ACCOUNTING POLICIES OF THE ECONOMIC ENTITY TO ACCOMPANY ITS FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. BASIS OF PRESENTATION

The annual financial statements are prepared on the accrual basis of accounting and are in accordance with the historical cost convention.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) as prescribed by the Minister of Finance in terms of General Notice 991 or 992 in Government Gazette 28095 and General Notice 516 in Government Gazette 31021 dated 9 May 2008 and Directive 5 (Determining the GRAP Reporting Framework) that was issued by the Accounting Standards Board (ASB) during March 2009.

The 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
GRAP 4	The effect of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange transactions
GRAP 10	Financial Reporting in Hyperinflationary Economics
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investing 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
Directive 1	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2	Transitional Provisions for the adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions.
Directive 3	Transactional Provisions for the adoption of Standards of GRAP by High Capacity Municipalities
Directive 5	Determining the GRAP Reporting Framework
Guide 1	Guideline on Accounting for Public Private Partnerships
IPSAS 20	Related Party Disclosures
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 12	Income Taxes
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
SIC – 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

SIC – 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC – 29	Service Concession Arrangements – Disclosures
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an arrangement contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Accounting policies for material transactions, events or conditions not covered by the above GRAP 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 Standards Board in terms of the application of Directive 5.

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

Details of the Municipality's significant accounting policies are set out below:

- Adoption of IFRS 7: Financial Instruments: Disclosures supersedes the disclosure requirements of IAS 32. One of the main additional requirements of IFRS 7 is that a municipality must group its financial instruments into classes of similar instruments, and when disclosures are required by class.
- IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance", is no longer included in the GRAP Reporting Framework. Once the conditions for the recognition of revenue have been met, revenue shall be recognized in full and can not be deferred or be netted off against another element in the Annual Financial Statements. Paragraphs 9.42 to 9.46 of GAMAP 9 were not withdrawn when GRAP 9 was issued and therefore applies. However GAMAP 9 does not deal with a specific transaction or event and therefore the Municipality may use GRAP 23 to formulate its accounting policy. ASB Directive 5 states that "Where a Standard of GRAP or an Interpretation of the Standards of GRAP has been issued, but is not yet effective, a municipality may select to apply the principles established in that standard or Interpretation in developing an appropriate accounting policy dealing with a particular transaction or event before applying paragraph .11 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors." Therefore the Municipality recognise the full extent of conditional grants and receipts related to capital as revenue in the Statement of Financial Performance once the criteria, conditions or obligations embodied in the agreement had been met.

In the process of applying the Economic Entity's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have a significant effect on the amounts recognized in the financial statements.

- Operating lease commitments – the Economic Entity as lessor

The Economic Entity has entered into commercial property leases on its investment property portfolio. The Economic Entity has determined that it retains all the significant risks and rewards of ownership of these plans.

- Pension and other post-employment benefits

The cost of defined benefit plans and other employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- Property, plant and equipment

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

- Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and contingent liabilities. Provisions have been discounted where the effect of discounting is material using actuarial valuations.

2. Consolidated Financial Statements:

The Municipality's financial statements incorporate the financial statements of the parent entity, Nelson Mandela Bay Municipality, and all its municipal entities, presented as a single entity and consolidated at the same reporting date as the parent entity.

All inter-entity transactions and balances, unrealized gains and losses within the Economic Entity are eliminated upon consolidation. Where appropriate the accounting policies of controlled entities conform to the policies adopted by the Municipality.

3. MUNICIPAL ENTITIES

Municipal entities are all controlled entities over which the Municipality has ownership control or effective control to govern the financial and operating policies of such controlled entities so as to benefit from its activities. As the Economic Entity is adopting GRAP 6 for the first time, the provisions of ASB Directive 3 have been used by consolidating only for the 2008/09 financial year, with adjustments being made to the opening balances where required as per GRAP 6.

4. PRESENTATION CURRENCY

These consolidated financial statements are presented in South African Rand.

