

CHAPTER 5

AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION

The annual financial statements of the Overstrand Municipality are attached hereto. This was submitted to the Auditor-General as required by Section 126(1)(a) of the MFMA.

**OVERSTRAND
MUNICIPALITY**

**ANNUAL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 June 2008**

I am responsible for the preparation of these annual financial statements, which are set out on pages 56 to 115, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.


Adv. W. Zybrands
Municipal Manager

19 December 2008
Date

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OVERSTRAND MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2008

	Note	2008 R	2007 R
NET ASSETS AND LIABILITIES			
Net assets		419 734 770	359 358 876
Housing Development Fund	1	3 317 403	3 305 463
Capital replacement reserve		28 978 157	66 436 547
Capitalisation reserve		85 532 199	92 875 447
Government grant reserve		54 204 129	45 541 023
Donations and public contribution reserves		16 759 886	5 855 084
Self-Insurance reserve		(19 471)	27 080
Revaluation Reserve		0	0
Accumulated Surplus/(Deficit)		230 962 467	145 318 232
Non-current liabilities		104 909 066	105 035 728
Long-term liabilities	2	43 731 392	50 554 981
Non-current provisions	3	61 177 674	54 480 747
Current liabilities		128 298 650	142 720 533
Consumer deposits	4	10 220 922	8 861 602
Provisions	5	6 676 079	3 095 024
Payables	6	84 451 408	98 921 977
Unspent conditional grants and receipts	7	19 358 390	24 852 485
Current portion of long-term liabilities	2	7 591 851	6 989 445
Total Net Assets and Liabilities		652 942 486	607 115 137
ASSETS			
Non-current assets		510 399 694	373 181 895
Property, plant and equipment	9	497 428 555	364 143 706
Investment Property	10	0	0
Investments	11	12 525 864	8 134 323
Long-term receivables	12	445 275	903 866
Current assets		142 542 792	233 933 242
Inventory	13	4 722 631	1 899 515
Trade Receivables	14	25 312 701	25 521 252
Other Receivables	15	28 406 898	61 013 033
Current portion of long-term receivables	12	365 417	498 059
VAT	8	13 273 863	4 939 750
Short term investments	16	50 000 000	55 017 454
Cash and cash equivalents	17	20 461 282	85 044 179
Total Assets		652 942 486	607 115 137

OVERSTRAND MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Actual	
		2008 R	2007 R
REVENUE			
Property rates	18	81 624 568	71 981 101
Property rates - penalties imposed and collection charges		804 773	335 289
Service charges	19	188 705 121	174 517 681
Leases : Operating leases	21a	5 629 212	5 371 142
Interest earned - external investments		19 223 020	12 884 506
Interest earned - outstanding debtors		2 190 540	1 139 731
Dividends received		0	7 075
Profit on sale of shares		197 124	0
Fines		3 634 457	2 718 379
Licences and permits		1 660 420	1 569 973
Income for agency services		3 095 545	4 256 760
Government grants and subsidies	20	29 335 921	30 599 252
Other income	21	14 023 121	10 165 264
Public contributions, donated and contributed property, plant and equipment		11 183 363	3 111 588
Proceeds on the sale of assets		17 458 509	38 430 776
Total Revenue		378 765 694	357 088 517
EXPENDITURE			
Employee related costs	22	104 485 015	88 058 032
Remuneration of Councillors	25	3 873 990	3 882 186
Bad debts		4 834 083	315 963
Depreciation		26 368 168	25 007 753
Repairs and maintenance		34 226 302	33 088 279
Interest paid	23	6 155 028	6 397 901
Bulk purchases	24	42 831 232	39 256 492
Contracted services		9 597 927	5 106 079
Grants and subsidies paid	26	10 313 935	12 778 026
General expenses		65 251 999	55 824 885
Total Expenditure		307 937 679	269 715 596
SURPLUS/(DEFICIT) FOR THE YEAR		70 828 015	87 372 921
Refer to Appendix E(1) for the comparison with the approved budget			

