

# UMJINDI LOCAL MUNICIPALITY

## ACCOUNTING POLICY

<b>Core Business Area</b>	CHIEF FINANCIAL OFFICER
<b>Operational Area</b>	Director Financial Services

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## 1. BASIS OF PRESENTATION

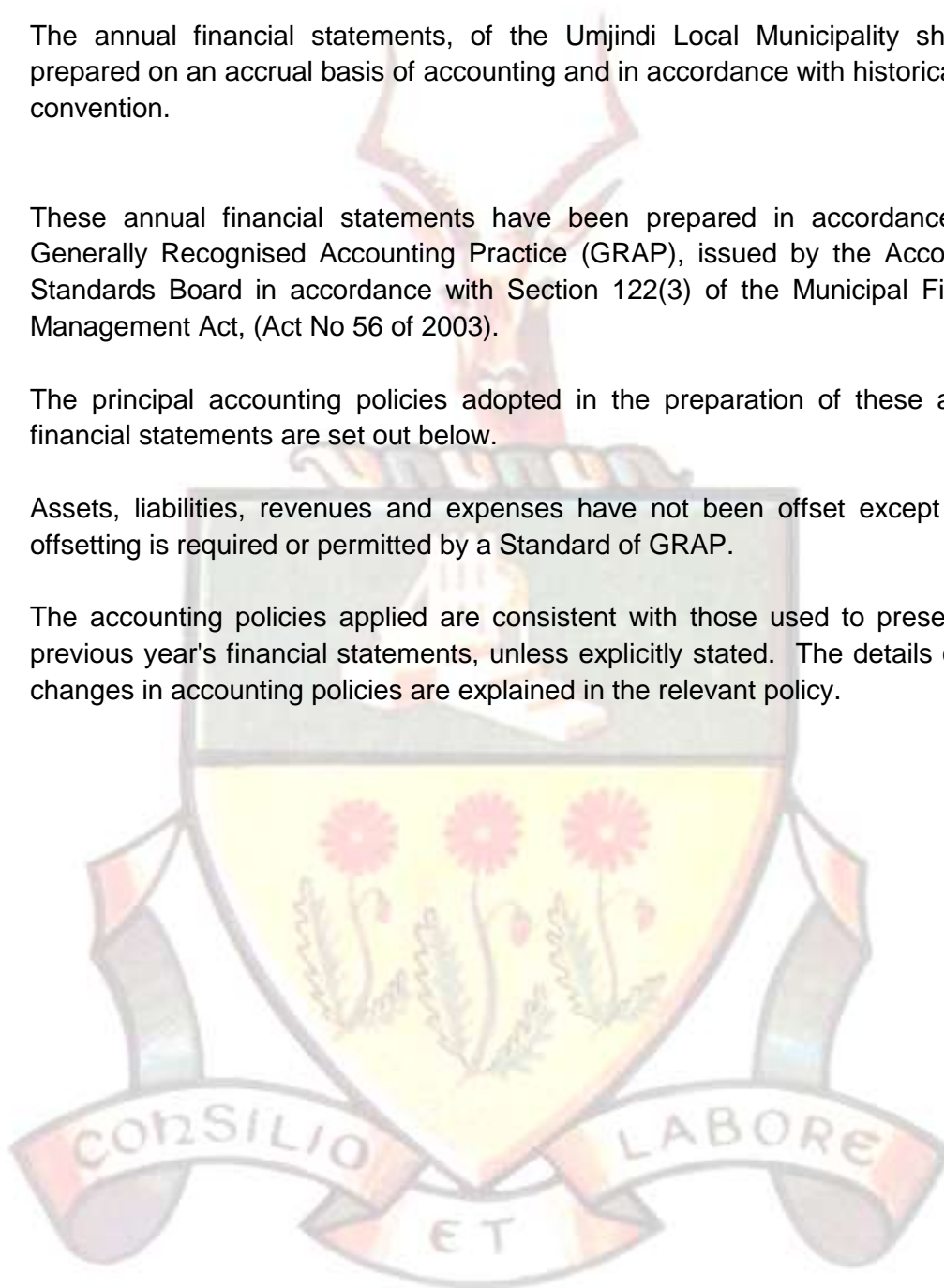
The annual financial statements, of the Umjindi Local Municipality shall be prepared on an accrual basis of accounting and in accordance with historical cost convention.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.