5. GOING CONCERN ASSUMPTION

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

6. COMPARATIVE INFORMATION

6.1 Current year comparatives (Budget):

Budgeted amounts have been included in the appendices supporting the consolidated financial statements for the current financial year only.

6.2 Prior year comparatives:

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified and restated. The nature and reasons for the reclassification and restatement are disclosed in the Notes to the Financial Statements.

7. 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 Economic Entity 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. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

8. RESERVES

The Economic Entity maintains various reserves in terms of specific requirements.

8.1 Capital Replacement Reserve (CRR) – Internal reserve administered within the Accumulated Surplus for control purposes.

In order to finance the provision of infrastructure and other items of property, plant and equipment, investment property and intangible assets from internal sources, amounts are transferred from the accumulated surplus (deficit) to the CRR in terms of a Council resolution. The CRR can only be utilised to finance items of property, plant and equipment, investment property and intangible assets.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

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

- The cash funds that support the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Municipality.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, investment property and intangible assets and may not be used for the maintenance of these items.
- Whenever an asset is purchased from the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
- If a profit is made on the sale of assets, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred, via the Statement Changes in Net Assets, to the CRR, provided that it is cash backed.

8.2 Capitalisation Reserve (CR) – Internal reserve administered within the Accumulated Surplus for control purposes.

With the implementation of GAMAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus (deficit) in terms of a directive (budget circular) issued by National Treasury. 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 this 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).

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

8.3 Donations and Public Contributions Reserve – Internal reserve administered within the Accumulated Surplus for control purposes.

When items of property, plant and equipment, investment property and intangible assets 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. When such items of property, plant and equipment investment property and intangible assets are depreciated or amortised, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/ (deficit). The purpose of this policy 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, investment property and intangible assets financed from donations and public contributions.

When an item of property, plant and equipment, investment property and intangible assets is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus (deficit).

8.4 Self - Insurance Reserve – Internal reserve administered within the Accumulated Surplus for control purposes.

A Self-Insurance Reserve exists to provide cover for selected risks including fire, storm, workmen's compensation, public liability and motor vehicles. The reserve is re-insured externally to cover major losses.

Premiums are charged to the respective Directorates at market related rates, taking into account past experience of claims and replacement values of the insured assets.

The reserves covers the first R10 000 000 in respect of fire insurance, R5 000 000 in respect of public liability insurance and R3 000 000 in respect of fidelity guarantee insurance, of any one claim.

The maximum aggregate exposure during any one year in respect of public liability insurance amounts to R10 000 000 and in respect of fidelity guarantee insurance amounts to R17 000 000. There is no maximum aggregate exposure in respect of fire insurance.

Claims in excess of the above maximum aggregate exposures are covered by re-insurance.

8.5. Compensation for Occupational Injuries and Diseases (COID) Reserve

The Economic Entity has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases in terms of Section 84 of the COID Act.

The certificate of Exemption issued by the Commissioner and as prescribed by the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993), requires that the Economic Entity deposits cash and/or securities with the Commissioner, the market values of which in aggregate, shall not be less than the capitalised value of the continuing liability of the Economic Entity as at 31 December of each year.

The continuing liability is that of pensions, with the capitalised value being determined on the basis of an actuarial determination as prescribed by the Commissioner. A COID reserve has been established to at least equate to the value of the continuing liability. The market value of the securities is determined annually by the Commissioner and the Municipality is required to meet any shortfall in the aggregate value of the securities as at 31 December. Monthly pensions are funded by transferring funds out of the reserve to the expense account in the Statement of Financial Performance.

8.6 Government Grant Reserve – Internal reserve administered within the Accumulated Surplus for control purposes.

When items of property, plant and equipment, investment property and intangible assets are financed from government grants, a transfer is made from the accumulated surplus (deficit) to the Government Grant 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, investment property and intangible assets are depreciated or amortised, a transfer is made from the Government Grant Reserve to the accumulated surplus (deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government funded items of property, plant and equipment, investment property and intangible assets are offset by transfers from this reserve to the accumulated surplus (deficit).

