

# **AMAJUBA DISTRICT MUNICIPALITY**



## **ACCOUNTING POLICIES POLICY**

# ACCOUNTING POLICIES

## 1. Basis of Presentation

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

These annual financial statements have been prepared in accordance with Generally Recognized Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The principal accounting policies adopted in the preparation of these annual financial statements are set out below. Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The standards are summarized as follows:

### Standard of GRAP

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The 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 Asset

GAMAP 6, 7 and 8 have been complied with to the extent that the requirements in these standards relate to the municipality's separate financial statements.

The Municipality has taken advantage of the exemptions as set out in Government Notice No. 522 published in Government Gazette 30013 dated 29 June 2007 as well as the transitional provisions set out in Directives 4 and 5 from the Accounting Standards Board for the implementation of GRAP 17.

### Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods as approved by the Accounting Standards Board. The municipality has not early adopted the standards as the effective date has not yet been determined by the Minister.

The municipality does not envisage the adoption of the standards until such time as it becomes applicable to the municipality's operations. It is unlikely that the standards will have a material impact on the municipality's annual financial statements.

### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

## **Accounting Policies (Contnd.)**

### **GRAP 23: Revenue from Non-exchange Transactions**

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

### **GRAP 103: Heritage Assets**

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognized as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will accrue to the municipality; and
- the cost of fair value of the asset can be measured reliably.

### **GRAP 21: Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired. A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

### **GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

### **GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognize:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

### **GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

## **Accounting Policies (Contnd.)**

### **Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Budget information has been provided in an annexure to these financial statements as well as in the Reconciliation of Budget Summary.

### **Presentation of currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

### **1.1 Significant judgments and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and in any future affected period. Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the financial statements are included in the following notes:

- Provisions
- Consumer Debtors
- Revenue (Service Charges)
- Contingent liabilities

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 4 - Provisions.

### **1.2 Property, plant and equipment**

Property, plant and equipment (PPE) are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

## Accounting Policies (Contnd.)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

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 is capitalized when the recognition and measurement criteria of an asset are met.

The municipality maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets. The estimated useful lives are as follows:

<b>Item</b>	<b>Average useful life</b>
Buildings	30 years
Plant and machinery	
▪ Specialized plant and equipment	10 years
▪ Other plant and machinery	5 years
Furniture and fixtures	5 years
Motor vehicles	
▪ Specialized vehicles	5 years
▪ Other vehicles	5 years
Office equipment	3 years
Infrastructure	
▪ Roads & Paving	15 years
▪ Water	20 years
▪ Sewerage	20 years
Community	
▪ Buildings	30 years
▪ Recreational Facilities	30 years
▪ Security	5 years

## **Accounting Policies (Contnd.)**

The asset management policy contains the details of the components and their specific useful life estimates.

Items of Property, plant and equipment are derecognized when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. 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 recognized in the Statement of Financial Performance.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an assets carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the assets' recoverable amount is calculated. An impairment loss is recognized in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

The municipality depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalized and the existing parts being replaced are derecognized.

### **1.3 Intangible assets**

An intangible asset is an identifiable, non-monetary asset without physical substance. Intangible assets are identifiable resources controlled by the municipality from which the municipality expects to derive future economic benefits or service potential.

Intangible assets are identifiable when they can be separated from the municipality, i.e. is capable of being separated or divided from the municipality and sold, exchanged, licensed or, when they arise as a result of a contractual or other legal right, excluding those legal rights that arise from statute.

The municipality recognizes an intangible asset in its statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the municipality can measure the cost or fair value of the asset reliably.

An intangible asset is measured initially at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Where the municipality acquires intangible assets, the municipality recognizes them as assets in the statement of financial position at cost.

Where the municipality generates its own intangible assets through research and development or the acquisition of another entity, recognition is based on whether or not it is probable that the intangible assets will generate future economic benefits or service potential. Expenditure on research is not recognized as an asset.

An intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the municipality can demonstrate all of the following:

## Accounting Policies (Contnd.)

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits or service potential. Among other things, the municipality can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The municipality does not recognize internally generated goodwill as an intangible asset. It also does not recognize internally generated brands, mastheads, publishing titles, customer lists and items similar in substance, as intangible assets.

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.

Intangible assets are subsequently carried at cost less accumulated amortization and accumulated impairment losses.

The municipality assesses whether the useful life or service potential of an intangible asset is finite or indefinite. The municipality regards an intangible asset as having an indefinite useful life when there is no foreseeable limit to the period over which the entity expects the asset to generate net cash inflows or service potential for the entity. Intangible assets with indefinite useful lives are not amortized.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

The useful life of an intangible asset that arises from contractual or legal rights does not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the municipality expects to use the asset.

The municipality reviews the amortization method, useful lives and residual values of intangible assets annually.

The estimated useful lives are as follows:

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 years
Other intangible assets	3 years

Intangible assets are derecognized when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognized in the Statement of Financial Performance.

## Accounting Policies (Contnd.)

### 1.4 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment financial assets
- Loans and receivables financial assets
- Available-for-sale financial assets
- Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

#### Recognition

Financial assets and financial liabilities are initially recognized on the statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

#### Measurement

When a financial asset or financial liability is recognized initially, the municipality measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the municipality applies the following to determine the amount of any impairment loss:

*Financial assets carried at amortized cost:* If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortized cost has been incurred, the amount of the loss is measured 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 financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in surplus or deficit.



## **Accounting Policies (Contnd.)**

*Financial assets carried at cost:* If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*Available-for-sale financial assets:* When a decline in the fair value of an available-for-sale financial asset has been recognized in accumulated surplus or deficit and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in accumulated surplus or deficit is reclassified from accumulated surplus or deficit to surplus or deficit as a reclassification adjustment even though the financial asset has not been derecognized.

### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the municipality has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

## **Accounting Policies (Contnd.)**

### **Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognized in accumulated surplus.

Impairment losses, interest income and dividend income are reported in surplus or deficit.

### **Other financial liabilities**

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

### **De-recognition**

#### *Financial assets*

A financial asset is de-recognized where the contractual rights to receive cash flow from the asset have expired, or the municipality has transferred the asset and the transfer qualifies for de-recognition. A transfer qualifying for de-recognition occurs when the municipality transfers the contractual rights to receive the cash flows of the financial asset. Where the municipality has transferred its rights to the cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the municipality's continuing involvement in the asset.

#### *Financial liabilities*

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

### **Categorization**

The municipality has various types of financial instruments and these can be broadly categorized as either financial assets or financial liabilities.

A financial asset is any asset that is:

- cash;
- a contractual right to receive cash or to receive another financial asset from another entity;
- a contractual right to exchange financial instruments on potentially favorable terms;
- an equity instrument of another entity;

## Accounting Policies (Contnd.)

- a contract that may or will be settled in the entity's own equity instruments (subject to certain conditions).

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Loans and receivables
- Consumer debtors
- Other receivables
- Call investment deposits

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows into one of the four categories allowed by this standard:

<b>Type of financial asset</b>	<b>Classification in terms of IAS 39.09</b>
Loans and receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other receivables	Loans and receivables
Call investment deposits	Available for sale

A financial liability is any liability that is:

- a contractual obligation to deliver cash or to deliver another financial asset;
- a contractual obligation to exchange financial instruments on potentially unfavorable terms;

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long term liabilities
- Trade and other payables
- Consumer deposits
- Unspent conditional grants
- Bank overdraft

There are two main categories of financial liabilities, classified based on how they are measured. Any other financial liabilities are classified as financial liabilities that are not measured at fair value through profit or loss.

In accordance with IAS 39.09 the financial liabilities of the municipality are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the following instruments are held for trading.

