

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
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AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE MAYORAL COMMITTEE

ALDERMEN/COUNCILLORS

Somyo, S.S.	<i>Executive Mayor</i>	
Fusa, V.N.	<i>Human Resources</i> <i>Human Resources & Administration SC Chairperson</i>	PR
Jacobs, L.	<i>Community Safety</i>	PR
Janda, S.N.	<i>Local Economic Development</i> <i>Development & Planning SC Chairperson</i>	PR
Malghas, K.E.	<i>Land and Housing</i>	PR
Mkebe, S.E.	<i>Budget & Treasury</i>	PR
Mtongana, M.W.	<i>Water & Sanitation</i> <i>Infrastructure SC Chairperson</i>	PR
Mzozoyana, W.	<i>Engineering and Infrastructure</i>	PR
Ncitha, Z.V.	<i>Administration & Asset Management</i>	PR
Neale-May, H.E.	<i>Health & Protection</i> <i>Community Services SC Chairperson</i>	PR
Sinuka, N.E.	<i>Community Liaison & Participation</i>	PR

GRADING OF THE DISTRICT MUNICIPALITY

Grade 5

AUDITORS

Auditor - General

BANKERS

MEEG Bank, East London

REGISTERED OFFICE

40 Cambridge St PO Box 320 Telephone : 043 701 4000
East London East London
5200

MUNICIPAL MANAGER

Msweli, X.W.

ACTING CHIEF FINANCIAL OFFICER

Venter, N.A.

LEGISLATION

The ADM complies with the Municipal Finance Management Act 56 of 2003.

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
MEMBERS OF THE AMATHOLE DISTRICT MUNICIPALITY

COUNCILLOR/ ALDERMAN	WARD	COUNCILLOR/ ALDERMAN	WARD	COUNCILLOR/ ALDERMAN	WARD
Adonis, N.L.	<i>Buffalo City</i>	Matika, M.D.	<i>Buffalo City</i>	Ngwane, N.	<i>Buffalo City</i>
Booi, N.F.	<i>Nkonkobe</i>	Mawisa, A.T.	<i>Amahlathi</i>	Nombamba, N.	<i>PR</i>
Botha, J.P.J.	<i>PR</i>	Mayekiso, G.	<i>Mbashe</i>	Ntongana, M.W.	<i>Mnquma</i>
Dikimolo, S.R.	<i>Buffalo City</i>	Mbane, S.	<i>Amahlathi</i>	Ntontela, B.	<i>Ngqushwa</i>
Dlephu, T.	<i>PR</i>	Mciteka, M.	<i>Buffalo City</i>	Nyokana, A.	<i>Mnquma</i>
Du Plessis, S.A.	<i>Buffalo City</i>	Mdyesha, B.C.	<i>Mbashe</i>	Pan, N.D.	<i>Great Kei</i>
Faku-Hobana, Z.C.	<i>PR</i>	Mdyolo, J.	<i>Buffalo City</i>	Pati, K.F.	<i>Buffalo City</i>
Fusa, V.N.	<i>PR</i>	Mgezi, N.D.	<i>Buffalo City</i>	Pijoos, S.	<i>PR</i>
Gantolo, S.R.	<i>PR</i>	Mkebe, S.E.	<i>PR</i>	Posman, C.J.	<i>Amahlathi</i>
Gqezengele, S.E.	<i>Nxuba</i>	Mkosana, V.V.	<i>PR</i>	Qina, F.	<i>Mbashe</i>
Holiday, V.M.	<i>Buffalo City</i>	Mlamla, N.P.	<i>Nkonkobe</i>	Shweni-Booyesen, N.	<i>Buffalo City</i>
Jacobs, L.	<i>PR</i>	Mlondleni, N.	<i>PR</i>	Sibini, N.	<i>Mnquma</i>
Jakavula, N.	<i>Buffalo City</i>	Mlonyeni, S.D.	<i>PR</i>	Sinuka, N.E.	<i>PR</i>
Janda, S.	<i>PR</i>	Mngoma, Z.X.	<i>PR</i>	Skotana M.	<i>Amahlathi</i>
July, T.	<i>Buffalo City</i>	Monani, M.P.	<i>PR</i>	Somyo, S.	<i>PR</i>
Magaqa, S.	<i>PR</i>	Moyeni, V.	<i>Ngqushwa</i>	Stevens, J.L.	<i>PR</i>
Magobhiyane, M.	<i>Mnquma</i>	Mpupusi, K.K.	<i>Buffalo City</i>	Tandela, T.N.	<i>PR</i>
Magodla, D.D.	<i>Mbashe</i>	Mtongana, M.	<i>PR</i>	Thompson, I.	<i>Buffalo City</i>
Makhabane, N.	<i>Mnquma</i>	Mqolo, A.Z.	<i>PR</i>	Toboti, W.	<i>PR</i>
Malghas, E.E.K.	<i>PR</i>	Mzozoyana, W.	<i>PR</i>	Tokwe-Koboti, L.	<i>Buffalo City</i>
Maphasa P.P.	<i>PR</i>	Ncitha, Z.V.	<i>PR</i>	Vallabh, D.	<i>Buffalo City</i>
Maphazi, M.	<i>Mnquma</i>	Ncume, M.	<i>Nkonkobe</i>	Voyi, M.A.	<i>Mbashe</i>
Masebeni, T.	<i>Buffalo City</i>	Ndleleni, T.	<i>PR</i>	Vumendlini, M.C.	<i>PR</i>
Mati, T.	<i>Buffalo City</i>	Neale-May, H.E.	<i>PR</i>	Zweni, N.C.	<i>Nkonkobe</i>

MAYOR

Somyo, S.S.

SPEAKER

Mlondleni, N.

APPROVAL OF THE FINANCIAL STATEMENTS

The annual financial statements were approved by the Municipal Manager

on _____ .

MUNICIPAL MANAGER

Msweli, X.W.

ACTING CHIEF FINANCIAL OFFICER

Venter, N.A.

Foreword from Executive Mayor for the Financial Statement 2006/07

The past financial year has seen several sweeping changes for the Amathole District Municipality, some of which brought with them their own set of challenges.

The second local government elections were held on 1 March 2007, with the result that there were many new faces in Council meetings.

The decision to make use of the internal mechanism for water services provision was taken in August 2006 with the anticipated rollout targeted for July 2007.

The centralization of financial activities relating to water services was concluded on 1 July 2006. This effectively means that, for the first time, the ADM is able to fully assimilate the costs of water services, which will inform planning for the service and implementation of policy governing the sector within the ADM. Through this process, the ADM also took over all assets and loans relating to assets. A total of 320 staff were transferred to the ADM, and restructuring of the water services Operation and Maintenance Division is underway to improve performance, accountability and to exploit opportunities for skills improvement.

We still face an ever changing environment as we engage in the assessment of institutional reform opportunities, in our search for mechanisms that will improve our services to our communities. The ADM has designed a communication strategy to address the Water Services Provider arrangement. In the new financial year, the ADM will also be establishing Customer Care and Service Centres at each of our local municipalities.

