



MBHASHE LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for

THE YEAR ENDED 30 JUNE 2007

(SMALL MUNICIPALITY)

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MBHASHE LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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MBHASHE LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended
30 June 2007

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 41, 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 21 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.

N.C. VUSANI
Municipal Manager

Date

MBHASHE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007

	Note	2007 R	2006 R
NET ASSETS AND LIABILITIES			
Net assets		66,698,243	64,710,253
Government grant reserve		9,652,509	486,177
Accumulated Surplus/(Deficit)		57,045,734	64,224,076
Non-current liabilities		-	-
Long-term liabilities	1	-	-
Current liabilities		8,043,599	10,670,310
Creditors	2	1,457,247	1,131,590
Unspent conditional grants and receipts	3	2,832,908	4,302,657
VAT	4	3,753,445	5,236,062
Current portion of long-term liabilities	1	-	-
Bank overdraft	9	-	-
Total Net Assets and Liabilities		<u>74,741,843</u>	<u>75,380,563</u>
ASSETS			
Non-current assets		53,569,844	46,953,348
Property, plant and equipment	5	53,569,844	46,953,348
Long-term receivables	6	-	-
Current assets		21,171,999	28,427,215
Consumer debtors	7	5,700,834	4,036,603
Other debtors	8	(2,342,392)	11,620,218
Current portion of long-term debtors	6	-	-
Bank balances and cash	9	17,813,557	12,770,394
Total Assets		<u>74,741,843</u>	<u>75,380,563</u>

**MBHASHE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2007**

	Note	2007 R	2006 R
REVENUE			
Service charges	10	2,610,398	6,734,182
Rental of facilities and equipment		423,841	-
Interest earned - external investments		383,044	165,367
Government grants and subsidies	11	50,191,635	48,479,115
Other income	12	2,674,365	-
Gains on disposal of property, plant and equipment		-	-
Total Revenue		56,283,283	55,378,664
EXPENDITURE			
Employee related costs	13	20,899,628	19,769,878
Remuneration of Councillors	14	1,341,071	-
Bad debts		-	-
Collection costs		-	-
Depreciation		2,549,836	-
Repairs and maintenance		1,528,376	1,687,434
Interest paid	15	2	-
Contracted services	16	-	-
Grants and subsidies paid	17	2,607,011	-
General expenses	18	8,449,124	31,161,699
Loss on disposal of property, plant and equipment		-	-
Total Expenditure		37,375,047	52,619,011
SURPLUS/(DEFICIT) FOR THE YEAR		19,088,236	2,759,653

MBHASHE LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2007

	Pre-GAMAP Old Reserves and Funds R	Government Grant Reserve R	Accumulated Surplus/ (Deficit) R	Total R
2006				
Balance at 1 July 2005	1,696,408	-	10,886,988	12,583,396
Implementation of GAMAP (Note 18)	(1,696,408)	486,177	50,577,435	49,367,204
Restated balance	-	486,177	61,464,424	61,950,601
Surplus/(deficit) for the year			2,759,653	2,759,653
Capital grants used to purchase PPE				-
Offsetting of depreciation				-
Balance at 30 June 2006	-	486,177	64,224,077	64,710,254
2007				
Correction of error (Note 19)				-
Restated balance	-	486,177	47,303,831	47,790,008
Surplus/(deficit) for the year			18,908,236	18,908 236
Capital grants used to purchase PPE		9,166,332	(9,166,332)	-
Disposals of PPE				-
Offsetting of depreciation				-
Balance at 30 June 2007	-	9,652,509	57,045,735	66,698,244