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

9. CONDITIONAL GRANTS AND RECEIPTS

Income received from conditional grants, donations and subsidies are recognised 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 recognised and funds invested until it is utilised.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

9.1 Grants and receipts of a revenue nature

Income is transferred to the Statement of Financial Performance as revenue to the extent that the criteria, conditions or obligations have been met.

10. PROVISIONS

Provisions are recognised when the municipality has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the Statement of Financial Position reporting date and adjusted to reflect the current best estimate.

10.1 Provision for Post Retirement Benefits

The Economic Entity provides retirement benefits for its employees and councillors. Defined contribution plans are post–employment benefit plans under which the Economic Entity pays fixed contributions into a separate entity (a fund) and will have no legal or construction obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

Defined benefit plans are post-employment plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually by means of the projected unit credit method. Deficits identified are covered through lump sum payments or increased contributions on a proportional basis via all participating municipalities. The contributions and lump sum payments are charged against income in the year they become payable.

A provision is maintained in respect of the liability to employees relating to post retirement benefits such as medical aid contributions.

10.1.1 Medical Aid: Continued Members

The Economic Entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the Economic Entity is associated, a member on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

10.1.2 Short-term employee benefits

The cost of all short-term employee benefits, such as leave pay, is recognised during the period in which the employee renders the related service.

10.2 Provision for Rehabilitation of Refuse Landfill Sites

The applicable GRAP standard states that a provision should be recognised where there is a present obligation to rehabilitate sites.

The Economic Entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 5.1% and discounted to the present value at the average borrowing cost of 11.0667%.

10.3 Gratuity Provision

A provision in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund is maintained.

10.4 Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is maintained. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Property, plant and equipment, is stated at cost, less accumulated depreciation and accumulated impairment.

Property, plant and equipment is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

Property, plant and equipment is stated at fair value at date of acquisition less accumulated depreciation and accumulated impairment where assets have been acquired by grant or donation.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Significant parts of Property, Plant and Equipment with different useful lives were accounted for as separate items.

Property, Plant and Equipment is derecognised when there is a disposal or no future economic benefits are to be derived.

The cost of an item of property, plant and equipment comprises 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. Examples of directly attributable costs are: site preparation, delivery and handling costs and professional fees. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

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

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.

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.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. Depreciation only commences when the asset is available for use. In determining depreciation, the residual values of assets (specifically office equipment and furniture and fittings except for vehicles) are not taken into account as the municipality uses these assets in its operations beyond its estimated useful life. The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for motor vehicles.

The annual depreciation/ amortisation rates are based on the following estimated asset useful lives:-

	Intangible	Useful Life Range in Years	Land & Buildings	Useful Life Range in Years
	Computer Software	2-5	Buildings	15 - 50
	Website Development	5	Land	Indefinite Life
	Other Assets	Useful Life Range in Years	**Infrastructure Assets**	Useful Life Range in Years
	Bins & Containers	10	Roads, Sidewalks & Stormwater Networks	5 - 100
	Emergency & Medical Equipment	15	Beach Developments	30 - 50
	Vehicles & Plant	4 - 30	Electricity Reticulation & Supply	10 - 80
	Office Furniture & Fittings	3 - 10	Sewerage Mains & Purification Works	15 - 80
	Landfill Sites	50	Waste Disposal Facilities	20 -100
	Security Systems	5 - 15	Water Supply & Reticulation	10 - 50
	Tip Sites	30	Dams & Treatment Works	25 - 100
	Computer Hardware	4 - 8		
	Community Assets	Useful Life Range in Years	**Heritage Sites**	Useful Life Range in Years
	Libraries	15 - 50	Memorials & Statues	Indefinite Life
	Fire Stations	15 - 50	Heritage Sites	Indefinite Life
	Cemeteries	15 - 50	Museums	Indefinite Life
	Clinics	15 - 50	Art Works	Indefinite Life
	Community Centres	15 - 50		
	Public Conveniences	15 - 50		
	Swimming Pools	15 - 50		
	Recreational Facilities	15 - 50		
	Selling & Letting Schemes	15 - 50		
	Investment Property	Useful Life Range in Years		
	Investment Property	Indefinite Life		

11.2 Review of useful lives

The useful lives of property, plant and equipment are reviewed on an annual basis.