A Water Conservation and Demand Management Plan, supported by the capacitation of a Demand Management Unit within the ADM, was developed in the past financial year. This plan is aligned to the Water Act, the MFMA, and general principles of Council, to reduce financial loss by minimizing water losses and "unaccounted for" water. This unit will be implementing a district-wide drive to install new and replace old, damaged or non-functioning water meters in its efforts to reduce unaccounted for water, and in so doing improve the efficiency of networks through the proper design and optimization of schemes.

The financial services challenges for water services in our district were many. In taking over the water services it was found that there was no level of uniformity in the costing methodology, therefore there was no uniformity of the tariffs. Water tariffs were plagued by low levels of recovery, driven by poor policy models, and low levels of economy of scale. There were no accurate records of the establishment or running costs of water schemes and there were large scale overheads, inherited from the erstwhile water services authorities, not linked to schemes. Currently there are assets amounting to almost R3 billion requiring varying degrees of refurbishment. Repairs and maintenance were not effectively schemes. Currently there are assets amounting to almost R3 billion requiring varying degrees of refurbishment. Repairs and maintenance were not effectively

undertaken. There were no water audits with some scheme inefficiencies up to 50%. There were high levels of "unaccounted for water" and even the debt brought forward from erstwhile water services authorities show no levels of reliability. The establishment of funds to cater for bad debts were not cash backed and in fact the entire water and sanitation budget frameworks were not cash based. The ADM has thus been forced to make provision for bad debt in the amount of R26 million. The bad debt provision has been netted off against the debtors in the statement of financial position. In addition, we have inherited excessive levels of staff. The DWAF schemes do not demonstrate sustainability norms and we have a situation of a subsidy tapering mechanism. There were also zero capital replacement reserves. The recognition of the international standards of accounting in assets and depreciation were not taken into consideration during tariff formulation.

In order to address some of these challenges the ADM will have to actively hunt for funding. We have since introduced scheme based costing for 59 water and sanitation scheme. The carrying of inefficiencies have been quantified, the costs thereof are carried by discretionary revenue and not the consumer. A full asset verification of all water services infrastructure has been undertaken and asset costs are now known and reflected. The capital recoupment charge allows for the refurbishment of assets and water services is now completely ring fenced. We now have accurate costing of free basic services and of indigent support.

The ADM received a levies replacement grant from National Treasury in the amount of R128,024,000 over the past financial year, which was based on the past history of ADM's levies income collected.

The allocation for priority projects in the past financial year amounted to R68,992,155 whilst expenditure amounted to R58,077,310. The Municipal Infrastructure Grant funds available for 2006/07 amounted to R182 million, whilst expenditure amounted to R181 million. These projects are being implemented in a phased programme.

On the upside, investment income amounted to R35,7 million. The ADM ended the year with a surplus of R271,5 million, bringing the cumulative total to R673 million.

After six years of an unblemished record, the ADM received an audit qualification for 2005/06, based on changed accounting standards not being applied. Refer to the accounting policies for qualifications and exemptions received in the current financial year.

On behalf of Council, I am proud to present the financial statements for the year 2006/07, which reflects our achievements over the past year despite many challenges. I would also like to take this opportunity to thank our officials for their sterling work.

We look forward to an even more productive year ahead wherein we renew our pledge to create a better life for all within our district.

Sincerely

A handwritten signature in black ink, appearing to be 'Somyo', written in a cursive style.

ALDERMAN SAKHUMZI SOMYO
EXECUTIVE MAYOR

AMATHOLE DISTRICT MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007

	NOTE	2006/07 R	2005/06 R
ASSETS			
Non-current assets			
		657 200 871	73 419 095
Infrastructure, plant and equipment	1	656 431 486	72 385 074
Intangible Assets	2	176 253	315 576
Investment in subsidiary	3.1	1 000	1 000
Long term receivables	4	592 132	717 445
Current assets			
		631 430 319	605 733 078
Inventory	5	76 523 473	64 814 170
Consumer receivables	6	1 864 612	11 143 031
Other receivables	7	5 697 424	14 329 244
Current portion of long-term receivables	4	164 301	351 115
VAT receivable	8	17 896 695	7 349 433
Financial assets	3.2	472 516 696	465 451 549
Bank balances and cash	9	56 767 120	42 294 536
Total Assets		1 288 631 191	679 152 174
NET ASSETS AND LIABILITIES			
Non-current liabilities			
		346 917 828	9 483 653
Long-term loan: DBSA	10	6 052 533	-
Finance lease obligation	11	452 420	832 052
Operating lease liability	12	125 868	28 247
Deferred income	13	334 751 496	5 981 735
Leave accrual	15	5 250 451	2 641 619
Consumer deposits	14	285 060	-
Current liabilities			
		260 093 203	258 551 284
Finance lease obligation	11	379 632	372 542
Short term portion of loan: DBSA	10	850 201	-
Trade and other payables	15	84 160 862	75 792 695
Deferred income	13	702 247	677 754
Unspent conditional grants and receipts	15	174 000 261	181 708 294
Net assets			
		681 620 160	411 117 238
Revaluation reserve		8 524 341	8 998 707
Accumulated surplus/(deficit)		673 095 819	402 118 531
Total Net Assets and Liabilities		1 288 631 191	679 152 174

..... DATE :

X.W. Msweli
MUNICIPAL MANAGER

.....
CERTIFIED AS CORRECT
N.A. Venter
ACTING CHIEF FINANCIAL OFFICER

AMATHOLE DISTRICT MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
30 JUNE 2007

Budget			Actuals	
2005/06	2006/07	Note	2006/07	2005/06
R	R		R	R
REVENUE				
33 945 252	36 278 348		39 377 102	271 375
102 720 000	-	16	10 911 627	128 604 451
-	117 084		147 923	108 316
10 625 920	17 621 834	17.2	18 811 646	8 135 431
101 628 531	326 649 340	17	331 476 548	287 980 344
103 712 226	124 835 062	18	4 048 330	4 520 515
-	292 062 709	19	292 062 709	-
-	-		63 400	219 860
-	-		-	14 053 987
352 631 929	797 564 377		696 899 285	443 894 278
EXPENDITURE				
80 711 155	127 667 629		114 870 043	74 473 401
200 000	141 314		141 314	130 027
3 005 612	26 670 728		61 472 868	340 023
1 272 000	837 659		837 658	897 129
3 951 238	8 066 595	20	38 024 715	5 990 478
6 512 293	13 245 921		11 346 847	4 891 789
12 170 795	9 573 650	26	3 179 618	9 163 450
67 450 517	57 657 784	26	35 895 881	42 035 891
182 085 035	250 131 543		194 802 979	288 173 849
-	-	20	165 993	354 779
-	1 867 629		888 716	744 305
357 358 645	495 860 452		461 626 632	427 195 121
(4 726 716)	301 703 925		235 272 653	16 699 157
6 800 000	3 782 215	29	36 888 541	22 291 240
802 426	1 403 434	30	1 183 906	148 059
1 270 858	304 082 706		270 977 288	38 842 337
Refer to Appendix E (1) for explanation of variances				