MBHASHE LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 R	2006 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		68,581,662	60,314,868
Cash paid to suppliers and employees		(62,451,791)	(19,994,412)
Cash generated from/(utilised in) operations	20	6,129,871	40,320,457
Interest received		383,044	165,367
Interest paid		(2)	-
NET CASH FROM OPERATING ACTIVITIES		6,512,912	40,485,824
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(9,166,332)	(24,229,033)
Proceeds on disposal of property, plant and equipment		-	-
Decrease in non-current receivables		-	-
NET CASH FROM INVESTING ACTIVITIES		(9,166,332)	(24,229,033)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/ (Decrease) in funds and reserves		7,696,582	(14,710,452)
NET CASH FROM FINANCING ACTIVITIES		7,696,582	(14,710,452)
NET DECREASE IN CASH AND CASH EQUIVALENTS		5,043,163	1,546,339
Cash and cash equivalents at the beginning of the year		12,770,394	11,224,055
Cash and cash equivalents at the end of the year	21	17,813,557	12,770,394

**MBHASHE LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

1 BASIS OF PRESENTATION

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.

[First – time Implementation of GAMAP/GRAP]

In accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the Municipality has adopted Standards of GAMAP and GRAP issued by the Accounting Standards Board during the financial year, GAMAP and GRAP standards are fundamentally different to the fund accounting policies adopted in previous financial years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GAMAP and GRAP is set out in Note 18.

The Municipality may have transactions, events or balances that are outside the ambit of GAMAP and GRAP but which are included in Standards of International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants. The Municipality has not complied with the measurement, recognition and disclosure requirements of those accounting standards.

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 GAMAP or GRAP.

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.

**MBHASHE LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

4 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 PROPERTY, PLANT AND EQUIPMENT

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

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>
Water infrastructure	25
Buildings	30
Motor Vehicles	5
Office equipment	3 - 7
Furniture and fittings	7-10

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.

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.

**MBHASHE LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

6 ACCOUNTS RECEIVABLES

Accounts receivables are carried at anticipated realisable value.

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.

7 TRADE CREDITORS

Trade creditors are stated at their nominal value.

8 REVENUE RECOGNITION

Revenue is derived from a variety of sources which include Rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Economic entity and these benefits can be measured reliably.

8.1 Revenue from Rates

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

A composite rating system charging different rate tariffs is employed.

8.2 Service Charges

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. The domestic charge is a fixed service charge and the business charge is based on the type of refuse bin and frequency of removal.

**MBHASHE LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

8.3 Fines

Income in respect of Traffic fines and summonses is recognised when received.

8.4 Rentals

Rentals are recognised on a time proportion basis.

8.5 Approved Tariff of Charges

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

8.6 Interest on Investments

Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment.

Interest earned on unutilised conditional grants is allocated directly to the Creditor: Unutilised Conditional Grants if the grant conditions indicate that interest is payable to the funder.

8.7 Sale of Goods

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

8.8 Interest on Outstanding Debtors

Interest on outstanding debtors is recognised on a time proportionate basis and is charged on all outstanding debtors older than 30 days.

8.9 Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation or contribution is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

8.10 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.

**MBHASHE LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

9 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.

10 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 equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

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

11 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 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.

12 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.

13 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.

**MBHASHE LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

14 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.

15 COMPARATIVE INFORMATION

17.1 Current year comparatives:

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

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.

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
1 LONG-TERM LIABILITIES		
Annuity Loans - DBSA	-	-
Less : Current portion transferred to current liabilities	-	-
	<hr/>	<hr/>
Total External Loans	-	-
	<hr/> <hr/>	<hr/> <hr/>

The Municipality has no external loans at present.

2 CREDITORS

Trade creditors	228,156	82,500
Payments received in advance	-	-
Staff leave	1,049,091	1,049,091
Provision for Performance Bonuses	180 000	-
	<hr/>	<hr/>
Total Creditors	1,457,247	1,131,591
	<hr/> <hr/>	<hr/> <hr/>

3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

IGG Fund	2,248	2,248
IGG Fund	21,166	21,166
Housing Development	1,063,593	1,063,593
Pilot Housing	4,577	4,577
Willowvalle Road	5,064	5,064
IDP	77,069	77,069
Free Basic	260,657	260,657
Town Planning	341,459	341,459
Town Planning	450,378	450,378
Survey	177,173	177,173
Ntlonyane	1,064,019	1,064,019
Equitable Share	3,380	3,380
Extension	29,122	29,122
Water Reticulation	6,674	6,674

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**

	2007	2006
	R	R
3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)		
IDP	104,745	104,745
IDP	668,762	668,762
FMG	175,104	22,572
LGSETA	33,046	
MIG	(2 453 750)	
MSIG	517,428	
Establishment of Ward Committee	280,995	
Total Unspent Conditional Grant	2,832,908	4,302,658

Some of these amounts are not invested in a ring fenced investment until utilized.

