



## FUNDING AND RESERVES POLICY

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## Amajuba District Municipality

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## Amajuba District Municipality

### 1. Glossary

Conditional grant	Grant received from government and public to which a condition as to the application of such a grant exists.
Councillor	A member of a municipal council.
Council	Council of Cacadu District Municipality
CDM	Cacadu District Municipality
Directive 4	Transitional provisions for the adoption of standards of GRAP by medium and low capacity municipalities.  Issued by the Accounting Standards Board, February 2008.
Funds	Statutory funds in terms of an Act.
Fair value	The best price obtainable by the seller, whilst simultaneously being the most advantageous price obtainable by a buyer.
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act no 56, 2003
The municipality	Cacadu District Municipality
Official	<ul style="list-style-type: none"> <li>• an employee of a municipality or municipal entity;</li> <li>• a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or</li> <li>• a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee.</li> </ul>
Obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
PPE	Property, plant and equipment
Reserves	Reserves allowed in terms of a standard of GRAP.

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Ring fencing	Enclose and reserve the portion ring fenced of the accumulated surplus account exclusively for the purpose it was ring fenced.
Unconditional grant	Grant received from government or public with no conditions as to the application of such a grant.

## 2. Long Term Receivables

### 2.1 Definition

Loans and obligations with a maturity of longer than one year accompanied by interest and redemption payments.

### 2.2 MFMA Requirements

- According to the MFMA:

Section 164(1) No municipality or municipal entity may—

(c) make loans to—

- (i) councillors or officials of the municipality;
- (ii) directors or officials of the entity; or (iii) members of the public.

Section 164(2) If a municipality or municipal entity on the date on which this section takes effect is engaged in any activity prohibited by subsection (1) (a) or (b) and which is otherwise lawful, the municipality or entity must take all reasonable steps to rectify its position and to comply with that subsection as soon as may be reasonable in the circumstances.

- To whom does section 164(1)(c) apply? (MFMA Circular no. 8 of 2004)

The term “councillor” and the term “official” are defined in section 1 of the MFMA. The MFMA does not differentiate between categories of officials and therefore applies to all officials.

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In the context of section 164(1)(c), “member of the public” refers to all persons in the community as a whole. This includes both individual members of the public (natural persons) and organisations, associations, bodies corporate or the like (juristic persons). Therefore, a loan to a resident, business, company, non-governmental organisation, sport club and the like is not permitted.

- No loans to individuals are allowed but municipalities within the jurisdiction of ADM are still allowed to apply and procure a loan from the ADM.

### 2.3 Application

In terms of the MFMA municipalities may only procure long term loans for capital purposes. If a municipality applies for a long-term loan from ADM this application must be accompanied by all the necessary proof that the requirements of Section 46 of the MFMA have been complied with.

### 2.4 Approval

Before a long-term loan to a municipality within the jurisdiction of ADM can be approved by council the following requirements must be complied with:

- The municipality must provide proof that it was not possible to procure a loan from another external source;
- That all the requirements of Section 46 of the MFMA are complied with;
- That sufficient cash is available (not needed on the short to long term for other purposes) to ADM to make this loan;
- A loan agreement be entered into;
- That a market related interest is charged for example 85% of the prime interest rate;
- That the contract make provision for the adaption of the interest rate if market conditions change;
- A reasonable period for repayment be granted depending on the term availability of the cash loaned;
- At the discretion of council any security for such loan to be included in the contract.

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### **2.5 Recording and disclosure**

The approved loan will be recorded and disclosed as a non-current asset in the statement of financial position. The short-term portion (the redemption for the next financial period) will be transferred to the current asset portion on the statement of financial position and be disclosed as the “short term portion of long term receivables”.

### **2.6 Existing loans at inception of the MFMA**

Existing policies, practices, agreements and other arrangements within the municipality prior to 1 July 2004 are to be phased-out, as and when these lapse.

### **2.7 Reporting**

All new and existing loans must be reported to council in detail and be disclosed in the annual report and financial statements.