AMATHOLE DISTRICT MUNICIPALITY

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

	Capital replacement reserve	Government Grant Reserve	Revaluation Reserve	Accumulated Surplus/ Deficit	Total
<i>Balance at 1 July 2005</i>					
Opening balance as previously reported		7 112 590	34 205 518	333 538 213	374 856 320
Prior year adjustments (Refer Note 36)			-24 698 732	22 660 406	-2 038 326
Balance at 1 July 2005 as restated	-	-	-	-	-
GAMAP adjustments	-	-	-	5 883 556	5 883 556
Surplus for the year	-	-	-	38 842 337	38 842 337
Transfer to CRR	7 980 926	-	-	(7 980 926)	-
Property, plant and equipment purchased	-7 980 926	-	-	7 980 926	-
Capital grants used to purchase PPE	-	13 093 057	-	(13 093 057)	-
Disposal of asset	-	-	-33 711	33 711	-
Prior year adjustments (Refer Note 36)	-	-19 063 963	232 841	12 404 474	-6 426 648
Off-setting of depreciation	-	-1 141 684	-707 208	1 848 892	-0
	-	-7 112 590	-508 078	45 919 913	38 299 245
<i>Balance at 30 June 2006</i>	-	0	8 998 708	402 118 531	411 117 239
<i>Opening balance 1 July 2006</i>	-	0	8 998 708	402 118 531	411 117 239
Surplus for the year	-	-	-	270 977 288	270 977 288
Off-setting of depreciation	-	-	-474 367	-	-474 367
	-	-	-474 367	270 977 288	270 502 921
<i>Balance at 30 June 2007</i>	-	0	8 524 341	673 095 819	681 620 160

AMATHOLE DISTRICT MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2006/07 R	2005/06 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other parties		366 865 377	448 786 693
Cash paid to suppliers and employees		(369 161 104)	407 845 835
Cash (utilised in)/ generated from operations	32	(2 295 727)	40 940 858
Finance costs	30	(1 183 906)	(148 059)
Investment income	29	36 888 541	22 291 240
NET CASH FROM OPERATING ACTIVITIES		33 408 908	63 084 039
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(11 206 762)	(21 073 983)
Proceeds on disposal of property, plant and equipment			458 174
Decrease in long term receivables		125 313	797 689
Purchase of equity investment		-	(1 000)
Purchase of financial assets		(7 065 147)	(64 681 570)
NET CASH FROM INVESTING ACTIVITIES		(18 146 596)	(84 500 690)
CASH FLOWS FROM FINANCING ACTIVITIES			
Other capital receipts		-	13 093 056
Finance lease payments		(372 542)	(310 113)
Proceeds from consumer deposits		285 060	-
Release of deferred income		(702 245)	-
NET CASH FROM FINANCING ACTIVITIES		(789 727)	12 782 943
NET CASH FLOW		14 472 585	(8 633 710)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14 472 585	(8 633 710)
Cash and cash equivalents at the beginning of year		42 294 536	50 928 246
Cash and cash equivalents at year end	9	56 767 120	42 294 536

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
ACCOUNTING POLICIES

APPLICATION OF ACCOUNTING STANDARDS AND AMENDMENT OF ACCOUNTING POLICIES

The exemptions obtained (Gazette 30013) regarding the implementation of certain accounting standards necessitated the disclosure of the following:

The accounting policy of the comparative figures (2005/06) as well as the accounting policy used for the current financial year (2006/07), where applicable;

Additional disclosures in the annual financial statements to assist users in understanding the implications on the current and comparative figures;

The audit qualifications received in the prior year (2005/06) relating to the specific accounting policies.

1. BASIS OF PRESENTATION

2005/06 Financial Year

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, buildings and community property, which are carried at fair value:

- Income is accrued when measurable and available to finance operations. Certain direct income is accrued when received.
- Expenditure is accrued in the year it is incurred.

These annual financial statements have been prepared in accordance with Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122 (3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

The Municipality has transactions, events or balances that are outside the ambit of the accounting standards referred to above but which are included in the Standards of International Public Sector Accounting Standards (IPSAS) issued by the International

The principal accounting policies adopted in the preparation of these annual financial statement are set out below.

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

Audit Qualification

The municipality must prepare financial statements in accordance with the basis of accounting determined by the National Treasury, as described in paragraph 3 above. The basis of preparation disclosed in the accounting policies of the annual financial statements indicates that the municipality has elected not to comply with accounting standards which are outside the ambit of Generally Accepted Municipal Accounting Practice 9 (GAMAP) and Generally Recognised Accounting Practise (GRAP). This is in contravention of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors, which regulates that the South African Statements of Generally Accepted Practise (GAAP), including any interpretations of such Statements issued by the Accounting Practises Board, be applied for the recognition and measurement of all transactions that do not fall within the scope of GAMAP and GRAP.

(Audit report indicated deviations included under applicable headings below)

2006/07 Financial Year

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, buildings and community property, which are carried at fair value.

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
ACCOUNTING POLICIES

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

These 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	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 interests 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 or 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 issued by the Accounting Practices Board (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 have been provided in the notes to the annual statements.

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

Standard no.	Standard Title	GRAP, GAMAP and/or SA GAAP requirement(s), exempted in terms of General notice 552 of 2007, that have been early adopted
IAS 17 (AC 105)	Leases	Recognising operating lease payments/ receipts on a straight-line basis if the amounts are recognised on the basis of the cash flows in the lease agreements (SAICA circular 12/06 paragraphs 8 - 11 and paragraphs 33, 34, 50, 51 of IAS 17/AC 105).
IAS 20 (AC 134)	Accounting for government grants and disclosure of government assistance	Entire standard excluding paragraphs 24 and 26, replaced by paragraph 08 of GAMAP 12, paragraph 25 of GAMAP 17 and paragraphs 42 – 46 of GAMAP 9.
IAS 38 (AC 129)	Intangible Assets	The entire standard except for the recognition, measurement and disclosure of computer software and website costs (SIC 32/AC 432) and all other costs are expensed.

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 as required or permitted by a Standard of GAMAP or GRAP.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007
ACCOUNTING POLICIES

3. GOING CONCERN ASSUMPTION

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

4. RESERVES

Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The re-valued assets 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 re-valued amounts, are credited or charged to the Statement of Financial Performance.

The surplus arising from the revaluation of land and buildings is credited directly to equity in the revaluation reserve. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to equity in the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Depreciation on re-valued buildings is charged to surplus or deficit. On the subsequent sale or retirement of a re-valued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated surplus.

