

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

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**ACCOUNTING POLICIES**

**1. BASIS OF PRESENTATION**

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

These standards are summarised as follows:

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

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

The Minister of Finance has, in terms of General Notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the consolidated annual financial statements.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted are disclosed below.

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**2. BASIS OF CONSOLIDATION**

The consolidated annual financial statements incorporate the financial statements of Buffalo City Municipality being the controlling entity and the Buffalo City Development Agency being the only municipal entity controlled by Buffalo City Municipality.

On acquisition, the assets and liabilities of a municipal entity are measured at their fair values at the date of commission.

Where necessary, adjustments are made to the annual financial statements of Buffalo City Development Agency to bring the accounting policies used into line with those used by the Economic Entity.

All significant transactions and balances between members of the Economic Entity are eliminated on consolidation.

**3. PRESENTATION CURRENCY**

These consolidated annual financial statements are presented in South African Rand.

**4. GOING CONCERN ASSUMPTION**

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

**5. COMPENSATION FOR OCCUPATIONAL INJURIES AND DISEASES (COID)**

This fund has been established in accordance with the Compensation for Occupational Injuries and Diseases Act No 130 of 1993. The Economic Entity has been issued a certificate of exemption from the Compensation Commissioner and has been given permission to administer its own internal COID fund.

The Economic Entity is still bound by the Act and claims are still approved by the Compensation Commissioner. The employee may not be awarded lesser benefits than provided for in the Act.

The Economic Entity has entered into self insurance for COID for the following reasons:

- Reduction of costs;
- To expedite claims and payments to Medical Practitioners;
- More favorable compensation to employees.

Monthly contributions are transferred to the Fund and claims are submitted to the Compensation Commissioner within 14 days after the accident becomes known.

Once confirmation has been received from the Compensation Commissioner the claim is settled by paying employees a full salary for the period not at work and settling all medical accounts as soon as received.

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External insurance cover has been taken out to recoup any differences in payment to employees and amounts paid by the Compensation Commissioner.

Interest earned on the fund is allocated to the fund and is recognised in the Statement of Financial Performance.

## **6. RESERVES**

The Economic Entity creates and maintains Reserves in terms of specific requirements.

### **6.1 Capital Replacement Reserve (CRR)**

In order to finance the purchase of items of property, plant and equipment from internal sources, amounts are transferred from accumulated surplus to the Capital Replacement Reserve (CRR) in terms of a Council resolution. A corresponding amount is transferred to a designated CRR investment account. The following conditions are set for the creation and utilisation of the CRR:

- The cash which backs the CRR is invested in a designated CRR investment account until utilised. The cash may only be invested in accordance with the investment policy of the Economic Entity.
- Interest earned on the CRR investment is recorded as interest earned in the Statement of Financial Performance and may be appropriated to the CRR.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the Economic Entity and may not be used for the maintenance of these items.
- When items of property, plant and equipment are purchased from the CRR, the CRR is reduced by the amount of property, plant and equipment purchased from the CRR and the accumulated surplus is credited by a corresponding amount. The designated CRR investment account is adjusted accordingly.

### **6.2 Self Insurance Reserve**

A Self Insurance Reserve has been established to cover claims that may occur, subject to external insurance policy terms and conditions. Premiums are charged to the respective services taking into account claims history, the insured value of property, plant and equipment and number of fleet vehicles.

- Insurance premiums are paid from the expenditure accounts of the departments.
- Contributions by the departments to the insurance reserve are transferred from the contribution expenditure accounts of the departments to the insurance reserve according to amounts budgeted for in the operating budget. The budgeted contribution amounts relate to insurance claims paid that fall within the aggregate and are based on claims history of departments.
- Claim payments received from external insurers are utilised in the calculation of a gain or loss on the scrapping of damaged assets and are recorded in the Statement of Financial Performance.

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- Claim payments received in respect of repairs, damages and/or losses to assets are receipted to the insurance cost centre income account and are then transferred from the insurance cost centre transfer expenditure account to the insurance reserve where it is reflected as income.
- Repair and replacement costs not fully covered by external insurance are paid from the insurance cost centre expenditure account that is then financed / reimbursed by a transfer from the insurance reserve to the insurance cost centre transfer income account. The repair and replacement cost is reflected as an expense in the insurance reserve.