## **3. Funding and Reserves**

Notice 393 of 2009 published in the Government Gazette of 17 April 2009 determines as follows:

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8. (1) Each municipality must have a funding and reserves policy which must set out the assumptions and methodology for estimating –

- (a) projected billings, collections and all direct revenues;
- (b) the provision for revenue that will not be collected;
- (c) the funds the municipality can expect to receive from investments;
- (d) the dividends the municipality can expect to receive from municipal entities;
- (e) the proceeds the municipality can expect to receive from the transfer or disposal of assets;
- (f) the municipality's borrowing requirements; and
- (g) the funds to be set aside in reserves.

(2) When developing or amending the funding and reserves policy of the municipality, the municipal manager must ensure that the policy –

- (a) is consistent with the most recent actual billings and collection trends;
- (b) takes into account the credit rating of the municipality, if available, the financial position of the municipality, the cost of borrowing and the capacity to repay debt;
- (c) takes into account all the budget-related policies of the municipality, particularly recent amendments to any of those policies;
- (d) takes account of any statutory requirements to set aside funds in reserves; and
- (e) takes account of the transfer and disposal of assets.

### 3.1 Projected billings

All District Management Areas are withdrawn by the Municipal Demarcation Board. The District municipality therefore has no area where it can affect any form of billing.

### 3.2 Collections

#### 3.2.1 Sundry revenue

GRAP 9 paragraph 22 states the following:

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when

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uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

### 3.2.3 *Interest on investments*

Interest on investments is assumed to be collectable when due.

## 3.3 **Direct Revenue**

### 3.3.1 *Unconditional Grants*

Revenue from grants is assumed to be in accordance with the published grant amounts or official grant allocations.

### 3.3.2 *Conditional Grants*

Revenue from conditional grants is recognised when the conditions are met.

### 3.3.3 *Other direct revenue*

Estimation determining other direct revenue is based on history for similar revenue, estimated cash flows and costs involved where applicable.

## 3.4 **Provision for impairment**

Financial assets are carried at amortised cost. The amount of the potential loss is estimated as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the prevailing prime rate.

## 3.5 **Funds the municipality can expect from investments**

To calculate the possible estimated funds that can be realised from investments the municipality must determine:

- The possible cash flow that might be available for investing with expected investment periods (excluding cash flow with conditions regarding the allocation of interest other than revenue);
- The assumed interest rate fluctuations. This will be based on economic forecasts and bulletins.



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### **3.6 Proceeds the municipality can expect from the sale of assets**

The estimated proceeds from the sale of assets will be determined by subtracting the carrying value of the assets for sale from the expected selling price of these assets.

In this determination the municipality must have:

- An approved plan for selling the assets; and
- An estimation of market value (selling price) of the assets.

### **3.7 The municipality's borrowing requirements**

ADM does not administer any large infrastructure networks and will therefore not have any borrowing requirements.

### **3.8 Funds to be set aside in reserves**

#### *3.8.1 Revaluation reserve*

In terms of directive 1, the transitional provisions allowed in paragraph 144 of GRAP 1 were withdrawn and only reserves allowed in terms of a standard of GRAP will be disclosed in net assets in the statement of financial position. Currently the only permissible reserve is the Revaluation reserve in terms of GRAP 17.

Funds to be allocated to this reserve are the difference between the revalued amount of a property that is disclosed in terms of GRAP 17 (readjusted for depreciation) and the carrying value of the property. This reserve is not cash funded and is to be utilised for offsetting depreciation charges calculated on the revalued portion of the property.

#### *3.8.2 Reserves ring fenced within the Accumulated Surplus account*

Any other reserves which the municipality may wish to create can only be done by ring fencing such a reserve within the accumulated reserve balance. This balance will be and treated as part of the accumulated surplus account.

#### *3.8.3 Disclosure*

The revaluation reserve and any other reserve that may be created in terms of a standard of GRAP are disclosed in net assets on the statement of financial position.

All other "reserves" will be disclosed as part of the accumulated surplus balance.

### **4. Long Term Liabilities and Deferred Income**

#### **4.1 Definitions**

Long term liabilities are recorded on the statement of financial performance and represent the municipality's liability for finance leases, loan repayments and other items (including deferred income) that are due in more than one financial year.