5. PROPERTY, PLANT AND EQUIPMENT

2005/06 Financial Year

- 5.1 Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses, except for land and buildings, which have been re-valued as indicated below.
- 5.2 Land is not depreciated as it is deemed to have an indefinite life.
- 5.3 Items purchased less than R1000 in value, are considered to be non capital in nature and are therefore expensed.
- 5.4 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 amounts of the assets given up.
- 5.5 Expenditure is capitalised when the recognition and measurement criteria of an asset is met.
- 5.6 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>		<u>Years</u>
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	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
Community		Bins and containers	5
Improvements	30	Specialised plant and equipment	10-15
Recreational facilities	20-30	Other items of plant and equipment	2-5
Security	5		
Investment Properties	30		

AMATHOLE DISTRICT MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
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- 5.7 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 Statements of Financial Performance.
- 5.8 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.
- 5.9 Assets are capitalised on date of payment.
- 5.10 Major improvements to buildings, plant and equipment are capitalised. Maintenance and repairs are expensed when incurred.
- 5.11 Heritage assets, defined as culturally significant resources, are not depreciated.
- 5.12 Land and buildings are stated at re-valued amounts, being net replacement costs at the date of revaluation less subsequent accumulated depreciation and impairment losses on the buildings.
- 5.13 The Strategic Framework for water services, being the approved Government policy framework, prescribes the processes and details KPI's, and associated timeframes for the transfer of all infrastructure and functions relating to water services. In accordance, the transfer of all relevant water related infrastructure is to be finalised by 30 June 2006. The ADM conforms to that which has been prescribed in terms of due process as contained in the Strategic framework.

Audit Qualification

The accounting policy for property, plant and equipment does not contain sufficient information regarding the revaluation and impairment of assets as required by GAMAP 17: Property, Plant and Equipment.

2006/07 Financial Year

- 5.1 Property, plant and equipment is stated at cost, less accumulated depreciation except for land and buildings, which have been re-valued as indicated below.
- 5.2 The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.
- 5.3 Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.
- 5.4 Land and buildings are carried at the re-valued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the statement of financial position date. Land and buildings are re-valued every 3-5 years.
- 5.5 Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to equity in the revaluation reserve. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
- 5.6 Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to equity in the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- 5.7 The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- 5.8 Land is not depreciated as it is deemed to have an indefinite life.
- 5.9 Items purchased less than R1000 in value, are considered to be non capital in nature and are therefore expensed.

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5.10 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 amounts of the assets given up.

5.11 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>		<u>Years</u>
Infrastructure		Other	
Roads and paving	10-30	Buildings	30
Pedestrian malls	20-30	Specialist vehicles	3-20
Electricity	20-30	Other vehicles	5
Water	15-20	Office equipment	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
Community		Bins and containers	5
Improvements	10-30	Specialised plant and equipment	10-15
Recreational facilities	20	Other items of plant and equipment	2-5
Security	3-5		

5.12 The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

5.13 Assets are capitalised on the last day of the month of purchase.

5.14 Heritage assets are not recognised in accordance with GAMAP 17.

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemption paragraphs granted in terms of GAMAP 17 Property, Plant and Equipment:

- Review of useful life of items of Property, plant and equipment recognised in the annual financial statements [paragraphs 14, 19 and 30-31]
- Review of depreciation method applied to Property, plant and equipment recognised in the annual financial statements [paragraphs 62-77]
- Impairment of cash and non-cash-generating assets [paragraphs 63-69 and 75(e)(v) - (vi)]
- IAS 36/AC 128 Impairment of Assets [Entire standard exempted]

6. INVESTMENT PROPERTY

2005/06 Financial Year

Audit Qualification

The municipality does not have an accounting policy for investment property as required by IAS 40: Investment Property. As a result, none of the disclosure required by this standard has been complied with.

2006/07 Financial Year

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemptions paragraphs granted in terms of IAS 40/AC 135 Investment Property:

- The entire standard to the extent that the property is accounted for in terms of GAMAP 17
- Disclosure of the fair value of investment property where the cost model is applied and where Amathole District Municipality has recognised the investment property in terms of IAS 40/AC 135 [paragraphs 79(e)(i)-(iii)]

7. INTANGIBLE ASSETS

2006/07 Financial Year

7.1 An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

7.2 Intangible assets are initially recognised at cost.

7.3 Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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- 7.4 Intangible assets are carried at cost less any accumulated amortisation.
- 7.5 Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.
- 7.6 Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software - Application software	3 years

- 7.7 An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemption granted in terms of IAS 36/AC 128 Impairment of assets due to the impact on Intangible assets:

- The entire standard on Impairment of Assets have been exempted

8. INVESTMENT IN SUBSIDIARY

2005/06 Financial Year

- 8.1 Investments in municipal entities under the ownership control of the Municipality are carried at cost in the Municipality's unconsolidated annual financial statements. Separate consolidated financial statements are prepared to account for the Municipality's share of net assets and post-acquisition results of these investments.

Audit Qualification

The municipality does not have an accounting policy for its investment in the municipal entity as required by GAMAP 6: Consolidated Financial Statements and Accounting for Controlled Entities.

2006/07 Financial Year

- 8.1 Investments in subsidiaries are carried at cost in the municipality's unconsolidated annual financial statements.
- 8.2 The cost of an investment in a subsidiary is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments
 - issued by the company; plus any costs directly attributable to the purchase of the subsidiary.
- 8.3 An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemption granted in terms of IAS 36/AC 128 Impairment of assets due to the impact on the Investment in subsidiary:

- The entire standard on Impairment of Assets has been exempted

9. FINANCIAL INSTRUMENTS

9.1 ACCOUNTS RECEIVABLE

2005/06 Financial Year

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

9.2 TRADE CREDITORS

2005/06 Financial Year

Trade creditors are stated at their nominal value.

9.3 CASH AND CASH EQUIVALENTS

2005/06 Financial Year

Cash includes cash on hand and deposits held on call with banks. For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held on call with banks.

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9.4 INVESTMENTS

Financial Instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at cost.

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and impairment loss is charged to the Statement of Financial Performance.

Audit Qualification

Financial instruments have not been recognised or measured in terms of International Accounting Standard (IAS) 39: Financial Instruments: Recognition and Measurement nor disclosed in terms of IAS32: Financial Instruments: Disclosure and Presentation. The financial misstatement with regards to this is unknown as the municipality would have to determine an adequate discount rate in accordance with their risk profile and the discounting period if not known would have to be estimated. This may have a material impact on current liabilities and current assets of R69 555 523 and R14 887 391 respectively.

2006/07 Financial Year

9.1 Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the municipality's statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

9.2 Loans to municipalities, municipal entities and employees

These financial assets are initially and subsequently measured at face value plus direct transaction costs.

9.3 Loans from municipalities and the Development Bank of South Africa

These financial liabilities are initially and subsequently measured at face value plus direct transaction costs.

9.4 Trade and other receivables

Trade receivables are measured at initial and subsequent recognition at face value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired.

9.5 Trade and other payables

Trade payables are initially and subsequently measured at face value.

9.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at face value.

9.7 Investments

Financial Instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at cost.

9.8 Borrowings

Borrowings is initially and subsequently measured at face value.