4 VAT

Vat payable	3,753,445	5,236,062
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VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

5 PROPERTY, PLANT AND EQUIPMENT

The reconciliation of carrying values is set out on the following page.

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

5 PROPERTY, PLANT AND EQUIPMENT (continued)

30 June 2007

Reconciliation of Carrying Value	Land and Buildings	Infra- structure	Other	Total
	R	R	R	R
Carrying values				
at 1 July 2006	11,956,564	20,575,293	14,421,491	46,953,348
<i>Cost</i>	12,474,655	24,690,352	19,199,588	56,364,595
<i>Correction of error</i>	-	-	-	-
<i>Accumulated depreciation</i>	(518,091)	(4,115,059)	(4,778,097)	(9,411,247)
Additions	-	8,601,904	564,428	9,166,332
Capital under Construction	-	-	-	-
Depreciation	(103,618)	(1,062,733)	(1,383,485)	(2,549,836)
Disposals				-
<i>Cost</i>	-	-	-	-
<i>Accumulated depreciation</i>	-	-	-	-
Impairment losses	-	-	-	-
Other movements	-	-	-	-
Carrying values				
at 30 June 2007	11,852,946	28,114,464	13,602,434	53,569,844
<i>Cost</i>	12,474,655	33,292,256	19,764,016	65,530,927
<i>Accumulated depreciation</i>	(621,709)	(5,177,792)	(6,161,582)	(11,961,083)

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

5 PROPERTY, PLANT AND EQUIPMENT (continued)

30 June 2006

Reconciliation of Carrying Value	Land and Buildings	Infra- structure	Other	Total
	R	R	R	R
Carrying values				
at 1 July 2005	-	-	-	-
<i>Cost</i>				-
<i>Accumulated depreciation</i>				-
Additions				-
Capital under Construction				-
Depreciation				-
Disposals				-
<i>Cost</i>	-	-	-	-
<i>Accumulated depreciation</i>	-	-	-	-
Impairment losses	-	-	-	-
Other movements	-	-	-	-
Carrying values				
at 30 June 2006	11,956,564	20,575,293	14,421,491	46,953,348
<i>Cost</i>	12,474,655	24,690,352	19,199,588	56,364,595
<i>Correction of error</i>	-	-	-	
<i>Accumulated depreciation</i>	(518,091)	(4,115,059)	(4,778,097)	(9,411,247)

No assets of the Municipality have been used to secure the long-term liability of municipality.

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
6 LONG-TERM RECEIVABLES		
Car loans	-	-
Less: Current portion transferred to current receivables	-	-
Total	-	-

CAR LOANS

Senior staff of the Municipality have no car loans.

7 CONSUMER DEBTORS

As at 30 June 2007

Rates, Refuse, Water and Sanitation	6,226,332	4,036,603
Provision for bad debts	(525,498)	(525,498)
Total	5,700,834	3,511,105

Consumer Debtors: Ageing

Current (0 – 30 days)	(474,309)	
31 - 60 Days	29,564	
61 - 90 Days		
91 - 120 Days		
121 - 365 Days	4,321,674	
+ 365 Days		
Total	3,876,929	-

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

2007 **2006**
R R

Reconciliation of the bad debts provision

Balance at the beginning of the year	(525,498)	(525,498)
Contribution to the provision	-	-
Write-off of bad debts	-	-
Reversal of provision	-	-
	-	-
Balance at end of the year	(525,498)	(525,498)