REFERENCE	TOPIC
GRAP 1	Presentation of financial statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting policies, changes in accounting estimates
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GRAP 17	Property Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

### 1.1. Change in accounting policy and reclassification of items

At every change in the accounting policy or reclassification of items, the application of the new policy or classification shall apply retrospectively and as such comparative figures shall be restated as if the policy or reclassification had been in application in the previous years.

A detailed note in the financial statements shall be presented giving the effect of the change in the accounting policy or reclassification.

Where the reclassification of previous years presentation is likely to mislead or the cumulative effect of the reclassification cannot be measured reliably, or the period of occurrence cannot be determined reliably, this fact shall be stated and the reclassification of comparative figures may be omitted.

Umjindi Local Municipality shall only apply a change in accounting policy if such change

- Is required by the prescribe standard of Generally Recognised Accounting Practice or any other statement that seeks to enhance a comprehensive presentation and disclosure, in substance, of all financial transactions.
- Intends to provide more reliable and more relevant information about the effects of transactions, events or conditions on the municipality's financial performance, position, net investment and cash flow.

## **1.2. Change in accounting estimate and Correction of Errors which occurred in the previous years financial reporting**

At every change in the accounting estimate, the application of the new measurement technique shall apply prospectively on a cumulative catch up basis and comparative figures should not be adjusted.

The principal accounting policies adopted by the Municipality for the preparation of the annual financial statements are set out below.

- Errors in the previous year's financial statements shall only be restated only up to the comparative year only.
- As a rule no off setting shall be applied, unless there exist a legal right to set off and the obligation and entitlement arise from the same parties and both parties have agreed in this regard.
- Recognition of financial statement elements (transactions or group of transactions) depends on
  - The ability to measure the element reliably and
  - The probable flow of economic benefit into the municipality resulting from income and assets OR
  - The is probable flow of economic benefit out of the municipality resulting from expenditure and liabilities

## **1.3. Income accrues when it is probable that**

- 1.3.1. an economic benefit will flow into the municipality,
- 1.3.2. resulting from past events
- 1.3.3. the cost or benefit is reliably measureable
- 1.3.4. all risks and rewards of the product or service have been transferred in full to the consumer and the municipality holds no effective control over the product or service

- 1.4.** Expenditure accrues when it is probable that
- 1.4.1. an economic benefit will flow out of the municipality,
  - 1.4.2. resulting from past events
  - 1.4.3. the cost or benefit is reliably measureable
  - 1.4.4. all risks and rewards of the product or service have been transferred in full to the municipality and the supplier holds no effective control over the product or service
- 1.5.** Due to the process complexities of other income sources including traffic fines, waste management fines and environmental health management fines, it is prudent for the municipality not to recognize this income at the date of issue of the relevant summon, however these are recognized in line with the recognition and measurement criteria when the fines have been paid.

In presenting its financial statements Umjindi Local Municipality shall present

- 1.5.1. The Statement of Position (commonly known as the Balance Sheet Statement)
- 1.5.2. The Statement of Performance (commonly known as the Income Statement)
- 1.5.3. The Statement of changes in Net Assets (commonly known as the statement of changes in equity)
- 1.5.4. The Cash flow Statement
- 1.5.5. Applicable notes and any material explanatory notes

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

## **2. PRESENTATION CURRENCY**

The Umjindi Local Municipality shall use the South African Rand as the primary reporting currency, therefore all transactions (national or international) shall be entered into in this currency or transaction denominated by foreign currency shall be entered into after taking into account the actual converted value into the South African Rand.

### **3. GOING CONCERN ASSUMPTION**

Unless sufficient and appropriate evidence indicate otherwise, the financial statements of Umjindi Local Municipality shall be prepared under the assumption that this municipality shall continue to exist and render the services as required by the constitution of the Republic of South Africa into the foreseeable future, normally beyond a twelve months period from the balance sheet date at which the financial statements are reported on.