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemptions paragraphs granted in terms of IAS 39/AC 133 Financial instruments: Recognition and measurement:

- Initially measuring financial assets and financial liabilities at fair value. (SAICA circular 09/06, paragraph 43, AG79,

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Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemption paragraphs granted in terms of IFRS 7/AC 144 Financial Instruments: Disclosures

- Entire standard to be replaced by IAS 32 (AC 125) issued August 2006 and effective for financial statements covering periods beginning on or after 1 January 1998.

10. LEASES

2005/06 Financial Year

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Operating leases are those leases that do not fall within the scope of the above definition. Operating leases rentals in respect of the Municipality are expensed as they become due, while Agency operating lease rentals are accounted for on a straight-line basis over the period of the lease.

Audit Qualification

Operating lease payments have been accounted for when the payments fall due and not on a straight line basis as required by IAS17: Leases. The accounting policy used to account for operating leases was therefore incorrect.

2006/07 Financial Year

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

10.1 Finance leases - lessee

10.1.1 Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

10.1.2 The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

10.1.3 The lease payments are apportioned between the finance charge and reduction of the outstanding liability.

10.1.4 The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

10.1.5 Leases are classified as finance leases if the following situations in accordance with paragraphs 10 and 11 of IAS 17 individually or in combination occur:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications;
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

10.2 Operating leases - lessor

10.2.1 Operating lease income is recognised as an income on a straight-line basis over the lease term.

10.2.2 Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset

and recognised as an expense over the lease term on the same basis as the lease income.

10.2.3 Income for leases is disclosed under revenue in the Statement of Financial Performance.

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10.3 Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

11. INVENTORIES

2005/06 Financial Year

- 11.1 Consumables stores, raw material, work-in-progress, settlements and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the first-in, first-out method.
- 11.2 Unsold properties and land used for housing are valued at the lower of cost or net realisable value. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.
- 11.3 Housing development funding received is recognised as revenue and expenditure on the Statement of Financial Performance to the extent that the Municipality has complied with any of the criteria, obligations or conditions of the grant.
- 11.4 When housing development is financed from government grants, an amount equal to the note is transferred from the accumulated surplus/ (deficit) in the Statement of Changes in Net Assets and is reflected as Work in Progress Housing projects. Completed and transferred houses will be offset against the accumulated surplus/ (deficit) in the Statement of Changes in Net Assets.

2006/07 Financial Year

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemptions granted in terms of GAMAP 12 Inventories:

- The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17; and
- The entire standard to the extent that it relates to water stock that was not purchased by the municipality.

12. EMPLOYMENT BENEFITS

2005/06 Financial Year

Audit Qualification

There is no accounting policy to recognise the municipality's liability for the defined benefit plan in respect of post employment benefits as required by IAS 19: Employee Benefits. Accordingly an actuarial gain/loss has not been recognised in the statement of financial performance and the required disclosure has not been reported.

2006/07 Financial Year

12.1 Short-term employee benefits

- 12.1.1 The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.
- 12.1.2 The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.
- 12.1.3 The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

12.2 Defined contribution plans

- 12.2.1 Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

- 12.2.2 Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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12.3 Defined benefit plans

- 12.3.1 The municipality has accounted for the defined benefit plan as a defined contribution plan for the 2006/07 financial year as permitted in terms of Gazette 30013. Accordingly, the municipality recognises the contributions to the scheme as an expense when the employees and councillors have rendered the employment service or served office entitling them to the contributions.

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemptions granted in terms of IAS 19 Employee benefits:

- Defined benefit accounting as far as it relates to defined benefit plans accounted for as contribution plans and the defined benefit obligation

13. PROVISIONS

2005/06 Financial Year

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 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.

Leave Provision

The Leave provision is utilised for the payment of leave sold during the year. An amount equivalent to the expected value of the leave accrual for the financial year is allocated to the leave provision during the year.

Audit Qualification

Leave pay and performance bonuses owing to employees, of R2 673 587 and R824 782 respectively, have been recorded as provisions, rather than accruals, which represents non-compliance with GAMAP 19: Provisions, Contingent Liabilities and Contingent Assets. No accrual has been recognised for service bonuses.

2006/07 Financial Year

- 13.1 Provisions are recognised when:
- the company has a present obligation as a result of a past event;
 - it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
 - a reliable estimate can be made of the obligation.
- 13.2 The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.
- 13.3 Provisions are not recognised for future operating losses.
- 13.4 Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

14. CONDITIONAL GRANTS AND RECEIPTS

2005/06 Financial Year

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations. If it has not been met it is recognised as a liability.

2006/07 Financial Year

- 14.1 Government grants are recognised when there is reasonable assurance that:
- the municipality will comply with the conditions attaching to them; and
 - the grants will be received.
- Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.
- 14.2 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.
- 14.3 Government grants related to assets, including non-monetary grants at fair value, are presented in the Statement of Financial

Position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

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14.4 Grants related to income are presented as a credit in the Statement of Financial Performance.

14.5 Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

14.6 Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

15. REVENUE RECOGNITION

2005/06 Financial Year

15.1 Levies

Enterprises are assessed on a monthly basis and charged an Establishment and Service charge levy using Turnover and Human Resource costs, respectively. The tariffs for levies on Turnover and Human Resources costs differ in accordance with the operating budget approval.

Levy income is recognised on the receipt of actual assessments.

Payments received regarding undeclared figures are considered creditors in the Municipality's records.

Audit Qualification

The accounting policy for revenue does not comply with the requirements of GAMAP 9: *Revenue*.

In terms of paragraph 50, levies shall be recognised as revenue when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and the amount of the revenue can be measured reliably. Paragraph 51 continues to state that revenue will be determined from declarations actually received by due date of the payment, together with an estimate of levies due when a levy payer has not submitted a declaration in the reporting period where payment was due. Based on this requirement, the levy revenue for the 2005-06 year should be recognised irrespective of whether a declaration has been submitted by 30 June 2006. The total misstatement cannot be determined.

2006/07 Financial Year

15.1 When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

15.2 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

15.3 Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable services provided in the normal course of business, net of value added tax.

Services

15.4 Service income is recognised on an invoice basis.

Interest and rentals

15.5 Interest and rentals are recognised on a time proportion basis in the Statement of Financial Performance.

Agency Services

Income from agency services is recognised once such income has been received in accordance with a service level agreement.

Exemption

In accordance with Government Gazette 30013 dated 29 June 2007 Amathole District Municipality accepted the following exemptions paragraphs granted in terms of GAMAP 9 Revenue:

- Initial measurement of fair value discounting all future receipts using an imputed rate of interest [SAICA circular 09/06 and paragraph 12]

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16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, 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.

17. 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). 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.

18. 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.

19. COMPARATIVE INFORMATION

19.1 Current year comparative:

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

19.2 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.