8 OTHER DEBTORS

Staff, Lease Debtors, Land sale and Other	(2,342,392)	(2,342,392)
Unauthorized expenditure (see Note 23.1)	-	-
Fruitless and wasteful expenditure (see Note 23.2)	-	-
Amathole Project Funds	-	13,962,610
	-	13,962,610
Total Other Debtors	(2,342,392)	11,620,218

9 BANK, CASH AND OVERDRAFT BALANCES

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

Meeg Bank Limited - Dutywa Branch: Account Number: 40 4838
4454

Cash book balance at beginning of year	6,279,723	6,279,723
Cash book balance at end of year	11,101,908	6,279,723

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
Bank statement balance at beginning of year	<u>4,730,885</u>	<u>2,984,039</u>
Bank statement balance at end of year	<u>14,499,569</u>	<u>4,730,885</u>
<u>Savings Account/ Investments Account</u>		
Meeg Bank Limited – Various Accounts		
Cash book balance at beginning of year	<u>4,169,723</u>	<u>4,579,695</u>
Cash Book balance at end of year	<u>4,379,060</u>	<u>4,169,723</u>
Bank statement balance at beginning of year	<u>4,169,723</u>	<u>4,579,695</u>
Bank statement balance at end of year	<u>4,379,060</u>	<u>4,169,723</u>
First National Bank – Various Accounts		
Cash book balance at beginning of year	<u>642,319</u>	<u>1,409,524</u>
Cash Book balance at end of year	<u>642,319</u>	<u>642,319</u>
Bank statement balance at beginning of year	<u>642,319</u>	<u>1,409,524</u>
Bank statement balance at end of year	<u>642,319</u>	<u>642,319</u>
Standard Bank Limited - Dutywa Branch: Various Accounts		
Cash book balance at beginning of year	<u>1,678,628</u>	<u>801,689</u>
Cash Book balance at end of year	<u>1,686,335</u>	<u>1,678,628</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
Bank statement balance at beginning of year	<u>1,678,628</u>	<u>801,689</u>
Bank statement balance at end of year	<u>1,686,335</u>	<u>1,678,628</u>
10 SERVICE CHARGES		
Rates, Refuse removals	<u>5,700,834</u>	<u>4,036,603</u>
Total Service Charges	<u>5,700,834</u>	<u>4,036,603</u>
11 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	43,840,509	48,479,115
Municipal System Improvement Grant (MSIG)	216,572	
Finance Management Grant (FMG)	347,468	
LG SETA	99,330	
Municipal Infrastructure Grant (MIG)	5 428 750	
Etablissement of Ward Committees	<u>259,005</u>	
Total Government Grant and Subsidies	<u>50,191,634</u>	<u>48,479,115</u>
11.1 Equitable Share		
The Equitable Share is an unconditional grant and is utilised to assist the local municipalities undertake service delivery.		
11 GOVERNMENT GRANTS AND SUBSIDIES (Continued)		
11.2 Municipal System Improvement Grant		
Balance unspent at beginning of year	-	-
Current year receipts - included in public health vote	734,000	-
Conditions met - transferred to revenue	<u>(216,572)</u>	<u>-</u>
Conditions still to be met – transferred to liabilities (see note 3)	<u>517,428</u>	<u>-</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
11.3 Finance Management Grant		
Balance unspent at beginning of year	22,572	-
Current year receipts	500,000	-
Conditions met - transferred to revenue	<u>(347,468)</u>	<u>-</u>
Conditions still to be met – transferred to liabilities (see note 6)	<u>175,104</u>	<u>-</u>
11.4 LG SETA		
Balance unspent at beginning of year	-	-
Current year receipts	132,376	-
Conditions met - transferred to revenue	<u>(99,330)</u>	<u>-</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>33,046</u>	<u>-</u>
11.5 Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	-
Current year receipts	2,975,000	-
Conditions met - transferred to revenue	<u>(907,349)</u>	<u>-</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>2,067,651</u>	<u>-</u>
11.6 Establishment of Ward Committes		
Balance unspent at beginning of year	-	-
Current year receipts	540,000	-
Conditions met - transferred to revenue	<u>(259,005)</u>	<u>-</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>280,995</u>	<u>-</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
11.7 Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act ...of 2007), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
12 OTHER INCOME		
Admin, pond, Licence fees, fines, sundry and sale of land	2,674,365	-
Recovery of unauthorised, irregular, fruitless and wasteful expenditure (Note 23)	-	-
	-	-
Total Other Income	2,674,365	-
13 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	17 555 882	31,916,338
Employee related costs - Contributions for UIF, pensions and medical aids	2 889 513	-
Travel, motor car, accommodation, subsistence and other allowances	268 103	-
Housing benefits and allowances	6 130	-
Overtime payments	-	-
Performance bonus	180 000	-
	180 000	-
Total Employee Related Costs	20 075 628	31,916,338