**6.3 Revaluation Reserve**

The surplus arising from the revaluation of land and buildings is credited to the Revaluation Reserve. As revalued buildings are depreciated, the revaluation surplus is realised through a transfer of an equivalent amount from the revaluation reserve to the accumulated surplus. On disposal, the net revaluation surplus is transferred to the accumulated surplus while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

**7. PROPERTY, PLANT AND EQUIPMENT (PPE)**

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.

The environmental rehabilitation obligation is included in the cost of the related asset and changes in the liability resulting from changes in the estimates are accounted for as follows:

- Any decrease in the cost of the asset is limited to its carrying amount.
- These assets are depreciated over their useful lives.

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.

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.

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**7.1 Depreciation of Property, Plant and Equipment**

Depreciation is calculated on cost, using the straight line method, over the estimated useful lives of the assets in terms of the exemptions published in Gazette 30013 dated 29 June 2007. Accordingly the Economic Entity did not review the depreciation method or the estimated useful lives except for Sanitation assets.

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

	<u>Years</u>
<u>Infrastructure</u>	
Electricity	10 – 30
Roads	10 – 30
Water	15 – 20
Sewerage	15 - 40
Pedestrian facilities	20
Security	3 – 5
<u>Community</u>	
Buildings	30
Landfill Sites	50
Recreational facilities	20
<u>Other</u>	
Buildings	30
Office equipment	3 – 5
Furniture and fittings	7 – 10
Bins and containers	5 – 10
Emergency equipment	5 – 15
Motor vehicles	3 – 20
Plant and equipment	2 – 15
Other	15
Investment Properties	30

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The Economic Entity is in the process of itemising all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2009. During 2006/07 sanitation assets were identified and taken-on at depreciated replacement value and the sanitation assets that were represented in the financial statements up to 30/06/2006 were adjusted in the statements together with the accumulated depreciation. At present, depreciation on the rest of the infrastructural and community assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets using global historical costs recorded in the accounting records. Furthermore, in terms of the exemptions published in Gazette 30013 dated 29 June 2007, the Economic Entity has not assessed whether items of property, plant and equipment are impaired. It is expected that an assessment of impairments will be done by 30 June 2009.

**7.2 Disposal of Property, Plant and Equipment**

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.

**7.3 Incomplete Construction Work**

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

**7.4 Impairment Losses**

In terms of the exemptions granted in Government Gazette No. 30019 dated 29 June 2007 no impairment of assets were tested and accounted for.

**7.5 Investment Properties**

In terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 no investment properties were identified and disclosed separately from property, plant and equipment in the financial statements.

**7.6 Agricultural Assets**

Agricultural assets consist only of Biological Assets for exhibition purposes in the zoo and aquarium. These assets are measured at fair value and the increase or decrease in valuation is accounted for in the Statement of Financial Performance at each financial year end.

**8. REVALUATION OF LAND AND BUILDINGS**

Land and Buildings are stated at cost or revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses on the buildings. In terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 no testing for impairment was done for the 2007/08 financial year.

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**9. INVESTMENTS**

**9.1 Financial Instruments**

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

**9.2 Investment in Associate**

An associate is an entity over which Buffalo City Municipality is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for Buffalo City Municipality's share of operating surpluses/ (deficits) less any dividends received.

Where Buffalo City Municipality or its Entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Municipality's or its Municipal Entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where Buffalo City Municipality is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

**9.3 Investment in Municipal Entities**

Investments in municipal entities under the ownership control of Buffalo City Municipality are carried at cost in Buffalo City Municipality's separate annual financial statements.

Buffalo City Municipality did not make use of the exemption as per Government Gazette No. 30013 dated 29 June 2007 which exempts municipalities from complying with section 122(2) of the MFMA to prepare consolidated financial statements for the 2007/08 financial year. Buffalo City Municipality will accordingly present consolidated financial statements for 2007/08.

**10. INVENTORIES**

Inventories consist of consumables, raw materials, work in progress and finished goods which are valued at the lower of cost or net realisable value.

