset.

#### *Disposal of property, plant and equipment*

- The book values of assets are written off on disposal.
- The difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a gain or loss in the Statement of Financial Performance.

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**8. INTANGIBLE ASSETS**

After initial recognition, an intangible asset is carried at its cost less any accumulated impairment losses and amortisation. Amortisation is charged on a straight-line basis over their useful life which is estimated to be between 3 and 5 years. The useful life of an intangible asset is the period over which that asset is expected to be available for use of by the municipality. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, but are tested for impairment annually and impaired if necessary.

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

The estimated useful life and amortisation methods are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

Intangible assets are recognised at cost. Cost is defined as the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire the asset at the time of its acquisition or construction. Only cost incurred on computer software and websites that meet the definition of an intangible asset are recognised as permitted in terms of Gazette 30013 of 29 June 2007. All other cost incurred on intangible assets during the exemption period has been expensed.

**9. INVESTMENT PROPERTY**

Investment property as property (land or a building or part of a building or both) held to earn rentals or capital appreciation is stated at cost. Where an investment property is acquired at no cost, or for a nominal cost, its cost is recognised at its fair value as at the date of acquisition.

Depreciation is calculated on cost, using the straight-line method over the useful life of the property.

The process for identifying investment property had not been finalised and items that may meet the definition was accounted for in terms of GAMAP 17 under property, plant and equipment as permitted in terms of Gazette 30013 of 29 June 2007.

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**10. FINANCIAL INSTRUMENTS**

There are four categories of financial instruments: fair value through profit or loss (which includes trading), loans and receivables, held-to-maturity and available for sale. All financial assets that are within the scope of IAS 39 are classified into one of the four categories.

Financial instruments include cash and bank balance, investments, trade receivables and borrowings. The municipality classifies its financial assets as loans and receivables. Financial instruments are accounted for in accordance with the exemptions in terms of Gazette 30013 of 29 June 2007.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities in excess of 12 months. These are classified as non-current assets.

Loans and receivables are classified as “*trade and other receivables*” in the Statement of Financial Position.

Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are measured at amortised cost using the effective interest rate.

*Accounts receivable*

Trade and other receivables are recognised initially at cost which represents fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor and default or delinquency in payments of all debt outstanding for more than 150 days are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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When an under recovery occurs during the year an additional contribution for impairment is made from the accumulated surplus at year end.

Bad debts are written off during the year in which they are identified as irrecoverable.

*Financial liabilities*

Financial liabilities are recognised initially at cost which represents fair value. After initial recognition financial liabilities are measured at amortised cost using the effective interest rate.

*Gains and losses*

Gains and losses arising from changes in financial assets or financial liabilities at amortised cost are recognised in profit and loss when the financial asset or liability is derecognised or impaired through the amortisation process.

*Investments held-to-maturity*

Subsequent to initial recognition, held-to-maturity assets are measured at amortised cost calculated using the effective interest method.

Investments which include listed government bonds, unlisted municipal bonds, fixed deposits and short term deposits invested in registered banks are stated at cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss and this is recognised as an expense in the period that the impairment is identified.

Surplus funds are invested in terms of Council's Investment Policy. Investments are only made with financial institutions registered in terms of the Deposit Taking Institutions Act of 1990 with an A1 or similar rating institution for safe investment purposes.

The investment period should be such that it will not be necessary to borrow funds against the investments at a penalty interest rate to meet commitments.

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*Leases*

Property, plant and equipment subjected to finance lease agreements are capitalised at their cost equivalent and the corresponding liabilities are raised.

The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life.

Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease payments or receipts are recognised as an expense or revenue on a straight-line basis over the lease period.

**11. INVENTORY**

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

Consumable stores, raw materials, work in progress, unused water, and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities.

Redundant and slow-moving stock are identified and written down with regard to their estimated economic or realisable values and sold by public auction. Consumables are written down with regard to age, condition and utility.

Unsold properties are valued at the lower of cost and net realisable value on a specific identification cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Water and purified effluent are valued at purified cost insofar as it is stored (controlled) in reservoirs and distribution networks at year end.

The process to identify immovable capital assets as inventory/stock are not finalised yet and were accounted for in terms of GAMAP 17 as permitted in

terms of Gazette 30013 of 29 June 2007.

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**12. TRADE CREDITORS**

Trade creditors are recognised initially at cost price as permitted in terms of Gazette 30013 of 29 June 2007.

**13. REVENUE RECOGNITION**

Revenue shall be measured at the fair value of the consideration received or receivable. No settlement discount is applicable.

*Rendering of service*

When the outcome of a transaction can be estimated reliably relating to the rendering of a service, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date.

The outcome of the transaction can be measured reliably when all of the following conditions are satisfied:

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

This principle also applies to tariffs or charges.