There were no advances to employees. No Loans to employees are set out in note 6.

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
13 EMPLOYEE RELATED COSTS (continued)		
<i>Remuneration of the Municipal Manager</i>		
Annual Remuneration	318 000	-
Performance Bonuses	44 500	-
Cellphone Allowance	12 000	-
Car Allowance	96 000	-
Contributions to UIF, Medical and Pension Funds	24 000	-
Total	494 500	-
<i>Remuneration of the Chief Finance Officer</i>		
Annual Remuneration	290 000	-
Performance Bonuses	27 100	-
Car Allowance	84 000	-
Contributions to UIF, Medical and Pension Funds	-	-
Total	401,100	-
<i>Remuneration of Individual S.57 Employees(Managers)</i>		
	<u>Admin.</u>	<u>Technical</u>
	<u>& HR</u>	<u>Services</u>
	R	R
30 June 2007		
Annual Remuneration	376 831	-
Performance Bonuses	27 100	-
Car Allowance	84 000	-
Other Allowances	26 400	-
Total	514 331	-

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
	<u>LED</u>	
	<u>Strategic</u>	
	R	R
30 June 2006		
Annual Remuneration	349 736	-
Performance Bonuses	27 100	-
Car Allowance	84 000	-
Other Allowances	<u>26 400</u>	<u>-</u>
Total	<u><u>487 236</u></u>	<u><u>-</u></u>
14 REMUNERATION OF COUNCILLORS		
Mayor	411 057	-
Speaker	328 845	-
Executive Committee Members	169 560	-
Councillors	431 609	-
Councillors' pension contribution	<u>-</u>	<u>-</u>
Total Councillors' Remuneration	<u><u>1 341 071</u></u>	<u><u>-</u></u>

In-kind Benefits

The Mayor, and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
15 INTEREST PAID		
Long-term liabilities	-	-
Bank overdrafts	-	-
	<hr/>	<hr/>
Total Interest on External Borrowings	<u>-</u>	<u>-</u>
16 CONTRACTED SERVICES		
Agency fees to local municipality	<u>-</u>	<u>0</u>
The Municipality has no Contracted Service to any Agency.		
17 GRANTS AND SUBSIDIES PAID		
Donations to local municipalities/ LED Projects	-	-
	<hr/>	<hr/>
	<u>-</u>	<u>-</u>

18 CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GAMAP

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GAMAP: -

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R

18.1 Statutory Funds

Balance previously reported: -

Revolving Fund		486,177
Loan redeemed and other capital receipts		127,429

Total		613,606
--------------	--	----------------

Implementation of GAMAP

Transferred to Accumulated Surplus/(Deficit) (see 18.5 below)		127,429
Transferred to Government Grant Reserve		486,177

Total		127,429
--------------	--	----------------

18 CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GAMAP (Continued)

18.2 Provisions and Reserves

Balance previously reported

Balancing Government Grant Reserve	-	3,496,658
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Total	-	3,496,658
--------------	----------	------------------

Implementation of GAMAP

Transferred to Accumulated Surplus/(Deficit) (see 18.5 below)	-	3,496,658
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18.3 Property, plant and equipment

Balance previously reported		-
------------------------------------	--	----------