Unsold properties for the purpose of resale are accounted for in terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 and are accordingly disclosed as property, plant and equipment. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs if the costs occur frequently and are separately identifiable. The Economic Entity did not make

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use of the exemption relating to the disclosure of water stock as per Government Gazette No. 30013 dated 29 June 2007. The Economic Entity will accordingly disclose the full value of water stock as at year end.

Cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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. Consumables are written down with regard to their age, condition and utility.

The basis of determining cost is the first-in-first-out method.

**11. ACCOUNTS RECEIVABLE**

Accounts receivable are carried at anticipated realisable value and no discounting was done in terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

**12. ACCOUNTS PAYABLE**

**Trade and other creditors**

Trade and other creditors excluding Leave pay have been accounted for in terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007. Accordingly the creditors were stated at nominal value and no discounting was accounted for.

**Leave Pay creditors**

Leave pay is stated as a current liability and stated at nominal value. In terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 no discounting was accounted for.

**13. REVENUE RECOGNITION**

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Economic Entity and these benefits can be measured reliably.

**13.1 Revenue from Rates**

Revenue from rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Interest on unpaid rates is recognised on a time proportionate basis.

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A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers.

**13.2 Service Charges**

Service charges relating to Electricity and Water are based on consumption. Meters are read on a monthly basis and revenue is recognised in the period when the consumption took place. Provisional estimates of consumption are made monthly when meter readings have not been performed. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

To include all revenue in the financial period, calculations are made to account for consumption that took place during the last meter reading dates and the financial year end.

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. The domestic charge is a fixed service charge and the business charge is based on the type of refuse bin and frequency of removal.

Service charges relating to sewerage and sanitation are recognised on a monthly basis by applying the approved tariff to each property. For East London the domestic charge is based on the land size of the property and the business charge is based on the square root of the land size and the number of toilets on the property. For King Williams Town both the domestic and business charges are based on the number of toilets on the property.

**13.3 Fines**

Income in respect of spot fines and summonses is recognised when received.

**13.4 Rentals**

Rentals are recognised on a time proportion basis and are not "straight-lined".

**13.5 Approved Tariff of Charges**

Revenue arising from the approved tariff of charges is recognised when the relative service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

**13.6 Interest on Investments**

Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on

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the investment. Interest may be transferred from the accumulated surplus to the CRR or the Insurance Reserve.

If the grant conditions indicate that interest is payable to donors then interest earned on unutilised conditional grants is allocated to the funds and is recognised in the Statement of Financial Performance.

**13.7 Sale of Goods**

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

**13.8 Interest on Outstanding Debtors**

Interest on outstanding debtors is recognised on a time proportionate basis and is charged on all outstanding debtors older than 30 days.

**13.9 Donations and Contributions**

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

**13.10 Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

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

**13.11 Deferred cash**

In terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 the fair value of the consideration was not discounted and was stated at the nominal amount.

**14. CONDITIONAL GRANTS AND RECEIPTS**

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the Economic Entity has complied with all 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 recognized.

**15. PROVISIONS**

A provision is recognised when the Economic Entity 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.

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Provisions are reviewed at each Statement of Financial Position date and adjusted to reflect the current best estimate. Contributions are made to or from the provisions to reflect the current best estimate.

Expenditure relating to provisions is charged to the operating account when incurred.

**Provision for performance bonuses**

The Economic Entity makes provision for performance bonuses unpaid at year end based on the full possible amount payable.

**Provision for the rehabilitation of Landfill sites**

The net present value of future rehabilitation cost estimates as at year end is recognised and provided for in full in the financial statements. The estimates are reviewed annually to take into account the effect of changes in the estimates. Discount rates that reflect the time value of money are used in calculating the present value.

**16. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with registered banking institutions. 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.

**17. 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 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.

**18. 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), 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.

**19. 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

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recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **20. FOREIGN CURRENCY TRANSACTIONS**

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transaction. Trade creditors denominated in foreign currency are reported at Statement of Financial Position date by using the exchange rate at that date. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded during the period are recognised as revenue or as expenses in the period in which they arise.