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

1. INFRASTRUCTURE, PLANT AND EQUIPMENT

Reconciliation of Carrying Value	Investment property	Infrastructure	Community	Heritage	Other	Total
	R	R	R	R	R	R
As at 1 July 2006	723 236	12 764 080	4 596 072	-	54 301 686	72 385 074
Cost	781 714	13 232 090	4 909 079	-	55 671 650	74 594 533
Revaluation	-	-	-	-	9 692 262	9 692 262
Accumulated depreciation	58 478	468 010	313 007	-	11 062 226	11 901 721
Acquisitions	-	276 898 076	925 568	-	14 216 685	292 040 329
Capital under Construction	-	330 538 485	-	-	-	330 538 485
Increases/decreases in revaluation	-	-	-	-	-	-
Depreciation	36 933	31 276 249	244 144	-	6 802 432	38 359 758
based on cost	36 933	31 276 249	244 144	-	6 328 065	37 885 391
based on revaluation	-	-	-	-	474 367	474 367
Carrying value of disposals	-	-	-	-	172 644	172 644
Cost/revaluation	-	-	-	-	247 479	247 479
Accumulated depreciation	-	-	-	-	74 835	74 835
Carrying values	686 303	588 924 392	5 277 496	-	61 543 295	656 431 486
As at 30 June 2007	781 714	620 668 651	5 834 647	-	69 640 856	696 925 868
Cost	781 714	620 668 651	5 834 647	-	69 640 856	696 925 868
Revaluation	-	-	-	-	9 692 262	9 692 262
Accumulated depreciation	95 411	31 744 259	557 151	-	17 789 823	50 186 644
Cost	95 411	31 744 259	557 151	-	16 655 529	49 052 350
Revaluation	-	-	-	-	1 134 294	1 134 294

Carrying values	Investment property	Infrastructure	Community	Heritage	Other	Total
	R	R	R	R	R	R
As at 1 July 2005	771 447	3 617	3 991 078	-	51 329 294	56 095 436
Cost	781 714	4 794	4 089 007	-	48 573 545	53 449 060
Revaluation	-	-	-	-	9 692 262	9 692 262
Accumulated depreciation	10 267	1 177	97 929	-	6 936 513	7 045 886
Cost	-	1 177	97 929	-	6 750 953	6 850 059
Revaluation	10 267	-	-	-	185 560	195 827
Acquisition	-	13 227 296	820 072	-	8 825 842	22 873 210
Capital under construction	-	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-	-
Depreciation	48 211	466 832	215 078	-	5 260 356	5 990 478
based on cost	48 211	466 833	215 078	-	4 785 989	5 516 111
based on revaluation	-	-	-	-	474 367	474 367
Carrying value of disposals	-	-	-	-	593 094	593 094
Cost/revaluation	-	-	-	-	1 727 737	1 727 737
Accumulated depreciation	-	-	-	-	1 134 643	1 134 643
Impairment losses	-	-	-	-	-	-
Carrying values	723 236	12 764 080	4 596 072	-	54 301 686	72 385 074
As at 30 June 2006	781 714	13 232 090	4 909 079	-	55 671 650	74 594 533
Cost	781 714	13 232 090	4 909 079	-	55 671 650	74 594 533
Revaluation	-	-	-	-	9 692 262	9 692 262
Accumulated depreciation	58 478	468 010	313 007	-	11 062 226	11 901 721
Cost	58 478	468 010	313 007	-	10 402 299	11 241 794
Revaluation	-	-	-	-	659 927	659 927

In terms of Government Gazette 30013 dated 29 June 2007 the municipality has utilised the exemption under GAMAP 12 - Inventories: The municipality possibly has housing stock which has been recognised as infrastructure, plant and equipment. In terms of the Government Gazette, the municipality has been granted additional time to identify any items of Infrastructure, plant and equipment that should actually be recognised and disclosed as inventory.

In terms of the Government Gazette 30013 dated 29 June 2007 the municipality has utilised the exemption under IAS 40 - Investment property. Included in community assets above are items that may meet the definition of investment property but have been included as infrastructure, plant and equipment because the municipality had not finalised the process of identifying investment property for reporting purposes. These items will be transferred to investment property once they have been identified as investment property, and that until this has been done the property has been included as infrastructure, plant and equipment in the annual financial statements.

No restriction on title exists on any assets held.

Revaluations

Included in other assets above are land and buildings that have been revalued.

The effective date of the revaluation was 1 December 2004. The revaluation was performed by independent valuer Penny Lindstrom [Member of the Institute of Valuers], of Penny Lindstrom Property & Valuation Services. Penny Lindstrom Property and Valuation services is not connected to the municipality.

Land and buildings are re-valued independently every 3-5 years.

The valuation was performed using depreciated replacement values

Infrastructure, plant and equipment subjected to finance leases

Included in the Community assets above is the following office equipment subject to finance leases:

Office equipment

	2006/07	2005/06
	R	R
Cost	1 837 194	1 837 194
Accumulated depreciation	(1 145 365)	(777 926)
	691 829	1 059 268

2. Intangible Assets

	2007			2006		
	Cost	Accumulated Amortisation	Carrying value	Cost	Accumulated Amortisation	Carrying value
Computer software - Application software	1 018 212	(841 959)	176 252	1 018 212	(702 636)	315 576
License fees	59 604	(59 604)	-	59 604	(59 604)	-
Total	1 077 816	(901 563)	176 253	1 077 816	(762 240)	315 576

AMATHOLE DISTRICT MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

Reconciliation of intangible assets - 2007

	Opening carrying amount	Additions	Disposals	Amortisation R	Total R
Computer software - Application software	315 576	-	-	(139 323)	176 253
	315 576	-	-	(139 323)	176 253

Reconciliation of intangible assets - 2006

	Opening carrying amount	Additions	Disposals	Amortisation R	Total R
Computer software - Application software	458 120	0	-	(142 544)	315 576
	458 120	-	-	(142 544)	315 576

3. INVESTMENTS

Investment in subsidiary

	2006/07 R	2005/06 R
Investments in Municipal Entity - cost	1 000	1 000
Total	1 000	1 000

Council's valuation of unlisted Investments

Investments in Municipal Entities	1 000	1 000
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Investments in Municipal Entities

Amathole Economic Development Agency (Pty) Ltd

Issued Share Capital (1000 ordinary shares of R1,00 each)	1 000	1 000
Percentage owned by Council	100%	100%

Related Party Transactions

Funding provided to AEDA for the operations of the agency	5 000 000	5 000 000
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The Amathole Economic Development Agency was established 1 September 2005

Place of Incorporation : South Africa

Principal Activity : To promote local economic development in the Amathole Municipal District Area.

3.2 Financial assets

Held to maturity financial assets

The following fixed deposit accounts have been classified as held to maturity financial assets in accordance with IAS 39: Financial Instruments. Maturity periods are fixed and range between 6 - 12 months.

In accordance with the Municipality's risk management policy deposits are only made with major banks with quality credit standing and limits exposure to any one counter party.

The financial assets disclosed in the note below have not been disclosed as cash and cash equivalents due to the fixed deposits not having a maturity period of 3 months or less as at Statement of Financial Position date.

