EHLANZENI DISTRICT MUNICIPALITY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

1. OBJECT TO THE POLICY

The aim of the policy is to set accounting standards in line with good international financial practices.

1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with the Standards of Generally Recognized Accounting Practice (GRAP) and the Standards of Generally Accepted Municipal Accounting Practice (GAMAP) prescribed by the Minister of Finance in terms of:

- General Notice 991 of 2005, issued in Government Gazette no. 28095 of 15 December 2005; and
- General Notice 992 of 2005, issued in Government Gazette no. 28095 of 7 December 2005;

The Standards comprise the following:

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<th>GRAP</th>
<th>Description</th>
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<tr>
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</tr>
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GAMAP 6, 7 AND 8 have been complied to the extent that the requirements in these standards relate to the municipality’s separate financial statements.

Accounting policies for material transactions, events or conditions not covered by the above GRAP and 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 Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board. A summary of the significant accounting policies is disclosed below.

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 those standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements.

The municipality has elected to early adopt the following requirement(s) in GRAP, GAMAP or GAAP which were exempted in terms of General notice 552 of 2007.

| GAMAP 17   | Property, plant and equipment                             |
| Gamap 17.59 – 61, 77 | Review of useful life of items of PPE recognized in the annual financial statements |
A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed as below.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3. GOING CONCERN ASSUMPTION

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

4. RESERVES

4.1 Capitalization Reserve

In the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive (budget circular) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

The balance on the Capitalisation Reserve equals the carrying values of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit).

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

5. PROPERTY, PLANT AND EQUIPMENT

An item of property plant and equipment is recognised as an asset when it is probable the future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset to the municipality can be measured reliably.

An item of property, plant and equipment which qualifies for recognition as an asset is initially measured at its cost. 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. Subsequent to initial recognition and except for land and buildings, all other items of property, plant and equipment are carried at cost less accumulated depreciation. Subsequent to initial recognition land and buildings are measured at revalued amounts, being fair value less accumulated depreciation

Subsequent expenditure on property, plant and equipment is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance.
Buildings, plant and equipment are written off on a straight-line basis over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated useful lives:

<table>
<thead>
<tr>
<th>Description</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>30</td>
</tr>
<tr>
<td>Other vehicles</td>
<td>5</td>
</tr>
<tr>
<td>Office equipment</td>
<td>3</td>
</tr>
<tr>
<td>Furniture &amp; fittings</td>
<td>10</td>
</tr>
<tr>
<td>Bins and containers</td>
<td>5</td>
</tr>
<tr>
<td>Other items of plant and equipment</td>
<td>5</td>
</tr>
</tbody>
</table>

The useful lives of property, plant and equipment are done annually, and if expectations are significantly different from previous estimates, the depreciation charge for future periods are adjusted.

The current year accounting policy has been amended to comply with the exemptions in Gazette no. 30013 of 29 June `07 by deleting the review of depreciation method applied; impaired of non-cash generating assets and impairment of cash generating assets from prior year accounting policy.

6. **INVESTMENT PROPERTY**

Investment property, which is property held to earn rental revenue or for capital appreciation, is stated at cost less accumulated depreciation. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is 30 year.

7. **FINANCIAL INSTRUMENTS**

Financial Instruments, which includes Investments in a manner of on call deposits and insurance policies invested in registered commercial institutions are stated at realisable value.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

8. **INVENTORIES**

Consumable stores, raw material, work-in-progress and finished goods are valued at the lower of cost and net realizable values. In general, the basis of determining cost is the first-in, first-out method.

Unsold properties are valued at the original purchase price.

9. **ACCOUNTS RECEIVABLE**

Accounts receivable are carried at anticipated realizable value. 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.
10. RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actually valued triennially on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.
11. **REVENUE RECOGNITION**

Revenue is recognised when it is probable that economic benefit or service potential associated with transactions will flow to the municipality, and the amount of revenue can be measured reliably. Revenue is measured at cost of the consideration received or receivable. In prior year revenue was measured at fair value, using an imputed rate of return. The current year accounting policy has therefore been amended to comply with exemptions in Gazette no 30013 of 29 June '07. The following requirements are additional to the recognition of the different categories:

**Sale of goods**

Revenue from sale of goods is recognised when continuing managerial involvement associated with ownership or effective control over the goods by the municipality, is discontinued.

**Interest**

Interest is recognised on a time proportion basis taking into account the effective yield on the asset. When unpaid interest has accrued before the acquisition of an interest bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition, and only the post-acquisition portion is recognised as revenue.

**Dividends**

Dividends are recognised as revenue when the right to receive payment is established.

**Government grants**

Government grants are recognised as revenue to the extent that has been compliance with any restrictions associated with the grant. Where there are no restrictions, the grants are recognised as revenue immediately. Government grants that take the form of a transfer of a non-monetary asset are accounted for at the fair value of the non-monetary asset.

**Other grants and donations**

Other grants and donations are recognised to the extent that there has been compliance with any restrictions associated with the grants and donations.

**Levies**

Levies are recognised upon declarations by the levy payers. Undeclared levies are recognised when legal entitlement arises. Collection charges are recognised when such amounts are legally enforceable.

12. **SEGMENTAL INFORMATION**

Segmental information on Property, Plant and Equipment as well as income and expenditure is set out in Appendices C and D based on the municipality’s organisational
structure and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.
13. PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Non-current provisions are discounted to the present value using a discount rate based on the average cost of borrowing to council.

14. CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalent compromise cash on hand, deposits held on call with banks and investments in financial instruments net of bank overdraft.

15. LEASES

Finance leases are initially recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of lease property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Subsequently lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance. Contingent rents are charged as expenses in the period in which they are incurred.

Operating lease payment are recognised as an expense on the basis of the cash flows in the lease agreement.

16. COMPARATIVE INFORMATION

Current year comparatives:
Budgeted amounts have been included in Appendix to the annual financial statements for the current financial year.

Prior year comparatives:
When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified.

17. REVALUATION RESERVE

The surplus arising from the revaluation of land and building is credited directly to a non-distributable reserve. The revaluation surplus is realized as revalued buildings are depreciated, through a transfer from the revaluation reserve to the Accumulated surplus / (deficit). On disposal, the net revaluation surplus is transferred to the Accumulated
surplus / (deficit) while gains and / or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.
18. REVIEW AND AMENDMENT OF POLICY

This policy can be reviewed at any time in full consultation with all staff members, but may only be amended by Council.

19. SHORT TITLE AND APPLICATION

This policy shall be called Accounting Policies to the Annual Financial Statements for Ehlanzeni District Municipality 2012 and shall come into operation once it is approved by Council.