Implementation of GAMAP

Infrastructure previously not recorded credited to Accumulated Surplus/(Deficit) (see 26.7 below)		56,313,416
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Total	-	56,313,416
--------------	----------	-------------------

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
18.4 Accumulated Depreciation		
Balance previously reported		-
Implementation of GAMAP		
Backlog depreciation: Land and buildings	-	(518,091)
Backlog depreciation: Infrastructure	-	(5,420,043)
Backlog depreciation: Other	-	(3,421,934)
Total (debited to Accumulated Surplus/(Deficit)) (see 18.5 below)	-	(9,360,068)

18.5 Accumulated Surplus/(Deficit)

Implementation of GAMAP		
Transferred from statutory funds (see 18.1 above)	-	127,429
Excessive provisions and reserves no longer permitted (see 18.2 above)	-	3,496,658
Fair value of Property, Plant and Equipment previously not recorded (see 18.3 above)	-	56,313,416
Backlog depreciation (see 18.4 above)	-	(9,360,068)
Total	-	50,577,435

19 CORRECTION OF ERROR

During the year ended 30 June 2007, Municipality reversed an old balance of Amathole Projects Account which had been paid fully by Amathole District Municipality: -

The comparative amount has been restated as follows: -

Amathole Projects	-	(13,962,610)
Loans Redeemed	-	(2,957,636)
Net effect on surplus/(deficit) for the year	-	(16,920,245)

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
20 CASH GENERATED BY OPERATIONS		
Surplus/(deficit) for the year	13,580,091	2,759,653
Adjustment for:-		
Depreciation	2,549,836	-
Gain on disposal of property, plant and equipment	-	-
Interest paid	21	-
Investment income	<u>(352,590)</u>	<u>(165,367)</u>
Operating surplus before working capital changes:	15,777,359	2,594,286
(Increase)/decrease in debtors	(1,663,900)	4,936,204
(Increase)/decrease in other debtors	-	-
(Decrease)/increase in conditional grants and receipts	4,147,456	31,048,602
Increase in creditors	-	(149,215)
Increase in VAT	<u>(1,477,317)</u>	<u>(1,583,507)</u>
Cash generated by/(utilised in) operations	<u>16,783,598</u>	<u>36,846,370</u>
21 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position :		
Bank balances and cash	17,782,545	12,770,394
Bank overdrafts	<u>-</u>	<u>-</u>
Total cash and cash equivalents	<u>17,782,545</u>	<u>12,770,394</u>

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE 2007**

	2007	2006
	R	R
22 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term liabilities (see Note 1)	-	-
Used to finance property, plant and equipment – at cost	-	-
Sub- total	-	-
Cash set aside for the repayment of long-term liabilities	-	-
Cash required for repayment of long-term liabilities	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

23 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

23.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	-	-
Unauthorised expenditure current year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery (note 13)	-	-
Unauthorised expenditure awaiting authorization	-	-

Incident

Unbudgeted expenditure - Municipality has no unbudgeted expenditure

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

		2007	
23	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (continued)	R	2006 R

23.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	-	-
Fruitless and wasteful expenditure current year	-	-
Condoned or written off by Council	-	-
To be recovered – contingent asset (see note 46)	-	-
	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-

Incident

<i>Municipality has no breaches of any rules</i>
--

23.3 Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	-	-
Fruitless and wasteful expenditure current year	-	-
Condoned or written off by Council	-	-
Transfer to receivables for recovery – not condoned	-	-
	-	-
Irregular expenditure awaiting condonement	-	-

Incident

<i>Municipality has no litigation against its employees.</i>
--

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
24 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		

24.1 Contributions to organized local government

Opening balance	-	-
Council subscriptions	-	-
Amount paid - current year	-	-
Amount paid - previous years	-	-
	<hr/>	<hr/>
Balance unpaid (included in creditors)	-	-
	<hr/> <hr/>	<hr/> <hr/>

24 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

24.2 Audit fees

Opening balance	-	-
Current year audit fee	-	150,000
Amount paid - current year	-	-
Amount paid - previous years	-	-
	<hr/>	<hr/>
Balance unpaid (included in creditors)	-	150,000
	<hr/> <hr/>	<hr/> <hr/>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R

24.3 VAT

VAT inputs receivables and VAT outputs receivables are shown in note 4. All VAT returns have been submitted by the due date throughout the year.