Deferred income is the portion of unspent conditional grants that have not yet been released to revenue due to conditions that have not yet been met or is not repayable to the National Treasury due to under spending.

#### **4.2 Initiation and Purpose**

##### *4.2.1 Loans and finance leases*

The municipality may incur loans and finance leases only after the requirements of Section 46 of the MFMA have been complied with and only for the purpose of capital expenditure.

These requirements include the following:

- A resolution of the council, signed by the mayor, approving the debt agreement;
- A debt agreement or other document signed by the accounting officer which creates or acknowledges the debt;
- The accounting officer must, at least 21 days prior to the meeting of the council at which approval of the debt is to be considered, make public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided;
- The accounting officer must invite the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt;
- The accounting officer must submit a copy of the information statement to the council at least 21 days prior to the meeting of the council, together with particulars of the essential repayment terms, including the anticipated debt repayment schedule and the anticipated total cost in connection with such debt over the repayment period.

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### *4.2.2. Employee benefits*

Employee benefit obligations are regulated by IAS 19 and council is currently obliged to provide for post-employment medical aid contributions. This obligation is to be calculated by a qualified actuary on a regular basis as needed at the discretion of the accounting officer.

### *4.2.3. Deferred income*

The unreleased portion of unspent conditional grants that is not going to be released in the next financial period will be disclosed as deferred income under non-current liabilities.

The portion of deferred income to be released in the next financial period will be disclosed as current liabilities.

### **4.2.4. Accounting treatment of long term liabilities**

#### *4.2.4.1. Loans*

An asset and a long-term liability will be created by debiting PPE and crediting a long term liability account. The payments on this loan will be split between capital repayment and an interest charge, the repayment to be debited against the liability and the interest to be included in the statement of financial performance as a finance cost.

#### *4.2.4.2. Finance leases*

Finance leases are regulated by GRAP 13 and when identified as such an asset account will be debited with the lower of the fair value or the discounted cash flow using the interest rate inherent to the lease or a rate that will be applicable in a similar transaction. The finance repayment value will be credited to a lease obligation account to be disclosed as a long-term liability. The minimum lease payments as at the initiation of the lease will be applied in the calculation of the loan redemption and interest split. Any changes in the interest rate as required by the service provider under the lease contract will be adjusted on the remainder of the lease contract. These payments will be treated as per the loans discussed above. Excess payments will be treated as contingent payments, debited as expenditure in the statement of financial performance and disclosed as such.

### 5 Provisions

Provisions are accounted for in accordance with GRAP 19.

#### 5.1 A provision shall be recognised when:

- ADM has a present obligation (legal or constructive) resulting from past events (at reporting date);
- 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.

Financial statements deal with the financial position of ADM at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to continue ADM's ongoing activities in the future. The only liabilities recognised in ADM's statement of financial position are those that exist at the reporting date.

#### 5.2 Measurement

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. The estimates of outcome and financial effect are determined by the judgment of the management of ADM.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate will reflect the current market assessments of the time value of money (prime rate).

#### 5.3 Use of provisions

A provision shall be used only for expenditures for which the provision was originally recognised.

#### 5.4 Disclosure

ADM will disclose provisions in the annual financial statements in accordance with the requirements of paragraphs 107 to 120 of GRAP 19.

## 6 Financial Instruments

### 6.1 Definition

A financial instrument is a contract, which is either written or verbal, to receive an asset which in turn creates a liability that must be settled either in cash or with another financial instrument.

### 6.2 Recognition

Financial instruments are recognised and measured in terms of IAS 39.

### 6.3 Classification

ADM classifies its financial instruments as follows:

- Financial assets – loans and receivables
- Financial liabilities – at amortised cost

### 6.4 Risk analysis

ADM will perform and disclose in notes to the AFS the following risk analysis:

- Credit Risk: the risk that the other party to a financial asset will cause a financial loss for ADM by failing to discharge their obligation.
- Liquidity risk: the risk that ADM will encounter difficulty in meeting obligations associated with financial liabilities.
- Market risk: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:
  - Currency risk:

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
  - Interest rate risk:

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The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

- Other price risk:

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

### 6.5 Measurement

*Initial recognition:* at fair value

*Subsequent recognition:* at amortised cost, applying the prime interest rate as the effective rate of interest.