<b>Type of financial liability</b>	<b>Classification in terms of IAS 39.09</b>
Long term liabilities	Financial liability that is not measured at fair value through profit or loss
Trade and other payables	Financial liability that is not measured at fair value through profit or loss
Consumer deposits	Financial liability that is not measured at fair value through profit or loss
Unspent conditional grants	Financial liability that is not measured at fair value through profit or loss
Bank overdraft	Financial liability that is not measured at fair value through profit or loss

### Impairment of financial assets

Consumer debtors, long term receivables and other receivables are stated at cost less a provision for bad debts. The provision is made on an individual basis or group, based on expected cash flows.

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment of financial assets. If there is evidence then the recoverable amount is estimated and an impairment loss is recognized in accordance with IAS 39 as an expense in the Statement of Financial Performance.

## Accounting Policies (Contnd.)

### 1.5 Impairment of assets

The municipality assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognized for cash generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash generating unit;
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization other than goodwill is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### 1.6 Provisions and contingencies

A provision is recognized when the municipality has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources 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.

The municipality does not recognize a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

## **Accounting Policies (Contnd.)**

A contingent asset is disclosed where an inflow of economic benefits is probable.

Provisions are reviewed annually and those estimated to be settled within the next twelve months are treated as current liabilities. All other provisions are treated as long term liabilities.

### **1.7 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognized as revenue 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 recognized.

### **1.8 Types of Revenue**

#### **1.8.1 Revenue form exchange transactions**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue.

Service charges relating to water are based on consumption. Meters are read on a periodic basis and revenue is recognized when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognized as revenue when invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognized as revenue in the invoicing period. There are areas within the municipality where an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognized when invoiced.

## **Accounting Policies (Contnd.)**

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly. Interest revenue is recognized on a time proportion basis.

Revenue from the rental of facilities and equipment is recognized on a straight-line basis over the term of the lease agreement.

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

Income for agency services is recognized on a monthly basis once the income collected on behalf of agents has been quantified. The income recognized is in terms of the agency agreement.

Dividends are recognized when the municipality's right to receive payment is established.

Revenue from the sale of goods is recognized when the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### **1.8.2 Revenue from non-exchange transactions**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognized to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Penalty interest on unpaid rates is recognized on a time proportion basis.

A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognized net of revenue.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognized when payment is received.

Revenue from public contributions and donations is recognized 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 qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognized.

Contributed property, plant and equipment is recognized when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorized, 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 recognized when the recovery thereof from the responsible councillors or officials is virtually certain.

## **Accounting Policies (Contnd.)**

### **1.9 Investment income**

Investment income is recognized on a time proportion basis using the effective interest method.

### **1.10 Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred.

### **1.12 Unauthorized expenditure**

Unauthorized expenditure means:

- overspending of a vote or a main division within a vote;
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorized expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.13 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.14 Reserves**

#### **Capital replacement reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilized.

#### **Government grant reserve**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, 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

## **Accounting Policies (Contnd.)**

ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this 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 grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

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

### **Donations and public contributions reserve**

When items of property, plant and equipment 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 issued by National Treasury.

When such items of property, plant and equipment are depreciated, a transfer is made from 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 financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

## **1.15 Investments**

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

## **1.16 Conditional Grants and receipts**

Revenue received from conditional grants, donations and funding are recognized as revenue 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 recognized.

## **1.17 Employee benefits**

### **Retirement Funds**

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.

The municipality contributes to defined contribution and defined benefit funds. These funds are multi employer funds.



## **Accounting Policies (Contnd.)**

### **Defined Contribution Funds**

Where an employee has rendered services to the municipality during the year, the municipality recognizes the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

### **Defined Benefit Plans**

The municipality does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds as classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds.

To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the municipality will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

### **Medical Aid: Continued Members**

The municipality provides post-retirement benefits by subsidizing the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable 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 the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense 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 schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### **Defined benefit plans**

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognized immediately to the extent that the benefits are already vested, and are otherwise amortized on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognized in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognized.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognized as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognized for a reimbursement.

## **Accounting Policies (Contnd.)**

The amount recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### **EFFECTIVE DATE**

The policy shall come to effect upon approval by Council.

### **POLICY ADOPTION**

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

Resolution No:.....

Approval Date: **20 May 2015**