24.4 PAYE and UIF

Opening balance	-	-
Current year payroll deductions	-	-
Amount paid - current year	-	-
Amount paid - previous years	-	-
	-	-
Balance unpaid (included in creditors)	-	-

The balance represents PAYE and UIF deducted from the June 2007 payroll. These amounts were paid during July 2007.

24.5 Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and Council Contributions	-	-
Amount paid - current year	-	-
Amount paid - previous years	-	-
	-	-
Balance unpaid (included in creditors)	-	-

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

2007
R

2006
R

24.6 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

The Municipality has developed a supply chain management policy.

25 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and contracted for	-	-
<i>Infrastructure</i>	-	-
<i>Other</i>	-	-
- Approved but not yet contracted for	-	-
<i>Infrastructure</i>	-	-
<i>Other</i>	-	-
Total	-	-

This expenditure will be financed from:

- Government Grants	-	-
	-	-

MBHASHE LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007	2006
	R	R
26 RETIREMENT BENEFIT INFORMATION		
All Councillors and employees belong to 2 defined benefit retirement funds administered by the Alexander Forbes and SAMWU Providend Fund.		
27 IN-KIND DONATIONS AND ASSISTANCE		
The Municipality has not received any donations during the year.		
28 CONTINGENT LIABILITY		
Claim for damages	<u> -</u>	<u> -</u>
The Municipality is involved in legal dispute with Manager of Protection Services and Works Manager.		
29 COMPARISON WITH THE BUDGET		
The comparison of the Municipality's actual financial performance with that budgetedis set out in Annexures D(1) and D(2).		

APPENDIX A
MBHASHE MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2007

Category	Opening Balance	Additions	Under-Construction	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	Carrying Value
Land and buildings	12 474 655	0	0	0	12 474 655	518 091	103 618	0	621 709	11 852 946
Land	9 366 112				9 366 112				0	9 366 112
Municipal Buildings	3 108 543				3 108 543	518 091	103 618		621 709	2 486 834
Infrastructure	24 690 352	8 601 904	0	0	33 292 256	4 115 059	1 062 733	0	5 177 792	28 114 464
Street Lights	307 074	85 724			392 798	51 179	10 236		61 415	331 383
Roads	24 383 278	8 516 180			32 899 458	4 063 880	1 052 497		5 116 377	27 783 081
Other assets	11 062 608	526 445	0	0	11 589 053	3 421 934	1 110 986	0	4 532 920	7 056 133
Computer equipment	1 635 878	424 880			2 060 758	654 351	539 080		1 193 431	867 327
Furniture and fittings	861 570	99 986			961 556	430 785	97 173		527 958	433 598
Motor vehicles	6 228 013				6 228 013	1 557 003	311 401		1 868 404	4 359 609
Office equipment	2 325 963	1 579			2 327 542	775 321	161 095		936 416	1 391 126
Mayoral Chain	11 184				11 184	4 474	2 237		6 711	4 473
Recreational Facilities	8 136 980	37 983	0	0	8 174 963	1 356 163	272 499		1 628 662	6 546 301
Library Facilities	169 143	37 983			207 126	28 191	6 904		35 095	172 031
Taxi Rank Development	748 554				748 554	124 759	24 952		149 711	598 843
Community Halls	4 225 940				4 225 940	704 323	140 865		845 188	3 380 752
Community Arts Centre	1 987 141				1 987 141	331 190	66 238		397 428	1 589 713
Sports Facilities and Grounds	1 006 202				1 006 202	167 700	33 540		201 240	804 962
Total	56 364 595	9 166 332	0	0	65 530 927	9 411 247	2 549 836	0	11 961 083	53 569 844