	472 516 696	465 451 549
Call investment deposits	472 516 696	465 451 549
Total: Call Investment Deposits	472 516 696	470 451 549
Call Investment Deposits		
Institution Account No		
STANDARD BANK	7 353 145	7 143 644
346649	10 509 589	10 318 356
333072	10 327 671	10 086 918
356104	13 316 363	13 094 740
352921	11 441 929	11 152 975
355421	11 283 077	11 095 610
356106	10 132 778	10 032 658
353664	10 151 137	10 044 603
336439	10 375 411	10 176 438
356920	12 636 625	12 266 104
INVESTEC	13 362 985	13 206 273
814695	10 430 945	10 200 356
820481	10 517 644	10 210 082
817131	10 430 945	10 182 178
815329	10 208 219	10 045 370
817130	7 230 616	7 111 070
825251	10 116 507	10 046 000
819394	10 372 192	10 182 178
827464	13 171 315	13 054 974
818400	10 519 233	10 040 986
ABSA	12 269 063	12 234 740
2057-092-476	15 150 658	15 127 233
2059-800-124	10 082 411	10 042 575
2057-067-401	10 407 452	10 149 589
2069-488-868	-	2 016 225
2062-856-304	12 308 811	10 042 000
2064-823-579	10 424 247	10 153 425
2065-284-051	10 169 068	10 191 096
2065-364-471	10 370 233	10 042 192
2065-585-419	8 321 403	8 123 616
FNB	12 389 260	12 089 666
FD07J25010	12 270 510	12 029 195
FD07I06001	12 505 973	12 197 014
FD07H26001	8 206 317	8 060 263
FD07H14001	10 100 438	10 166 110
FD07J10001	10 133 205	10 043 096
FD07L12003	12 099 209	12 215 556
FD07K21001	12 137 589	12 264 230
NEDBANK	12 380 137	12 085 578
037881714026/000070	12 476 975	10 140 055
037881714026/000069	10 133 205	10 041 137
037881714026/000064	14 061 370	14 059 490
037881714026/000063	-	2 015 764
037881714026/000068	10 187 000	10 042 493
037881714026/000042	10 043 836	10 177 699
037881714026/000067		
037881714026/000072		
	472 516 696	465 451 549

AMATHOLE DISTRICT MUNICIPALITY
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2006/07 R	2005/06 R
4. LONG TERM RECEIVABLES		
Car loans	487 158	964 529.26
Deposits	226 459	54 500.40
Loans to Local Municipalities	42 815	49 530.00
	756 432	1 068 559.66
Less: Short term portion transferred to current assets	164 301	351 115
Car loans	158 846	344 400
Loans to Local Municipalities	5 655	6 715
Total	592 132	717 445

The car loans and loans to local municipalities have been recognised at its face value and not fair value due to the municipality utilising the exemption provided by the Government Gazette 30013 dated 29 June 2007 on IAS 39: Financial Instruments which exempts the municipality of accounting for financial assets and liabilities at fair value.

Car loans

Senior staff are entitled to car loans which attract interest at 8% per annum and which are payable over a maximum period of 6 years. These loans are expected to be redeemed in full by 30 June 2010.

Loans to local municipalities

The loans to the local municipalities represents loans to Winterstrand and Kei Road. The loans currently attracts interest at 4% per annum and is repayable over a period of 40 years.

5. INVENTORY

Consumable stores: at cost	418 699	223 517
Housing projects	49 694 567	38 180 446
Unsold properties held for resale: settlements	26 410 207	26 410 207
Total Inventory	76 523 473	64 814 170

Housing Projects

Unsold properties held for resale: settlements

In accordance with GAMAP 12 land owned for housing, selling or other developments have to be transferred from PPE to inventory at the lower of cost and current replacement cost. A project to identify all Council's land and improvements was undertaken in the prior financial year.

In accordance with Government Gazette 30013 dated 29 June 2007 the municipality has been granted additional time to identify any items of property, plant and equipment that should be recognised and disclosed as inventory. Infrastructure, plant and equipment may therefore include a component of Inventory that has not been disclosed under the Inventory note.

Water stock

The municipality has not accounted for water stock that has not been purchased in accordance with the GAMAP 12 exemption provided by way of the Government Gazette 30013 dated 29 June 2007.

6. CONSUMER RECEIVABLES

Levies	1 864 612	11 143 031
- Levies	5 269 560	12 838 708
Less: Provision for bad debts	(3 404 949)	(1 695 677)
Water and sanitation	(0)	-
- Water	27 029 231	-
- Sanitation	25 046 881	-
- Interest on arrears component	6 278 347	-
	58 354 459	-
Less : Provision for bad debts	(58 354 459)	-
Total consumer receivables	1 864 612	11 143 031

The ageing of debtors are as follows:-

Levies		
Current		722
30 - 60 Days		379 966
60 - 90 Days		180 155
90 - 120 Days		463 467
120 - 330 Days		752 737
+ 330 Days	5 269 560	3 391 355
Total	5 269 560	5 168 401

RSC levies was abolished with effect from 1 July 2006.

The levies consumer receivable recognised above represents in accordance with paragraph 52 of GAMAP 9 the estimate of levies due where levy payers had not submitted declarations in the reporting period where payment was due.

Water and sanitation

Current	12 242 364	-
30 - 60 Days	3 640 730	-
60 - 90 Days	2 865 313	-
90 - 120 Days	4 300 251	-
120 - 330 Days	17 234 921	-
+ 330 Days	19 071 601	-
Total	59 355 180	-

The water and sanitation receivables relate to the take on of the water infrastructure assets in accordance with provincial notice 80 dated 27th of September 2000 in terms of section 12 of the Local Government Municipal Structures Act. The effective transfer date of all the verifiable assets and liabilities taken on from the local municipalities was 1 July 2006.

Bad Debt Provision

The bad debt provision is calculated on the ageing of debtors. Council's policy is to provide 50% on all debtors' balances which have been outstanding for period between 120 days and 330 days. All balances outstanding for more than 330 days are 100% provided for.

The municipality has recognised consumer debtors at its face value and not fair value. This is consistent with the Circular 9 and IAS 39 Financial Instruments exemptions provided by the Government Gazette 30013 dated 29 June 2007.

AMATHOLE DISTRICT MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2006/07 R	2005/06 R
7. OTHER RECEIVABLES		
Other receivables	7 647 412	14 957 519
Sundry receivables	7 647 412	5 639 603
Department of Health	-	9 317 916
Less: Provision for bad debtors	(1 949 988)	(628 275)
Total	<u>5 697 424</u>	<u>14 329 244</u>

The municipality has recognised other receivables at its face value and not fair value. This is consistent with the Circular 9 and IAS 39 Financial Instruments exemptions in terms of Government Gazette 30013 dated 29 June 2007.