### **4. 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 year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses, except land and buildings, which are revalued as indicated below. 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. Similarly, land is not depreciated as it is deemed to have an indefinite life.

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.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The environmental rehabilitation obligation is included in the cost of the related asset.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where items of property, plant and equipment are acquired in exchange for non-monetary or monetary assets or a combination of both, property, plant and equipment are measured at their fair value.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and maintenance and is expensed.

The enhancement of an existing asset so that its use is expanded, or the further development of an asset so that its original life is extended, are examples of subsequent expenditure which should be capitalised.

#### **4.1. Depreciation of Property, Plant and Equipment**

Depreciation is calculated on cost, using the straight line method, over the estimated useful lives of the assets. The depreciation methods and estimated useful life of the assets is reviewed annually. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The valuation of property plant and equipment shall at every balance sheet date be depreciated to its residual value over its useful life and shall be apportioned accordingly on an annual basis.

The depreciation rates are based on the following estimated useful lives:

<b>CLASSIFICATION</b>	<b>Years</b>
<b><i>Infrastructure Assets</i></b>	
Roads and Paving	10 - 30
Pedestrian Malls	20
Electricity	10-30
Water	15-20
Sewerage	15-40
Security	3-5
<b><i>Community Assets</i></b>	
Buildings	30
Recreational Facilities	20
Landfill Sites	50
<b><i>Other Assets</i></b>	
Buildings	30
Specialist vehicles	10
Other vehicles	3-20
Office equipment	3-5
Furniture and fittings	7-10
Watercraft	15
Bins and containers	5
Specialised plant and equipment	5-15
Other items of plant and equipment	2-5

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

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision shall be made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting Policy 15 on Provisions.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### **4.2. Incomplete Construction Work**

Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

#### **4.3. Impairment Losses**

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

### **5. SUBSEQUENT MEASUREMENT - REVALUATION MODEL (LAND AND BUILDINGS)**

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

Items of Property, plant and equipment are de-recognised 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 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.

## 6. INVESTMENT PROPERTIES

Investment properties include all land and buildings or part thereof that is held for purposes of earning rentals and/or capital appreciation and is not included in the property plant and equipment, and any other land held for sale

### At initial recognition and measurement

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

An acquisition from properties held for sale (inventory) into an investment property utilized in accordance to a definition of investment properties, the value shall be the lesser of cost of acquisition or net realizable value.

An acquisition from owner occupied investment property into a qualifying investment property, the value shall be the carrying amount at the date of acquisition.

Where an element of Investment Property has to undergo extra-ordinary inspections on regular intervals that exceed twelve months, other than normal repairs and maintenance, the cost of every inspection shall be capitalized.

### Subsequent measurement

After initial recognition, the municipality shall measure all of its investment property at fair value. The fair value of investment property reflects market

conditions at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

The valuation may be undertaken by internal experts, but not necessarily an independent valuer accredited by a professional body.

Subsequent expenditure shall be capitalised when the recognition and measurement criteria of an asset are met.

At every balance sheet date the municipality shall determine the greatest of the value in use or the market selling price less any costs to sell and such greatest value shall be compared to the carrying amount of the asset.

Where the carrying amount is greater than the greatest of value in use or the market selling price less cost to sell, the asset shall be impaired and the impairment shall be included as an expense in the statement of financial performance.

A potential reversal in the originally recognized impairment shall be applied only to the extent that the carrying amount would not have originally been impaired. Where the reversal is likely to result in a value that exceeds the carrying amount had the original impairment not been recognized, the excess over the carrying amount shall be treated as a revaluation.

## **7. INTANGIBLE ASSETS**

Intangible assets are initially recorded at their cost price and are subsequently amortised over their expected useful lives. An intangible asset is defined as an identifiable non – monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. The intangible assets under the control of the Municipality are amortised according to the straight line method.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software                      3 years

Website Development costs      3 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## **8. FINANCIAL INSTRUMENTS**

### INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

### SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

#### **8.1. INVESTMENTS**

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments 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. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

#### **8.2. TRADE AND OTHER RECEIVABLES**

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

### **8.3. TRADE PAYABLES AND BORROWINGS**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

### **8.4. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### **8.5. INVESTMENTS IN ASSOCIATES**

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgment in the context of all available information to determine if it has significant influence over an investee.