OVERSTRAND MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2008

	Housing Development Fund	Capital Replacement Reserve	Capitalisation Reserve	Government Grant Reserve	Donations and Public Contribution Reserve	Self Insurance Reserve	Revaluation Reserve	Accumulated Surplus/ (Deficit)	Total
	R	R	R	R	R	R	R	R	R
2007									
Balance at 1 July 2006	3 210 167	38 501 673	101 749 081	31 839 296	2 896 133	80 980	18 000 000	81 500 044	277 777 374
Correction of error (Note 27 & 28)								(1 308 267)	(1 308 267)
Change in accounting policy									0
Restated balance	3 210 167	38 501 673	101 749 081	31 839 296	2 896 133	80 980	18 000 000	80 191 777	276 469 107
Net surplus/(deficit) for the year									
Post Retirement Benefits Adjustment								87 372 921	87 372 921
Transfer to CRR								(4 483 152)	(4 483 152)
Property, plant and equipment purchased		60 538 517						(60 538 517)	0
Capital grants used to purchase PPE		(50 603 644)		15 976 549				50 603 644	0
Donated/contributed PPE					3 111 588			(15 976 549)	0
Contribution to Insurance Reserve						2 216		(3 111 588)	0
Insurance claims processed						(56 116)		(2 216)	0
Transfer to Housing Development Fund	95 296							56 116	0
Asset disposals		18 000 000						(95 296)	0
Offsetting of depreciation			(8 873 634)	(2 274 822)	(152 637)		(18 000 000)	0	0
Balance at 30 June 2007	3 305 463	66 436 547	92 875 447	45 541 023	5 855 084	27 080	0	11 301 094	359 358 876
2008									
Correction of error (Note 27 & 28)								(522 380)	(522 380)
Change in accounting policy								0	0
Restated balance at 1 July 2007	3 305 463	66 436 547	92 875 447	45 541 023	5 855 084	27 080	0	144 795 854	358 836 496
Net surplus/(deficit) for the year									
Post Retirement Benefits Adjustment								70 828 015	70 828 015
Landfill Sites Rehabilitation Adjustment								(6 518 481)	(6 518 481)
Allen Clearing Adjustment								(5 713 531)	(5 713 531)
Electricity Stock Take-on								(350 000)	(350 000)
Transfer to CRR		54 363 509						2 652 271	2 652 271
Property, plant and equipment purchased		(91 821 898)						(54 363 509)	0
Capital grants used to purchase PPE				11 561 011				91 821 898	0
Donated/contributed PPE					11 183 363			(11 551 011)	0
Contribution to Insurance Reserve						5 802		(11 183 363)	0
Insurance claims processed						(52 353)		(5 802)	0
Transfer to Housing Development Fund	11 940							(11 940)	0
Asset disposals			(7 343 248)	(2 887 905)	(278 560)			10 508 713	0
Offsetting of depreciation								0	0
Balance at 30 June 2008	3 317 403	28 978 157	85 532 199	54 204 129	16 759 886	(19 471)	0	230 962 467	419 734 770

OVERSTRAND MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 R	2007 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		371 670 440	240 566 651
Cash paid to suppliers and employees		305 869 766	161 371 567
Cash generated from/(utilised in) operations	29	<u>65 800 674</u>	<u>79 195 084</u>
Dividends received		0	7 075
Proceeds on sale of shares		197 124	0
Interest received		21 413 560	14 024 237
Interest paid		(6 155 028)	(6 397 901)
NET CASH FROM OPERATING ACTIVITIES		<u><u>81 256 330</u></u>	<u><u>86 828 494</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(159 653 017)	(108 127 812)
Proceeds on the sale of assets		17 458 509	56 430 776
(Increase)/decrease in PPE due to change in accounting policy		0	(33 645 323)
(Increase)/decrease in investment properties		0	33 645 323
(Increase)/decrease in non-current receivables		591 232	1 167 325
(Increase)/decrease in non-current investments		(4 391 541)	(171 630)
(Increase)/decrease in call investment deposits		5 017 454	54 438 137
NET CASH FROM INVESTING ACTIVITIES		<u><u>(140 977 363)</u></u>	<u><u>3 736 796</u></u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised/(repaid)		(6 221 183)	(28 044 822)
Increase/(decrease) in consumer deposits		1 359 320	1 130 880
(Increase)/decrease in short-term loans		0	0
NET CASH FROM FINANCING ACTIVITIES		<u><u>(4 861 863)</u></u>	<u><u>(26 913 942)</u></u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u><u>(64 582 896)</u></u>	<u><u>63 651 348</u></u>
Cash and cash equivalents at the beginning of the year	17	85 044 179	21 392 831
Cash and cash equivalents at the end of the year	17	<u>20 461 282</u>	<u>85 044 179</u>