APPENDIX B
MBHASHE MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
30 JUNE 2007

Department	Opening Balance	Additions	Under-Construction	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	Carrying Value
Finance										
Human Resource & Admin										
Works										
Estate										
Protection										
LED										
Council										
Total										

APPENDIX C
MBHASHE MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR
ENDED
30 JUNE 2007

2006			Department	2007		
Revenue	Expenses	Surplus/ (Deficit)		Revenue	Expenses	Surplus/ (Deficit)
R	R	R		R	R	R
55 378 664	15 933 429	39 445 235	Finance	51 761 881	6 640 022	45 121 859
	8 199 070	(8 199 070)	Human Resource & Administration		20 222 811	(20 222 811)
	8 943 087	(8 943 087)	Works		2 636 690	(2 636 690)
	3 424 895	(3 424 895)	Estate		428 150	(428 150)
	2 369 911	(2 369 911)	Protection		831 678	(831 678)
	7 254 516	(7 254 516)	LED		2 406 298	(2 406 298)
	6 494 103	(6 494 103)	Council		4 029 396	(4 029 396)
55 378 664	52 619 011	2 759 653	Total	51 761 881	37 195 045	14 566 836

APPENDIX D(1)

MBHASHE MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2007

	<u>2007</u> <u>Actual (R)</u>	<u>2007</u> <u>Budget (R)</u>	<u>2007</u> <u>Variance (R)</u>	<u>2007</u> <u>Variance (%)</u>	<u>Explanation of Significant Variances</u> <u>greater than 10% versus Budget</u>
Revenue					
Service charges	2 611 551	1 910 000	701 551	36	<i>(Explanations to be recorded)</i>
Regional Services Levies – turnover	0	0	0	0	
Regional Services Levies – remuneration	0	0	0	0	
Rental of facilities and equipment	423 841	170 000	253 841	149	
Interest earned - external investments	383 044	120 000	263 044	219	
Government grants and subsidies	45 670 233	64 182 150	-18 511 917	-28	
Other income	2 673 213	2 285 000	384 997	16	
Gains on disposal of property, plant and equipment	0	0	0	0	
Total Revenue	51 761 882	68 667 150	-16 908 484	-24	
Expenditure					
Finance	6 640 022	5 789 654	850 368	14	
Human Resource and Administration	20 222 811	7 044 807	13 178 004	187	
Works	2 636 690	3 668 000	-1 031 310	-28	
Protection	428 150	3 670 000	-3 241 850	-88	
Estate	831 678	1 368 500	-536 822	-39	
LED	2 406 298	817 000	1 589 298	194	
Council	4 029 396	9 429 116	-5 399 720	-57	
Total Expenditure	37 195 045	31 787 077	5 407 968	17	
Surplus	14 566 837	36 880 073	-22 313 236	-60	

APPENDIX D(2)
MBHASHE MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED
30 JUNE 2007

	<u>2007</u> <u>Actual</u>	<u>2007</u> <u>Under</u> <u>Construction</u>	<u>2007</u> <u>Total</u> <u>Additions</u>	<u>2007</u> <u>Budget</u>	<u>2007</u> <u>Variance</u>	<u>2007</u> <u>Variance</u>	<u>Explanation of Significant Variances</u> <u>greater than 5% versus Budget</u>
	R	R	R	R	R	%	<i>(Explanations to be recorded)</i>
Finance							
Administration							
Works							
Protection							
Estate							
LED							
Council							
Total							

APPENDIX E

MBHASHE MUNICIPALITY: DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant and Subsidies Received

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld					Reason for delay/wit hholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	S e p t	D e c	M a r c h	J u n e	S e p t			
LG SETA MIG MSIG FMG Establish Of Ward	MBH MUN MBH MUN MBH MUN MBH MUN MBH MUN	58 880 975 000 367 000 540000	28 175 367 000	31 780 500 000	13 540 2 000 000												
		1 940 880	395 175	531 780	2 013 540	205 763	166 639	94 041	5 884 683								