## 7. Financial Statement Close Process

The Chief Financial Officer will produce and distribute an information requirement list for the annual financial statements on or before 31 March of each year. This list will indicate the information requirements for the financial statements from each directorate and the person responsible for producing such information. Time frames will be set and if any indicated responsibility cannot be met the Chief Financial Officer must be informed at least two weeks ahead of the deadline with acceptable reasons why the information cannot be produced.

This requirement list will have the same impact as if the Municipal Manager has issued pertinent instructions and will form part of the audit working papers.

The Chief Financial Officer will follow up on the responses to deadlines and will report to the Municipal Manager any non-compliance from directorates.

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The Chief Financial Officer will determine a closing date for the acceptance of invoices for payment affecting the financial year being closed off. This date will also affect the last date upon which ordering and purchasing will be allowed.

The Chief Financial Officer will determine at what stage journal entries in the system are to be finalised and thereafter only yearend closing off journals will be allowed. A person is to be appointed to approve and correlate any journal entries.

The annual financial statements are to be completed at least two weeks before the official completion date of 31 August so as to allow for correlation with the annual report and performance reports.

### **8. Other Income**

#### **8.1 Definition**

Other income as represented on the statement of financial performance refers to income as required from a standard of GRAP other than GRAP 9 (Revenue from exchange transactions) or GRAP 23 (Revenue from non-exchange transactions - taxes and transfers).

Examples of such income are:

- Gain on disposal of PPE – GRAP 17
- Actuarial gain on post-retirement benefit – IAS 19
- Amortisation of financial instruments – IAS 39

#### **8.2 Initiation**

The income is initiated by applying the requirements of the GRAP standards involved.

#### **8.3 Recording**

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Other income is recorded separately from and does not form part of revenue disclosure as per GRAP 9. Other income is recorded in terms of the requirements of the GRAP standards involved.

Other income is usually recorded by way of journal entries as there is not usually a cash flow involved. If there is a cash flow, then normal receipting procedures will apply.

### **9. Grant Income**

#### **9.1 Unconditional grant**

##### *9.1.1 Type of grant*

The primary source of unconditional grant income is the equitable share allocation from the National Treasury.

##### *9.1.2 Object of the grant*

The main object of the grant is to supply the municipality with operational funding in order to exercise its operational obligations and to provide services to indigents.

##### *9.1.3 Recording of the grant*

The allocation made to the municipality is recorded in the Division of Revenue Act and will be recorded in full as revenue in terms of GRAP 9 by creating a receivable.

##### *9.1.4 Receipting of the grant*

The unconditional grants are paid in three instalments. The receipt of each will be allocated to the receivable account created for unconditional grants. Any surplus funds not needed for immediate application is to be invested in terms of the municipality's investment policy.

##### *9.1.5 Application of the grant*

The grant is first to be applied in providing services to indigents where the municipality is the service provider. Any remaining funds are to be applied in terms of the municipalities approved budget.



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### **9.2 Conditional grants**

#### *9.2.1 Type of grant*

Any grant allocated to the municipality from government or public which is subject to a condition being met in the application thereof before the grant can be recognised as revenue.

#### *9.2.2 Object of the grant*

Conditional grants are approved by government or other institution for a specific purpose which can be either operational or capital of nature. Therefore, the grant cannot be applied for any other purpose but the one specified.

#### *9.2.3 Recording of the grant*

Upon receipt the grant will be recorded against an unspent grant creditor / deferred income account. In accordance with GRAP 9 the money on the grant can only be released if the expenditure complies with the condition attached to the grant. Until this condition is met the unspent portion of such a grant will be owned to the grantee.

When the Chief Financial Officer satisfied that the grant was applied in accordance with the specified condition, an amount, equal to that which has met the grant condition, will be transferred from the creditor / deferred income account to a revenue account and be disclosed as such on the statement of financial performance.

#### *9.2.4 Application of the grant*

The grant may only be applied for the purpose or according to the conditions as stipulated by the grantee.