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

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.

The annual financial statements have been prepared in accordance with the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) and the Standards of Generally Recognised Accounting Practice (GRAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005.

The standards are summarised as follows:

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 Interest in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets
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.	

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 Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

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 these standards. Details of the exemptions applicable to the municipality are attached as Annexure A and have been provided for in the notes to 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 below.

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

2. PRESENTATION CURRENCY

The annual financial statements are presented in South African Rand and is rounded off to the nearest R1.

3. GOING CONCERN ASSUMPTION

The annual financial statements have been prepared on the assumption that the municipality is a going concern and will continue in operation for the foreseeable future.

4. HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

5. RESERVES

5.1 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 in terms of the Annual Budget. The cash in the CRR Account can only be utilised 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 utilised.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

5.2 Capitalisation Reserve

On 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 value 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).

5.3 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 by transfers 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).

5.4 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 (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 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).

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

5.5 Self-Insurance Reserve

The Municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally. The balance of the self-insurance fund is invested in short-term investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

5.6 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised 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 or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

7. PROPERTY, PLANT AND EQUIPMENT

7.1 Fixed Assets

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

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The recognition of impairment losses has not been done as it is exempted. It is expected that an assessment of impairments will be done by 30 June 2009.

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 relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed. The enhancement of an existing asset so that its use is expanded or the further development of an asset so that its original life is extended is examples of subsequent expenditure which should be capitalised.

7.2 Depreciation

Depreciation is calculated on cost, using the straight line method, over the estimated useful lives of the assets. The depreciation rates are based on the following estimated useful lives (unless a technical assessment of an individual asset concludes that a material variation is necessary):

	Years		Years
Infrastructure		Other	
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-30	Other vehicles	5
Water	15-20	Office equipment	1-7
Sewerage	15-20	Furniture and fittings	1-10
Housing	30	Watercraft	15
		Bins and containers	5
Community		Specialized plant and equipment	10-15
Improvements	30	Other plant and equipment	2-5
Recreational Facilities	20-30	Intangible assets	2-5
Security	5		

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

The review of the useful life and the depreciation method of recognised assets were not assessed. It is expected that this assessment will be done by 30 June 2009.

7.2.1 Heritage assets

These are assets that are defined as culturally significant resources which are not depreciated owing to the uncertainty regarding their estimated useful lives.

7.2.2 Land

Land is not depreciated as it is deemed to have an indefinite life.

7.2.3 Incomplete construction work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is commissioned into use.

7.2.4 Non-current assets held for sale

The re-classification of non-current assets to current assets when it is held for sale was not done as this Standard, IFRS 5 has been exempted. This will be done by 30 June 2009.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

7.2.5 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, where applicable.

In terms of IAS 38, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives.

Intangible assets with finite useful lives are amortised over its useful life.

7.3 Landfill sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting Policy 13 on Provisions.

7.4 Impairment

Where the carrying amount of an item of property, plant and equipment 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. The Municipality has not assessed whether items of property, plant and equipment are impaired. It is expected that an assessment of impairments will be done by 30 June 2009.

8. INVESTMENT PROPERTY

Investment property is property held to earn rental revenue or for capital appreciation or both. The assets that were incorrectly classified as Investment Properties have been reverted back to Property, Plant and Equipment. It is expected that assets recognised as Investment Property, will be done by 30 June 2009.