11.3 Review of Depreciation Method

The depreciation method is reviewed on an annual basis.

11.4 Impairment of cash and non-cash generating assets

In accordance with the initial adoption of IPSAS 21(Impairment on Non-Cash Generating Assets) impairment is to be applied prospectively. Accordingly impairment will commence as from the 2008/09 financial year on an annual basis. IAS 36 (Impairment on Assets) applies to Cash Generating Assets.

Therefore, property, plant and equipment will be assessed at each reporting date as from the 2008/09 financial year for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the

Statement of Financial Performance represents the excess of the carrying value over the recoverable amount of the asset.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

11.5 Non-current assets held for sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition only applies when the sale is highly probable, and the asset (or disposal group) is available for immediate sale in its present condition. Assets classified as held-for-sale are measured at the lower of the asset's carrying amount, or fair value less cost to sell the asset.

12. INTANGIBLE ASSETS

An intangible asset is defined as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods and services, for rentals to others, or for administrative purposes. Intangible assets have been treated in accordance with the provisions of GRAP 102, "Intangible Assets". Intangible assets are initially recorded at their cost price and subsequently amortised over their expected useful lives. The intangible assets under the control of the municipality are amortized according to the straight-line method.

An Intangible asset is derecognised when there is a disposal or no future economic benefits are to be derived.

The Economic Entity recognises computer development software costs as intangible assets, if the costs are clearly associated with an identifiable and unique system controlled by the Municipality and have a probable benefit exceeding one year. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Direct computer software development costs recognised as assets are amortised on the straight-line basis over the useful lives of the assets, estimated at three to five years.

13. INVESTMENT PROPERTY

Investment property is properties held to earn rental income, as well as for capital appreciation, and are stated at cost less accumulated depreciation and accumulated impairment. Land is not depreciated. Investment properties are written down as a result of impairment, where considered necessary. Investment property excludes owner-occupied property that is used in the production or supply of goods and services, or for administrative purposes, or property held to provide a social service.

Investment Property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

Investment Property is stated at fair value at date of acquisition less accumulated depreciation and accumulated impairment where assets have been acquired by grant or donation.

Investment Property is subsequently measured at cost, therefore the Cost Model is applied.

An Investment Property is derecognised when there is a disposal or no future economic benefits are to be derived.

14. BORROWING COSTS

Borrowing costs are capitalised against qualifying assets as part of property, plant and equipment, investment property and intangible assets.

Such borrowing costs are capitalised over the period during which the asset is being acquired or constructed, and borrowings have been taken up. Capitalisation ceases when construction of the asset is complete, whereafter borrowing costs are charged to the Statement of Financial Performance. As GRAP 5 is to be implemented prospectively no restatements are required for the 2007/08 financial year.

15. INVENTORIES

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost or net realisable value. In general, the basis of determining cost is the first-in, first-out (FIFO) method. Where inventories are held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost or current replacement value.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

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

The cost of water purchased and not yet sold as reflected in the statement of financial position comprises the purchase price, import duties and other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

16. PROVISION FOR OBSOLETE INVENTORY

A provision is maintained in lieu of obsolete inventory. The level of the provision for obsolete inventory is the value equivalent to the value of inventory assessed as obsolete at financial year-end.

17. INVESTMENTS

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at 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.

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.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

18. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments 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 and deposits held on call with banks.

19. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value, and subsequently stated at amortised cost, less provision for impairment. Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the Council. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

A provision for impairment of trade receivables is established when there is objective evidence that the Economic Entity will not be able to collect all amounts due according to the original terms of receivables. An estimate is made for doubtful debts based on past default experience of all outstanding amounts at year-end.

20. PROVISION FOR DOUBTFUL DEBTS

The provision is equivalent to 100% of amounts owing to the municipality older than 90 days (amounts owing by government departments have been excluded from determining the level of the provision). The provision currently amounts to R 501 470 062.