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

*Sale of goods*

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

- The municipality has transferred to the purchaser the significant risks and rewards of ownership of goods;

- The municipality retains neither continuing managerial involvement to the degree associated with ownership nor effective control over the goods sold;

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- 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 cost incurred or to be incurred in respect of the transaction can be measured reliably.

Finance income from sold housing by way of instalment sales agreements is recognised on a time proportion basis.

Revenue from the sale of erven is recognised when all conditions associated with the deed of sale have been met.

*Rates, including collection charges and penalty interest*

Revenue from rates including collection charges and penalty interest, shall be recognised when all the following conditions have been 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; and
- There has been compliance with the relevant legal requirements.

The Steve Tshwete Local Municipality uses a differentiated site value assessment rate system. According to this assessment rates are levied on the land value of properties and rebates are granted according to the usage of a particular property.

Rebates are respectively granted, to owners of land on which not more than two dwelling units are erected provided that such dwelling units are solely used for residential purposes. Additional relief is granted to needy, aged and/or disabled owners, based on income

Assessment rates income is recognised once a rates account has been issued to ratepayers. Adjustments or interim rates are recognised once the municipal valuer has valued the change to properties.

*Service charges*

Flat rate service charges and consumption-based service charges shall be 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.

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

Revenue from the sale of electricity prepaid meter credit is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage and are levied monthly based on the number of refuse containers on each property, regardless of whether or not containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

#### *Fines*

Revenue from the issuing of fines 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.

Revenue from fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected.

#### *Government Grants*

Government Grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by municipalities rendering services.

Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed in

their use.

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Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

*Other grants and donations received*

Other grants and donations shall be recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment are brought into use.

Revenue from public contributions is recognised when all conditions have been met or where the contribution to property, plant and equipment is recognised when such items of property, plant and equipment are brought into use.

Where public contributions have been received but the conditions were not met, a liability is recognised.

*Levies*

Levies shall be recognised as revenue 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, royalties and dividends*

Revenue arising from the use of assets by others of the municipal assets yielding interest royalties and dividends shall be 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.

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Interest shall be recognised on a time proportionate basis that takes into account the effective yield on the asset;

Royalties shall be recognised as they are earned in accordance with the substance of the relevant agreement; and

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Collection charges are recognised when such amounts are incurred.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue from the recovery of unauthorised irregular, fruitless and wasteful expenditure is based on legislated procedures.

Revenue is initially recognised at cost as permitted in terms of Gazette 30013 of 29 June 2007.

#### 14. **PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation, as a result of past events, that is probable to cause an outflow of resources embodying economic benefits required to settle the obligation and a reliable estimate of the provision can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### 15. **CONTINGENT ASSETS**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. Contingent assets are not recognised as assets.

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**16. CONTINGENT LIABILITIES**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities.

**17. 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 raised.

**18. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term investments that are held with registered banking institutions with maturities of 32 days or daily calls.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

**19. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act 56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently

accounted for as revenue in the Statement of Financial Performance.

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**20. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), the Public Office Bearers Act (Act 20 of 1998) or is in contravention of the municipality'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.

**21. FRUITLESS AND WASTEFUL EXPENDITURE**

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

**22. COMPARATIVE INFORMATION**

Budgeted amounts have been included in the annual financial statements for the current financial year only. When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

**23. RETIREMENT BENEFITS**

The municipality contributes towards retirement benefits of its employees and councillors to the under-mentioned pension funds:

- Joint Municipal Pension Fund
- Municipal Employees Pension Fund
- Municipal Gratuity Fund
- SALA Pension Fund

Councillors are members of the Municipal Councillor's Pension Fund that was established in terms of the Remuneration of Public Office Bearers Act

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*(i) Defined contribution plans*

Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

Contributions to the defined contribution pension plan in respect of service in a particular period are included in the employees' total cost of employment and are charged to the statement of financial performance in the year to which they relate as part of cost of employment.

*(ii) Post employment medical care benefits*

The municipality provides post employment medical care benefits to its employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost, of these benefits is accrued over the period of employment.

Post employment medical care benefits are accounted for in accordance with the exemptions in terms of Gazette 30013 of 29 June 2007.

**24. BORROWING COSTS**

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

**25. CONSUMER DEPOSITS**

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

**26. EVENTS AFTER BALANCE SHEET DATE**

Recognised amounts in the financial statements are adjusted to reflect

events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note to the financial statements.

**ACCOUNTING POLICIES  
TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**27. VALUE ADDED TAX**

The municipality accounts for Value Added Tax on the cash basis.

**28. TAXATION**

The Steve Tshwete Local Municipality are exempted from tax in terms of Section 10(1)cB(i)(ff) of the Income Tax Act.