

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

1. BASIS OF PRESENTATION

- 1.1 These Annual Financial Statements have been compiled to comply with the standards laid down by the Institute of Municipal Finance Officers in its Code of Practice (1994) and the Report on the Standardisation of Financial Statements of Local Authorities (6th Edition – June 1996).
- 1.2 The accounting policies are consistent with those of the previous year in all material respects, except where otherwise stated.
- 1.3 The financial statements are prepared on the historical cost basis, adjusted for fixed assets as explained in Accounting Policy 3.
- 1.4 The financial statements are prepared on the accrual basis:
- Income is accrued when collectable and measurable. Certain income is accounted for when received, such as traffic fines and certain licences.
 - Expenditure is accrued in the year it is incurred.

2. CONSOLIDATION

The balance sheet includes Rates and General Services, Housing Services, Trading Services as well as the various funds, reserves and provisions. All inter-departmental transactions have been offset against each other. Departmental assessment rates, electricity, refuse removal, sewerage and water have been shown as income and expenditure under the respective departments.

3. FIXED ASSETS

- 3.1 Fixed Assets are stated:
- at historical cost; or
 - at valuation (based on market price at the date of acquisition) where assets have been obtained by means of grants or donations;
- while they are in existence and fit for use. Certain replaceable assets acquired from loans, such as furniture and equipment, water reticulation, sewer reticulation, roads and drainage, vehicles and plant are stated at depreciated value and are written off at the end of the loan repayment period.

No revaluation of assets was made during the financial year.

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (Continued)

3. FIXED ASSETS (Continued)

3.2 Depreciation:

The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet, is the equivalent to a provision for depreciation. In terms hereof assets financed from "Loans" are written off over their estimated useful life. In addition to the various municipal funds, assets can also be acquired as follows:

- Appropriations from income, where the total cost of an asset becomes an immediate and direct charge against the operating income, and it is therefore not necessary to make any further provision for depreciation.
- Grants, subsidies or donations, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other Capital Receipts" account.

3.3 All net proceeds from the sale of fixed property are credited to the Revolving Fund. The net proceeds on the sale of all other assets are credited to the Operating Account.

3.4 Financing:

Capital Assets are financed from different sources, including external loans, internal advances, grants, subsidies, donations, provisions, reserves and operating income.

Loans and advances are repaid over the estimated useful life of the asset financed from such loan or advance in accordance with the guidelines issued by the Provincial Government. Internal advances are redeemed on annuity basis, which commences in the year following the financial year in which the advances were made.

3.5 Internal Advances are acquired at market related interest rates.

3.6 Major improvements to buildings, plant and equipment are capitalised. Maintenance and repairs are expensed when incurred.

4. INVENTORY

Inventories are reflected at cost. No stock is currently on hand in view that expenditure is directly allocated to each and every department when incurred.

5. INVESTMENTS

Investments are reflected at cost and comprise securities as prescribed in terms of the Local Authorities Ordinance, Ordinance No 23 of 1935.

6. FUNDS AND RESERVES

6.1 Revolving Fund:

The Local Authorities Ordinance, No 23 of 1935, requires a minimum contribution of 7,5% of the defined income of the municipality to this fund. Expenditure is pooled in this fund so as to facilitate the control and management thereof. The fund is used to repay loans, finance capital expenditure and defray expenses incurred with the raising of loans. The surplus funds are partly invested.

6.2 Dog Tax Fund:

The Dog Tax Fund was established in terms of the Dog Tax Ordinance, Ordinance 19 of 1978, to obtain funding to enable the municipality to control dogs in the municipal area. The fund is not operational anymore and will be written off during the conversion to the GRAP-format of Annual Financial Statements.

6.3 Trust Funds:

The amounts reflected as Trust Funds are the unspent portion of grants received from various Departments. The purpose of these grants is either for capital or operating nature.

6.4 Reserves:

The amounts reflected as Reserves are provisions made from council's funds for future expenditure of which the amount and occurrence is unknown, and is funded by contributions from operating expenditure.

6.5 Provisions:

The amounts reflected as Provisions are provisions made from council's funds for expenditure relating to the current year of which the amount is unknown and the service still has to be rendered. Provisions are funded by contributions from operating expenditure.

7. RETIREMENT BENEFITS

The municipality contributes to the Cape Joint Pension Fund (18% of basic salary) and the SALA Pension Fund (18.07% of basic salary), which provide retirement and unfitness benefits to its employees.

Full actuarial valuations for the funds are performed every three years.

Contributions by the Municipality are charged against operating income on the basis of the current service cost.

8. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD SERVICES

The costs of internal support services are transferred to the different services in accordance with the Institute of Municipal Finance Officers report on Accounting for Support Services (June 1990). Council has adopted a Charge-out Policy based on a percentage of actual cost.

9. SURPLUSES AND DEFICITS

Any surplus or deficits arising from the operation of the Electricity and Water services are transferred to the Accumulated Surplus Account for Rates and General Services.

10. LEASED ASSETS

- 10.1 Fixed assets held under finance leases are capitalised. Such leases are effectively amortised over the term of the lease agreement.
- 10.2 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.
- 10.3 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 asset concerned.

11. INTEREST ALLOCATION

Interest is allocated to the Accumulated Funds and operating account according to the average balance of the fund and bank account during the year. All interest received are accrued in the revenue account and distributed after the closing down and balancing of the accounts. This practice differs from the previous year where only the balance at the start of the year was taken into consideration and interest on deposit accounts were credited to the particular fund.

12. REVENUE RECOGNITION

12.1 Assessment Rates:

The municipality applies a flat rating system whereby the same rate factor is applied to land and buildings. In terms of this system, Assessment Rates are levied on the value of land and improvements in respect of all properties.

Rebates are granted according to the use of the property concerned.

12.2 Electricity and Water Billings:

Meters on all properties are read monthly and billed accordingly on a monthly basis, except in the case where a pre-paid meter is installed. Due dates for payment are approximately six weeks after the meters were read.