In accordance with GRAP the Provision for Doubtful Debts has been deducted from the amount outstanding by debtors at 30 June 2009.

21. TRADE PAYABLES AND OTHER

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

22. FINANCIAL INSTRUMENTS

Financial instruments are recognised when the Economic Entity becomes a party to the contractual provisions of the instrument, and are initially measured at fair value plus, in the case of a financial asset or liability not at fair value through the Statement of Financial Performance, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. The subsequent measurement of financial instruments is dealt with as follows:

Financial Assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred, and the Economic Entity has transferred substantially all risks and rewards of ownership, or when the Economic Entity loses control of contractual rights that comprise the assets. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or when it expires.

22.1 FINANCIAL ASSETS

The Economic Entity classifies its financial assets according to the following categories:
- Held to maturity
- Loans and receivables

The classification depends on the purpose for which the financial asset is acquired, and is as follows:

- Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity, where the Municipality has the positive intent and ability to hold the investment to maturity. They are subsequently measured at amortised cost, using the effective interest rate method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

- Loans and receivables are financial assets that are created by providing money, goods or services directly to a debtor. They are subsequently measured at amortised cost, using the effective interest rate method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

An assessment is performed at each Statement of Financial Position date to determine whether objective evidence exists that a financial asset is impaired. The carrying amounts of cash investments are reduced to recognise any decline, in the value of individual investments. This reduction in carrying value is recognised in the Statement of Financial Performance.

22.2 FINANCIAL LIABILITIES

The Economic Entity measures all financial liabilities, including trade and other payables, at amortised cost, using the effective interest rate method. Financial liabilities include borrowings, other non-current liabilities (excluding provisions) and trade and other payables (excluding provisions). Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable, are accounted for on an accrual basis.

23. REVENUE RECOGNITION

Revenue is recognised net of indirect taxes, rebates and trade discounts, and consists primarily of property rates, grants from National and Provincial Government, service charges, rentals, interest received, and other services rendered. Revenue is recognised, provided that the benefits can be measured reliably. Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered. Revenue also includes the issuing of licences and permits.

23.1 Revenue from Exchange Transactions

Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Service charges relating to electricity and water are based on consumption. Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high tension electricity supplies are read and billed monthly. All electricity and water meters within and outside the municipal boundary are read and billed monthly.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Interest and rentals are recognised on a time proportion basis, which takes into account the effective yield on the investment. Interest may be transferred from the accumulated surplus to the Housing Development Fund, COID reserve, Self Insurance Reserve or the CCR.

Interest earned on the following investments is not recognized in the Statement of Financial Performance:

- Interest earned on trust funds is allocated to the fund concerned
- Interest earned on unutilized conditional grants is allocated to the creditor, if grant conditions indicate that interest is payable to the funder.

Dividends are recognised on the date that the Economic Entity right to receive payment is established.

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

Revenue from the sales of goods is recognised when the risk and rewards of ownership is passed to the consumer.

Revenue from public contributions 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 is available for use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

23.2 Revenue from Non-Exchange Transactions

Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned.

Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received, and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information received from the courts, it is not possible to measure this revenue in the invoicing period.

Donations are recognised on a cash receipt basis or at fair value where the donation is in the form of property, plant and equipment, when the risks or reward of ownership have been transferred to the Economic Entity.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment are available for use.

Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

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 probable.

24. LEASES

24.1 The Economic Entity as 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. Assets subject to finance lease agreements are capitalised at their cash 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. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the term of the relevant lease.

24.2 The Economic Entity as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Economic Entity's net investment in the lease. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Economic Entity's net investment outstanding in respect of the leases or instalment sale agreements.

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

25. VALUE ADDED TAX

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

26. FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transaction. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded are expensed.

27. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, 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 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.

28. 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 or Municipal Entities' supply chain management policies. 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.

29. 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.

30. POST BALANCE SHEET EVENTS

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Economic Entity will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The Economic Entity will disclose the nature of the event and an estimate its financial effect, or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.