Accounting policies

for the year ended 31 March 2007

Basis of presentation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP2: Cash flow statements	AC118: Cash flow statements
GRAP3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

1. Terminology differences:

Standard of GRAP	**Replaced Statement of GAAP**
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information such as:
   (a) receivables from non-exchange transactions, including taxes and transfers;
   (b) taxes and transfers payable;
   (c) trade and other payables from non-exchange transactions;
   must be presented separately on the statement of financial position.

4. The amount and nature of any restrictions on cash balances is required to be disclosed. Paragraph 11 – 15 of GRAP1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

Revenue

Revenue includes investment and non-operating income exclusive of value-added taxation. Revenue that resulted from the rendering of research and related services is acknowledged at the stage of completion, determined according to the percentage cost to date in relation to the total estimated cost of the project. Revenue from the sale of goods is recognised when significant risk and rewards of ownership of goods are transferred to the buyer. Revenue arising from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Parliamentary grants received

Baseline grants

Parliamentary grants are accounted for in the period to which each grant relates.

Grants for depreciable and non-depreciable assets

Depreciable assets

Current year Parliamentary grants in respect of depreciable assets (excluding buildings) are allocated to income over the period of and in proportion to the depreciation, which is written off against such assets. A corresponding amount in respect of the relevant non-depreciable assets disposed of during the year is also allocated to income in the period in which it is disposed of. The balance of the Parliamentary grants not recognised in the income statement is disclosed as deferred income.

Non-depreciable assets

Parliamentary grants in respect of non-depreciable assets are allocated to income when received. A corresponding amount is then transferred from income funds to capital funds as an appropriation of accumulated funds per the statement of changes in equity.

Property, plant and equipment

Freehold land and buildings

Freehold land and buildings are accounted for separately.

Freehold land

Land has an unlimited useful life and therefore is not depreciated but stated at fair value.

Freehold buildings

Buildings will be treated as owner-occupied property. Owner-occupied property will be stated at fair value less depreciation.

The HSRC identified the following major components of buildings.

The annual depreciation rates applied to the various components of buildings are:

	Useful life
Lifts	20 years
Telephone system	10 years
Fixtures	15 years
Building	100 years

Valuation method

A valuation of owner-occupied property will be performed every three years based on the income capitalisation method. The market value is determined from the ability of the property to produce a rental income taking into account the expenses to produce the rental income which is capitalised at a market-related rate and taking into account the risk, age and condition of the property with existing buildings. Any surpluses that occur due to the revaluation of land and buildings are allocated to capital funds.

Equipment

Artwork is treated as an investment and is not depreciated; it is carried at fair value.

Assets costing less than R1 000 are written off in the year of acquisition.

All other types of equipment are stated at cost less accumulated depreciation.

The depreciation is calculated at rates considered appropriate to reduce the cost of asset less residual value over their estimated useful life. Residual values and estimated useful lives are revised annually.

Accounting policies *continued*

for the year ended 31 March 2007

Equipment (continued)

The annual depreciation rates applied to the various categories of equipment are:

	Useful life
Motor vehicles	5 years
Office equipment	15 years
Computer and other equipment	5 years
Library books and manuscripts	20 years

All assets that were bought with donor funds or grants, except freehold land and buildings, and that were donated to the community on termination of the project, are depreciated fully over the lifetime of the project.

Investment property

Investment property is property held to earn rentals. Investment property is stated at fair value and a valuation will be performed every three years based on the income capitalisation method. The fair value is determined from the ability of the property to produce a rental income, taking into account the expenses to produce the rental income which is capitalised at a market-related rate and taking into account the risk, age and condition of the property with existing buildings. Any surpluses that occur due to revaluation of the investment property are directly allocated to the capital funds.

Intangible assets

Software is classified as intangible assets. Initial expenditure on software is recognised at cost and capitalised. Subsequently expenditure is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. The amortisation is calculated at a rate considered appropriate to reduce the cost of asset less residual value over its estimated useful life. Residual values and estimated useful lives are revised annually.

The expected life of the software is 20 years.

Inventories

Inventories are valued at the lower of cost price or net realisable value. The net realisable value is the net of the selling price, during normal business, less any completion costs or selling costs. Cost is determined on the weighted average method. Inventories are made up of one category, namely publications.

Operating leases

Lease agreements are classified as operating leases where substantially the entire risks and rewards incident to ownership remain with the lessor. Lease income is recognised on a straight-line basis over the lease term. Costs incurred in earning lease income are charged against income. Initial direct costs incurred specifically to obtain the operting lease are written off when incurred.

Post-employment benefit cost

Retirement benefit

Pensions are provided for employees by means of three separate pension funds to which contributions are made. With regard to the HSRC Pension Fund (HSRCPF), and with effect from 1 April 1992, previous and current service costs and adjustments based on experience and additional funding for retired employees are acknowledged in the statement of financial performance as soon as the liability is known. With regard to the Associated Institutions Pension Fund (AIPF) and the Temporary Employees Pension Fund (TEPF), only the Council's contributions to the respective pension funds are recognised in the statement of financial performance.

Accounting policies *continued*

for the year ended 31 March 2007

Post-retirement medical aid benefits

The HSRC contributed voluntarily to post-retirement medical aid benefits of specific employees who opted to remain on the previous conditions of service when the benefit was terminated. The HSRC does not provide for post-retirement medical aid benefits to any other category of employees.

Deferred income

Parliamentary grants in respect of certain depreciable assets are allocated to income over the period of, and in proportion to, the depreciation written off against such assets. A corresponding amount in respect of the relevant non-depreciable assets disposed of during the year is allocated to income in the period in which it is disposed of. The balance of Parliamentary grants not recognised in the income statement is disclosed as deferred income. Other funds, including prior period surplus funds that are utilised in respect of the acquisition of depreciable assets, are not treated as deferred income.

Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transaction. Liabilities in foreign currencies are translated at the rate of exchange ruling at the reporting date or at the forward rate determined in forward exchange contracts. Exchange differences arising from translations are recognised in the statement of financial performance in the period in which they occur.

Capital funds

A Parliamentary grant in respect of non-depreciable assets is allocated to income when it is received. A corresponding amount is then transferred from income funds to capital funds as an appropriation of accumulated funds per the statement of changes in equity. Other funds, including prior period surplus funds, that are utilised in respect of the acquisition of non-depreciable assets are not accounted for in capital funds.

Provisions

Provisions are raised when a present legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial instruments

Financial instruments carried in the statement of financial position include cash and bank balances, receivables and trade payables. These instruments are generally carried at their estimated fair value. Receivables are carried net of the estimate of doubtful receivables.

Related parties

The HSRC operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Executive Director and Council Members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals, in their dealings with the entity.

Accounting policies *continued*

for the year ended 31 March 2007

Impairment

The carrying amount of the assets is reviewed at each reporting date to determine if there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the statement of financial performance whenever the carrying amount of an asset or its fair value less cost to sell exceeds its recoverable amount.

Calculation of recoverable amount

The recoverable amount is the greater of the net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discounted rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairments

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.