Where the transaction is covered by a forward exchange contract, the rate specified in the contract is used.

## **21. COMPARATIVE INFORMATION**

### **21.1 Current year comparatives**

Budgeted amounts have been included in the annual financial statements for the current financial year only.

### **21.2 Prior year comparatives**

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

## **22. LEASES**

### **22.1 The Entity as Lessee**

#### **Finance leases**

Leases are classified as finance leases when these confer with conditions as stipulated in IAS 17.

The Economic Entity recognises finance leases as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The depreciation of items of property, plant and equipment is consistent with that for depreciable assets that are owned, and the depreciation recognised is calculated in accordance with GAMAP 17 Property, Plant and Equipment and IAS 38 Intangible Assets. If there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

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Lease finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**Operating leases**

Operating leases are those leases which do not fall within the scope of the above definition. The Economic Entity did not make use of the exemption relating to recognising operating lease payments on a straight line basis as per Government Gazette No. 30013 dated 29 June 2007. The Economic Entity will accordingly recognise operating lease payments on a straight line basis over the period of the lease and account for such disclosure at year end.

**Contingent rentals**

Contingent rents are charged as expenses in the periods in which they are incurred.

**22.2 The Entity as Lessor**

The Economic Entity did not make use of the exemption relating to recognising operating lease receipts on a straight line basis as per Government Gazette No. 30013 dated 29 June 2007. The Economic Entity will accordingly recognise operating lease receipts on a straight line basis over the lease term and account for such disclosure at year end.

**23. VALUE ADDED TAX**

The Economic Entity accounts for Value Added Tax on the payment basis.

**24. GRANTS-IN-AID**

The Economic Entity transfers money to individuals, institutions and organisations. When making these transfers, the Economic Entity does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred. If these contracts are onerous and extend over more than one financial year they are then treated in accordance with the accounting policy on provisions outlined under 16 above.

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**25. UNUTILISED CONDITIONAL GRANTS**

Unutilised conditional grants are reflected on the Statement of Financial Position as a Creditor - Unutilised Conditional Grants. They represent unspent government grants, subsidies and contributions from the public. The following conditions are set for the creation and utilisation of these creditors:

- The cash which backs the creditor is invested until utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If the grant conditions indicate that interest is payable to donors then interest earned on unutilised conditional grants is allocated to the funds and is recognised in the Statement of Financial Performance.
- Whenever an item of property, plant and equipment is purchased from a Creditor – Unutilised Conditional Grant, an amount equal to the purchase price is transferred from the Creditor - Unutilised Conditional Grant to the operating account on the Statement of Financial Performance as revenue.
- Whenever a non-asset is purchased from a Creditor - Unutilised Conditional Grant an amount equal to the purchase price is transferred from the Creditor - Unutilised Conditional Grant to the operating account on the Statement of Financial Performance to offset the expenditure which was expensed through the operating account.

**26. 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 Economic Entity are amortised according to the straight line method. By making use of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 the Economic Entity only includes software as intangible assets.

The amortisation rates of definite intangible assets are based on the following estimated useful lives:

	<u>Years</u>
Computer Software	3

**27. IMPAIRMENT OF CASH GENERATING ASSETS**

In terms of the exemptions published in Government Gazette No. 30013 dated 29 June 2007 no impairment of cash generating assets were accounted for.

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**28. EMPLOYEE BENEFITS**

**28.1 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. Full actuarial valuations are performed on a regular basis on defined benefits contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

**28.2 Defined Benefits**

The Economic Entity provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the Economic Entity. According to the rules of the medical aid funds, with which the Economic Entity 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 40% of the medical aid membership fee, and the Council for the remaining 60%. 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 Economic Entity'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 Economic Entity, 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.

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**29. BORROWING COSTS**

Borrowing costs are recognised as incurred and expensed in the Statement of Financial Performance.

**30. CURRENT TAX ASSETS AND LIABILITIES**

Current tax and prior periods is, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as an asset.

Current tax liabilities (assets) for the current period are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax assets and liabilities**

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognized for all deductible temporary difference to the extent that taxable profit will be available against which the deductible temporary difference can be utilized. A deferred tax asset is not recognized when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognized for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.