## 10. Interest Income

### 10.1 Definition

In this policy, unless the context indicates otherwise:

**“Investment”** means -

- (a) the placing on deposit of funds with a financial institution; or
- (b) the acquisition of monetary assets with funds not immediately required, with the primary aim of preserving those funds.

**“Investee”** means an institution with which an investment is placed, or its agent.

**“Interest earned”** means the amount of interest paid by an investee to the municipality for the investment made by the municipality.

**“Interest on arrears”** means the interest charges on arrear receivables in terms of the municipality’s Debt Collection policy.

**“Date of payment”** means the date as determined by council for payment of receivables.

### 10.2 Invested funds

Funds are invested in terms of the Investment and Cash Management policy of the municipality.

### 10.3 Accounting treatment of interest earned

*10.3.1 GRAP 9 (Revenue from exchange transactions), paragraph 34-35 determines:*

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends shall be recognised using the accounting treatment set out in paragraph .35 when:

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- (a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- (b) The amount of the revenue can be measured reliably.

Interest shall be recognised using the effective interest rate method as set out in the Standards of GRAP on Financial Instruments.

10.3.2 Interest earned on unspent conditional grants invested will be allocated directly to the unspent grant creditors account if the conditions of such a grant require it. All other interest earned will be allocated to a revenue account.

10.3.3 Interest earned on the reporting date but not yet allocated by the investee shall be calculated in terms of paragraph 10.3.1 of this policy and allocated to an interest receivable account.

### **10.4 Disclosure of interest earned on external investments**

Interest earned will be disclosed as a separate line item on the statement of financial performance or if appropriate as part of the balance on the payables disclosed on the statement of financial position.

### **10.5 Interest on debt in arrears**

10.5.1 Unpaid accounts at date of payment, excluding accounts delivered to indigents, shall be said to be in arrears.

10.5.2 The interest rate applicable will be the prime rate as at the time of arrears plus one and a half percent calculated daily pro rata for the period that the account is in arrears.

10.5.3 Interest will be levied until the debtor's account is deemed to be impaired, as per the bad debt policy, and the benefit of the interest will not flow to the municipality.

### **10.6 Disclosure of interest on arrear accounts**

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Interest charged on arrear accounts will be disclosed as a separate line item in the statement of financial performance.

### **11. Value Added Tax**

#### **11.1. Introduction**

It is important that the municipality submit VAT returns timeously and accurately in accordance with all VAT related legislation. Furthermore, general operational procedures should be in place to ensure the effective and efficient working of VAT related administration.

VAT is calculated based on the payments system.

#### **11.2. VAT 201 forms**

##### *11.2.1 Completion and submission*

- Monthly / two monthly VAT201 returns should be completed and submitted to SARS before the 25<sup>th</sup> day of the month following on the month in which a VAT period ends.
- The municipality should agree the information on the VAT201 assessment done by SARS each month with the information filled in on the VAT201 return by the municipality. Unexplained differences or disagreements between the above-mentioned VAT assessment and return should be taken up with SARS.
- Payments made to and received from SARS should be done punctually and payments to/receipts from SARS should be agreed to the municipality's monthly bank statements.

##### *11.3 General*

- Output VAT should be declared with regard to the following: benefits to personnel, insurance claims received and fixed assets sold.
- VAT should be paid in the correct period and using the prescribed percentage.
- The actual payment (amount due to SARS) or income (amount due by SARS) should be reflected as either a creditor or debtor in the AFS for the year ended 30 June.

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- VAT can only be claimed if supported by a valid tax invoice, as required by section 20(4) of the VAT Act.
- No VAT is to be claimed on the following expenditure: entertainment, subscriptions and passenger vehicles.
- VAT should be claimed on bad debts written-off, discounts allowed, and credit notes issued (if on invoice system).
- Output VAT should be declared on any consumer deposits utilised to redeem outstanding accounts.
- A VAT reconciliation should be performed by the municipality to determine the accuracy and completeness of the output VAT paid and input VAT claimed by the municipality for the financial year.
- Ensure that VAT is accounted for at the zero-rate (0%) for the following supplies:
  - Municipal property rates
  - Grants utilised for the purposes of taxable supplies
  - Supplies to a vendor in a custom controlled area.
  - Exports
  - Housing subsidies
  - Grants received for the purpose of service delivery in terms of section 8(5A) of the VAT Act may be zero rated in terms of section 11(2)(t) of the VAT Act, provided that the grants received are in connection with taxable services supplied by the municipality.
- The making of exempt supplies as envisaged in section 12 of the VAT Act, by a municipality, does not fall within the ambit of the municipality's enterprise activities.

