

## ACCOUNTING POLICIES

### 1. Basis of presentation

- 1.1 These financial statements have been prepared in order to conform to the standards prescribed by the Institute of Municipal Treasurers and Accountants in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (Second edition – January 1996) as well as certain reforms concerning Statutory funds, reserves and capital receipts to comply with the MFMA Circular no 18 of National Treasury regarding New Accounting standards and format of Annual Financial Statements.
- 1.2 The financial statements are prepared on the historical cost basis.
- 1.3 The financial statements are prepared on the accrual basis as stated:

### 2. Consolidation

The financial statements include the Rate and General services, Housing services, Trading services and the different funds and reserves. All inter departmental charges are set-off against each other, with the exception of assessment rates, refuse removal, sewerage, electricity, water and vehicle costing, which are treated as income and expenditure in the respective departments.

### 3. Fixed assets

- 3.1 Fixed assets are stated:  
At historical cost, or  
At valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use.
- 3.2 All net proceeds from the sale of assets are credited to the Asset Financing Fund.
- 3.3 Fixed assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

### 4. Inventory

Inventory is valued at average cost. Unsold erven are represented at the value set by Council as selling price.

### 5. Funds and Reserves

#### 5.1 STATUTORY FUNDS, RESERVES AND CAPITAL RECEIPTS

The municipality creates and maintains Statutory Funds, Reserves and Capital Receipts in terms of specific requirements.

### 5.1.1 Asset Financing Fund

In order to finance the future purchase of items of property, plant and equipment amounts are transferred out of the net surplus for a period into the Asset Financing Fund (AFF). These transfers from the net surplus may only be made if backed by specific assets or liabilities and if they were appropriately budgeted for in the operating budget.

The following provisions are set for the creation and utilisation of the AFF:

- The cash which backs up the AFF is invested until it is utilised. The cash may only be invested in
- Interest earned on investments is recorded as interest earned in the notes to the Income Statement.
- The AFF may only be utilised for the purpose of purchasing items of property, plant and equipment
- If a profit is made on the sale of assets the profit on these assets sold is reflected in the income

### 5.1.2 Housing Development Fund

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

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

The following provisions are set for the creation and utilisation of the Housing Fund:

- The Housing Fund is represent by specific assets or liabilities. When the fund has cash it is invested
- The fund may be utilised for housing developments in accordance with the national housing policy
- Any contributions to or from the fund are shown as transfers.

### 5.1.3 Unutilised Capital Receipts.

Unutilised capital receipts are reflected on the Balance Sheet as a creditor. They represent unspent government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of this creditor:

- Where possible, the cash which backs up the creditor is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the municipality.
- Interest earned on the investment is recorded as interest earned in the notes to the Income Statement and is then transferred via the income statement to the creditor. This will be in accordance with council policy and in line with the donor stipulations.

## 5.2 TRUST FUNDS

Trust funds reflected on the balance sheet represent funds held by the municipality on behalf of or for the benefit of third parties outside of the municipality and are governed by the following rules:

- Each trust is evidenced by a legal trust document.
- The municipality is a trustee of the trust.
- The municipality is represented as a trustee of the trust through its officials or councilors, who have

## 5.3 PROVISIONS

A provision is recognised when the municipality has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

### **5.3.1 Post Retirement Benefits**

#### **(i) Pensions/Retirement Funds**

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

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

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

### **5.3.2 Accrued Leave Pay**

Liabilities for annual leave are recognised as they accrue to employees. Provision is based on the potential cash liability and is annually reviewed.

### **5.3.3 Provision for doubtful debts**

Accounts Receivable consist of amounts owed to the municipality by ratepayers and consumers. A provision for doubtful debts is established for reporting purposes based on past experience in the collection of accounts receivable and analysis of outstanding balances. The provision is based on all accounts older than 90 days.

## **6. Surpluses and Deficits**

Any surpluses or deficits arising from the operation of the electricity and water services are transferred to Rate and General Services.

## **7. Treatment of administration and other overhead expenses**

The costs of internal support services are transferred to the different services in accordance with the Institute Report on Accounting for Support Services (June 1990).

## **8. Leased assets**

Fixed assets held under finance leases are capitalised. Such assets are effectively amortised over the term of the lease agreement.

Lease finance charges are allocated to accounting periods over the duration of the leases, by the effective

interest rate method, which reflects the extent and cost of lease finance utilised in each accounting period.

All other leases are treated as operating leases and the relevant rentals are charged to the operating account in a systematic manner related to the period of use of the assets concerned.

## **9. Investments**

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred, and are invested per Circular C/46/1994 issued by the Provincial Legislature.

## **10. Deferred charges**

The balance outstanding of the costs incurred in raising loans on the capital market, are recovered from operating income over the period of the various loans involved.

## **11. Income recognition**

### **11.1 Electricity and water billings**

All meters are read and billed monthly.

### **11.2 Assessment Rates**

The Council applies a differential rating system. In terms of this system the assessment rates are levied on the land value of property and improvements on the same tariff.