9. FINANCIAL INSTRUMENTS

Financial instruments are initially measured at fair value plus, in the case of a financial asset or liability not at fair value through the statement of financial performance, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. The subsequent measurement of financial instruments is dealt with as follows:

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

9.1 Financial Assets

In accordance with IAS 32 and IAS 39, the municipality classifies its investments in the following categories:

- Loans and Receivables,
- Held to maturity investments and
- Financial assets available for sale.

The classification is dependent on the purpose for which the financial asset is acquired and is as follows:

9.1.1 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the municipality provides money, goods or services directly to a debtor without any intention of trading such debtors. Loans and debtors are included in the trade and other receivables in the statement of financial position and are subsequently measured at amortised cost using the effective interest rate method.

9.1.2 Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable dates of maturity which the municipality intend and are able to keep to maturity. They are included under non-current and current assets in the statement of financial position and are subsequently measured at amortised cost using the effective interest rate method.

9.1.3 Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and comprises of cash and equity instruments held in shares. They are included under current assets in the statement of financial position and are subsequently measured at fair value at the statement of financial position date, except for investments in equity instruments that do not have quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

An assessment is performed at each Statement of Financial Position date to determine whether objective evidence exist that a financial asset is impaired.

- Where the carrying amounts of cash investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Due to the exemption granted by GN 522 of Government Gazette 30013, till 30 June 2008, this will be performed in subsequent reporting periods.
- An estimate is made for the impairment of 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 and recognised in the statement of financial performance.

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.

9.2 Financial Liabilities

All financial liabilities including trade and other payables, are measured at amortised cost using the effective interest rate method. Financial liabilities include borrowings, other non-current liabilities (excluding provisions) and trade and other payables (excluding provisions). Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable, are accounted for on an accrual basis.

Trade Payables and Other

Trade payables and other are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

10. INVENTORIES

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs. Unsold properties that meet the definition of Inventory need not be re-classified or recorded as inventories. They are being disclosed along with property, plant and equipment in the annual financial statements.

Cost of inventory comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

11. REVENUE RECOGNITION

Revenue involves the fair value of the remuneration received or receivable for the sale of services or goods in the ordinary course of the municipality's activities.

Revenue is shown net of value-added tax and allowances and discounts. Revenue is recognised as follows:

11.1 Revenue from Exchange Transactions

11.1.1 Service Charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

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.

11.1.2 Pre-paid electricity

Revenue from the sale of electricity prepaid units is recognised when the risks and rewards of ownership has passed to the buyer.

11.1.3 Interest earned

Interest and rentals are recognised on a time proportion basis.

11.1.4 Dividends

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

11.1.5 Charges

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

11.1.6 Income from agency services

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

**OVERSTRAND MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008 (continued)**

11.1.7 Housing rental and instalments

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

11.1.8 Sale of goods

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

- ◆ The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- ◆ 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.

11.1.9 Public contributions

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 recognised.

11.2 Revenue from non-exchange transactions

11.2.1 Rates and taxes

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

11.2.2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

11.2.3 Donations and Contributions

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 brought into use.

Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.

11.2.4 Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

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 recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

12. 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. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

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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 reporting 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 the municipality.

14 POST RETIREMENT BENEFITS**14.1 Pension, Provident and Retirement Funds**

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

14.2 Medical Aid: Continued Members

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality. According to the rules of the medical aid funds, with which the Municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

14.3 Actuarial Gains and Losses

The Municipality recognises actuarial gains and losses in full in the period in which they occur. Actuarial valuations are performed bi-annually.

15. LEASESThe Municipality as Lessee

In terms of IAS 17, 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.

The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental income from operating leases is recognised and recorded as receivables in the accounting period when the amount becomes due and payable.

16. BORROWING COSTS

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

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17. 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. Cash and cash equivalents are carried in the balance sheet at cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash with bank, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

18. 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.

19. 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), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. 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.

20. 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.

21. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

22. COMPARATIVE INFORMATION

22.1 Current year comparatives:

Budgeted amounts have been included in the annual financial statements.

22.2 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.