

WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, except for the revaluation of land and buildings, which are carried at fair value.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Practices (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 15 December 2005.

The standards comprise of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The effect of changes in Foreign Exchange Rates
GAMAP 4	The effects of changes on Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Subsidiaries
GAMAP 7	Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraph 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board. Exemptions were given from complying with certain standards in terms of clause 2(2) of *Government Gazette* no. 30013 of 29 June 2007.

The accounting policies are consistent with those of the previous financial year. A summary of the significant accounting policies are disclosed below.

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

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

**WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008**

1.3 GOING CONCERN ASSUMPTION

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

1.4 RESERVES

1.4.1 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 (budget circular) 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 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 from this reserve to the accumulated surplus/(deficit).

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).

1.4.2 Donation 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 Donation and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the 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 Donations and Public Contributions is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/(deficit).

1.4.3 Revaluation Reserve

The surplus arising from the revaluation of the property, plant and equipment is credited to the Revaluation Reserve.

WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008

1.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation, except land and donated/contributed assets, which are revalued as indicated below. Land is not depreciated as it is deemed to have an indefinite life.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset is met.

The fair value of land is stated at the market value, determined by appraisal. An appraisal of the value is undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. Revaluations shall be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Donated/contributed assets are stated at fair value. The fair value of donated assets is stated at the market value, determined by appraisal. An appraisal of the value is undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:

	<u>Years</u>
Buildings	30
Motor Vehicles	5
Office Equipment	5
Furniture and Fittings	7
Machinery	5
Security systems	7
Specialised vehicles	20

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The municipality did not review the useful life or the depreciation method used on the assets recognised in the annual financial statements for the 2007/08 financial year due to the exemption granted in Gazette 30013. The municipality is also exempted from applying IAS36: Impairment of Assets for the financial year ending 30 June 2008 in terms of clause 2(2) of Government Gazette no. 30013 of 29 June 2007. Donated assets' useful lives were reviewed simultaneously with the market valuation for inclusion in the Fixed Asset Register.

The progress towards achieving full compliance with IAS36 Impairment of assets are that an annual asset count was conducted to confirm the completeness and validity of the asset register and an independent valuer will be appointed in 08/09 year to assess the net realizable value of all assets and assign residual values to all assets. The depreciation and net book value of assets will change according to the outcome of this assessment.

WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008

1.6. FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise long term receivables, consumer and other debtors, cash and cash equivalents and consumer and other creditors.

Non-derivative financial instruments are initially recognized at fair value.

The municipality classifies its financial assets in the following categories: Loans and receivables and Held-to-maturity investments. The classification depends on the purpose for which the financial asset is acquired which is determined at initial recognition. Financial instruments, which include fixed deposits and short-term deposits invested in registered commercial banks, are initially stated at cost.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the municipality has the positive intention and ability to hold to maturity. The investments are disclosed as Held-to-maturity investments which are subsequently measured at amortised cost.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The municipality's loans and receivables comprise trade and other receivables, cash and cash equivalents and deposits which are subsequently measured at amortised cost.

Where the carrying amount of the asset 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.

If the recoverable amount is greater than the carrying amount of the asset, it is written back to the recoverable amount and the reversal of impairment is credited to the Statement of Financial Performance, limited to the original amount of the investment plus interest.

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

Accounting for cash and cash equivalents is discussed in note 1.12.

Accounting for interest is discussed in note 1.9.

Accounting for trade and other receivables is discussed in note 1.7.

Accounting for trade and other payables is discussed in note 1.8.

1.7 TRADE AND OTHER RECEIVABLES

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables on the abattoir and RSC levy debtors, based on a review on outstanding amounts above 90 days at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

**WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008**

1.8 TRADE AND OTHER PAYABLES

Trade and other payables are stated at their nominal value and are subsequently measured at amortised cost. Amounts that are payable within 12 months from the reporting date are classified as current.

1.9 REVENUE RECOGNITION

Revenue from the sale of goods and or services is recognized at fair value.

Interest is recognised on a time proportion basis.

Revenue arising from the application of the approved tariff charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognized.

Revenue from RSC Levies, both those based on turnover as well as those based on remuneration, is recognised on the payment due basis. Where declarations have not been submitted in the reporting period when payment was due, estimated levies based on average data is determined.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are officially transferred and brought into use. Contributed property, plant and equipment are recognized when such items of property, plant and equipment are officially transferred and brought into use. Contributed property, plant and equipment are recognized at fair value.

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

1.10 CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Unutilised conditional grants are reflected in the Statement of Financial Position as a current liability and are always cash backed.

1.11 PROVISIONS

Provisions are recognised when the Municipality has a present legal 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 reporting date and adjusted to reflect the current best estimate.

WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008

1.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less held with registered banking institutions and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments up to 90 days in financial instruments, net of bank overdrafts.

1.13 LEASES

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

“Smoothing” of operating lease expenses/revenues in the statement of financial performance is not required for the 2007/08 financial year in terms of the exemptions of Government Gazette no. 30013 of 29 June 2007. The effect of complying with this requirement is insignificant and would not have a material effect on the Statement of Financial Position or Statement of Financial Performance.

1.14 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**WATERBERG DISTRICT MUNICIPALITY
ACCOUNTING POLICIES OF THE ANNUAL FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2008**

1.16 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 COMPARATIVE INFORMATION

1.17.1 Current year comparatives

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

1.17.2 Prior year comparatives

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

1.18 EMPLOYEE BENEFITS

The Municipality provides retirement benefits for its employees and councillors. The Municipality has accounted for the defined contribution plan for the 2007/08 financial year in terms of IAS19 Employee Benefits. A defined contribution plan is a pension plan under which the municipality pays fixed contributions into a separate entity. The Municipality has no members of defined benefit plans. Municipalities are exempted from IAS19 defined benefit accounting as far as it relates to defined benefit plans.

For defined contribution plans, the municipality pays contributions on a mandatory, contractual or voluntary basis. The municipality has no further payment obligations once the contributions have been paid. Accordingly, the Municipality recognises the contributions to the scheme as an expense when the employees and councilors have rendered the employment service or served office entitling them to the contributions.

The municipality recognizes a liability and an expense for bonuses. The municipality recognizes the accrual where contractually obliged or where there is a past practice that has created a constructive obligation.