The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year.

The municipality commences accounting for an investment in an associate from the date that significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. 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.

## 9. INVENTORIES

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent, inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Consumable stores, raw materials, work-in-progress and finished goods shall be valued at the lower of cost, determined on the weighted average of net realisable or current replacement value.

Redundant and slow moving inventories are identified and written down from cost to net realisable value or with regard to their estimated economic or realisable values. Consumables are written down with regard to their age, condition and utility.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of determining cost is the weighed average method.

## **10. REVENUE RECOGNITION**

### **10.1. Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

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

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

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

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

Interest and rentals shall be recognised on a time proportion basis.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges shall be recognised when the relevant service is rendered by applying the relevant gazetted tariff. This shall include the issuing of licenses and permits.

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

Revenue from the sale of goods shall be recognised when the risk is passed to the consumer.

## **10.2. Revenue from non-exchange transactions**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates shall be recognised when the legal entitlement to this revenue arises. Collection charges will be recognised when such amounts are legally enforceable. Penalty interest on unpaid rates will be recognised on a time proportion basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses shall be recognised when payment are received.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions

have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment shall be recognised when such items of property, plant and equipment are brought into use.

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

## **11. GRANTS, TRANSFERS AND DONATIONS**

Revenue received from conditional grants, donations and funding shall be 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 shall be recognised in the Statement of Financial Position. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

## **12. PROVISIONS**

Provisions shall be recognised when the municipality has an estimated present contractual or legislative or constructive obligation as a result of past events whose settlement or date thereof is not confirmed, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

Provisions shall be reviewed at reporting balance sheet date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

### **13. 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 No.56 of 2003).

Unauthorised expenditure shall be accounted for as an expense in the Statement of Financial Performance and when it is recovered, it shall be accounted for as revenue in the Statement of Financial Performance.

### **14. IRREGULAR EXPENDITURE**

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 Municipality's supply chain management policies.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure shall be accounted for as expenditure in the Statement of Financial Performance and when it is recovered, it shall be accounted for as revenue in the Statement of Financial Performance.

### **15. 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 shall be accounted for as expenditure in the Statement of Financial Performance and when it is recovered, it shall be accounted for as revenue in the Statement of Financial Performance.

## **16. FOREIGN CURRENCIES**

Transactions in foreign currencies shall be recorded at the prevailing exchange rate on the dates of the transactions.

## **17. COMPARATIVE INFORMATION**

### **17.1. Current year comparatives:**

Budget information shall be included in the annual financial statements.

### **17.2. Prior year comparatives:**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

## **18. LEASES**

### **18.1. The Municipality as the Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and

unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

## **18.2. The Municipality as Lessor**

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

## **19. RETIREMENT BENEFITS**

### **19.1. Defined Contributions**

Payments to defined contribution retirement benefit plans are charged to the Statement of Financial Performance as they fall due. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.

The retirement benefits are calculated in accordance with the rules of the funds.

## 19.2. Defined Benefits

The municipality 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 the Municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is **liable for ??% of the medical aid membership fee, and the Council for the remaining ??%**. The medical aid contributions are charged to the Statement of Financial Performance as they fall due.

The additional cost effect of defined benefit retirement funds is immaterial and the costs thereof are charged to the Statement of Financial Performance as they fall due. The Municipality's net obligation in respect of post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods whereby that benefit is discounted to determine its present value.

The actuarial valuation is performed by an independent qualified actuary on a regular basis using the projected unit credit method. When the calculation results in a benefit to the Municipality, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. The actuarial gain is transacted in full in the Statement of Financial Performance and not calculated and accounted for according to the "corridor" method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Statement of Financial Performance on a straight-line basis over the average period until the benefits become vested. When the benefits become vested, the expense is recognised immediately in the Statement of Financial Performance.

## 19.3. BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

#### 19.4. IMPAIRMENT OF ASSETS

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

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service 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.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist

or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