## 12. Investment Property

### 12.1. Identification

In terms of GRAP 16 investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes;
- or
- (b) sale in the ordinary course of operations.

The classification of investment property depends on the intention of management and therefore requires judgement to determine whether a property qualifies as an investment property. Criteria for identification will be as follows:

- Property held for long-term capital appreciation;
- Property leased out to another party under an operating lease;
- Vacant property held for the purpose of leasing it in the future; and
- Land and buildings held for undetermined use.

### 12.2. Measurement

12.2.1. Investment property is initially measured at cost, which includes transaction costs such as legal fees, cost of title deed registration and any other taxes on the purchase of property.

12.2.2 Where investment property was acquired at no cost, it is initially measured at fair value.

12.2.3 The cost of self-constructed investment property is its cost at the date when the construction or development is complete under GRAP 17.

12.2.4. The cost of investment property is not increased by:

- start-up costs unless they are necessary to bring the property to the condition necessary for it to be capable of operating in the manner intended by management;
- operating losses incurred before the investment property achieves the planned level of occupancy; or

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- abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the property.

12.2.5. According to GRAP 16 .30 the initial cost of a property interest held under a lease and classified as an investment property shall be as follows: the lower of the fair value of the property or the present value of the minimum lease payments.

12.2.6. Subsequent to initial measurement, a municipality should either measure its investment property at fair value or cost less accumulated depreciation and accumulated impairment losses.

- Adopting the fair value model entails measuring all investment property at their fair value and recognising changes in their fair value in the statement of financial performance at each reporting date.
- If the cost model is adopted as the accounting policy, the investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

### 12.3. Subsequent expenditure

The rules for the capitalisation of subsequent expenditure on investment property are identical to the rules in GRAP 17. Subsequent expenditure can only be added to the cost of the asset if it meets the recognition criteria below:

- It is probable that future economic benefits will flow to the municipality; and
- The costs can be reliably measured.

Day to day maintenance and repairs on the investment property may not be added to the carrying value of the asset.

### 12.4. Transfers

Transfers to and from investment property are only made when there is a change in use and can be summarised as follows:

Change in use	Transfer from	Transfer to	Treatment of carrying value
Commencement of owner occupation	Investment property	Property, plant and equipment	Fair value at date of transfer is deemed cost
Commencement of development with a view to sell	Investment property	Inventory	Fair value at date of transfer will be the deemed cost

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End of owner occupation	Property, plant and equipment	Investment property	Difference between carrying amount and fair value is treated the same as revaluation surplus
Commencement of operating lease to another party	Inventory	Investment property	Difference between carrying amount and fair value recognised in surplus/deficit
End of construction or development	Property, plant and equipment	Investment property	Difference between carrying amount and fair value recognised in surplus/deficit

### 12.5 Disclosure requirements

The municipality elected to reflect all of its investment properties at fair value and must disclose in the AFS the following information:

- Whether and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
- The criteria developed by the municipality to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations.
- The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the municipality should disclose) because of the nature of the property and lack of comparable market data.
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed.
- The amounts included in the statement of financial performance for:
  - Rental revenue from investment property;
  - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period;
  - Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
  - The cumulative change in fair value recognised as surplus or deficit on the sale of investment property.



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- The existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal;
- Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):
  - Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;
  - Additions resulting from acquisitions through municipality combinations;
  - Disposals;
  - Net gains or losses from fair value adjustments;
    - Transfers to and from inventories and owner-occupied property; and
    - Other movements.

### **13. POLICY ADOPTION**

This Policy has been considered and approved by the **COUNCIL OF AMAJUBA DISTRICT MUNICIPALITY** as follows:

**Resolution No:**C124:30/05/2017

**Approval Date:** 30/05/2017