8. VAT RECEIVABLE

Vat receivable	17 896 695	7 349 433
	<u>17 896 695</u>	<u>7 349 433</u>

Amathole District Municipality is registered on the invoice basis for Value Added Tax

9. BANK BALANCES AND CASH

The cash position at financial year end was made up of the following:

Current Account	(4 035 405)	12 161 036
Call Account	60 492 555	30 000 000
Imprest Account	2 000	2 400
Plus: Cancelled cheques	307 970	131 100
Total Cash Reserves	<u>56 767 120</u>	<u>42 294 536</u>

SUPPLEMENTARY BANK ACCOUNT INFORMATION

CURRENT ACCOUNTS TOTAL	<u>(4 035 405)</u>	<u>12 161 036</u>
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MEEG BANK Closing Balance	(4 570 018)	12 142 043
Opening Balance	12 142 043	-

Account No 4063093498
East London
5200

STANDARD BANK Closing Balance	534 613	18 993
Opening Balance	18 993	22 324 877

Account No 081093454
East London
Main Branch

CALL ACCOUNTS TOTAL

Call Account Closing Balance	50 492 555	30 000 000
Opening Balance	30 000 000	-

MEEG BANK
Account No 9157439416

Call Account Closing Balance	10 000 000	-
Opening Balance	-	15 000 000

STANDARD BANK
Account No 88643816001

10. LONG TERM LOAN: DBSA

Development Bank of South Africa Loan [Refer Appendix A]	6 902 734	-
	<u>6 902 734</u>	<u>-</u>
Non current portion	6 052 533	-
Current portion	850 201	-
	<u>6 902 734</u>	<u>-</u>

The Development Bank of South Africa loans were taken over by Amathole District Municipality from the Local Municipalities effective 1 July 2006 when Amathole District Municipality effectively took over the water and sanitation function from the various Local Municipalities.

Refer to Appendix A for the terms and conditions relating to the DBSA loans.

11. FINANCE LEASE OBLIGATION

	2006/07 R	2005/06 R
Minimum lease payments due		
-within one year	454 254	493 790
-in second to fifth year inclusive	494 507	948 761
-later than five years	-	-
	<u>948 761</u>	<u>1 442 551</u>
less: future finance charges	(116 709)	(237 957)
Present value of minimum lease payments	<u>832 052</u>	<u>1 204 594</u>
Present value of minimum lease payments due		
-within one year	379 632	372 542
-in second to fifth year inclusive	452 420	832 052
-later than five years	-	-
	<u>832 052</u>	<u>1 204 594</u>
Non current liabilities	452 420	832 052
Current liabilities	379 632	372 542
	<u>832 052</u>	<u>1 204 594</u>

AMATHOLE DISTRICT MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2006/07	2005/06
	R	R
It is the municipality's policy to lease certain office equipment under finance leases.		
The average lease term was 5 years and the average effective borrowing rate was 12% (Prior Year: 12%).		
All leases have fixed repayment terms with no annual escalation rate, but varies with the changes in the prime interest rate. No arrangements have been entered into for contingent rent.		
The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.		
12. OPERATING LEASE LIABILITY		
In accordance with IAS 17/(AC 105), operating lease income and expenses have been recognised on a straight line basis over the lease term.		
The effect of accounting for operating leases on the straight line basis had the following effect:		
Non current liabilities		
Operating lease accrual	125 868	28 247
	<u>125 868</u>	<u>28 247</u>
13. DEFERRED INCOME		
The deferred income relates to Government Grants related to assets which have been accounted for in accordance with IAS 20/(AC 134) Government grants.		
The government grant funding that has been received has been set up as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset.		
Government grants related to the construction of water infrastructure assets [CMIP and DWAF: Refer note 37]		
Government grants related to other assets	329 496 501	-
	5 957 242	6 659 489
	<u>335 453 743</u>	<u>6 659 489</u>
Non current liabilities	334 751 496	5 981 735
Current liabilities	702 247	677 754
	<u>335 453 743</u>	<u>6 659 489</u>
14. CONSUMER DEPOSITS		
Consumer deposits	285 060	-
	<u>285 060</u>	<u>-</u>
The consumer deposits relate to the water and sanitation function. The deposits are considered to be of a long term nature.		
15. TRADE AND OTHER PAYABLES		
Trade payables	39 817 452	31 261 875
Other payables	37 585 238	38 450 299
RSC levies paid in advance	40 442	-
Amounts received in advance: Water and sanitation	2 532 339	-
Accrued leave pay	45 911	23 099
Accrued performance bonus	675 746	824 782
Accrued service bonus	2 044 249	2 493 969
Unspent Conditional Grants and Receipts (Refer annexure 1)	174 000 261	181 708 294
Equitable Share Projects	587 060	2 738 672
Indebtedness to municipal entity: Amathole Economic Development Agency	832 425	-
Total	<u>258 161 123</u>	<u>257 500 989</u>
The movement on the leave accrual balance as above for the 2007 financial year was as follows:		
Staff Leave Pay		
Opening Balance	2 664 718	2 145 210
Plus: Contributions during the year	6 104 791	2 620 149
Leave sold during the year	(3 473 147)	(2 100 641)
Total leave accrual	<u>5 296 362</u>	<u>2 664 718</u>
Non current portion of leave accrual	5 250 451	2 641 619
Current portion of leave accrual	45 911	23 099
	<u>5 296 362</u>	<u>2 664 718</u>
16. REGIONAL SERVICE CHARGES		
Levies	10 911 627	128 604 451
Total Service Charges	<u>10 911 627</u>	<u>128 604 451</u>
RSC levies was abolished with effect from 1 July 2006. The RSC levies that has been disclosed in the Statement of Financial Performance represents RSC revenue received by the 20th of July 2006 for RSC levies from June 2006. This is in accordance with GAMAP 9 paragraph 52 which states a reliable measurement of levies can usually only be made on the due date of payment which was 20 July 2006.		
17. GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	111 544 918	90 284 664
Levy replacement grant	128 024 000	-
Conditional Grants: Conditions met - transferred to revenue	91 205 178	197 695 680
Release of deferred income	702 453	-
Total Government Grant and Subsidies	<u>331 476 548</u>	<u>287 980 344</u>
Based on the allocations set out in the Division of Revenue Act, Act 1 of 2005) significant changes in the level of government grant funding have materialised due to the allocation of the RSC levy replacement grant.		
17.1 Equitable Share		
This grant is used to subsidise the following functions:		
WSP		
WSA		
Engineering Services		
Disaster Management		
Health & Protection Services		
Fire service		
Building & Services Planning		
Municipal Manager		
PMU		

AMATHOLE DISTRICT MUNICIPALITY

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

	2006/07 R	2005/06 R
17.2 Income for Agency Services		
Balance outstanding at beginning of year	2 490 489	-
Total Income	17 693 769	10 677 840
Subsidy received	17 621 836	10 625 920
Other income	71 934	51 920
Total Expenditure	(18 883 580)	(8 187 351)
Less: Expenditure subsidy	(18 811 646)	(8 135 431)
Less: Other expenditure relating to sundry income	(71 934)	(51 920)
Conditions still to be met- transferred to creditors	<u>1 300 677</u>	<u>2 490 489</u>

The Municipality renders health services on behalf of the Provincial Government and is refunded 100% of the total expenditure incurred. The conditions of the grant have been met. There was a delay in receiving the subsidy due to negotiations regarding the Service Level Agreement.

17.3 Conditional Grants		
Balance unspent at beginning of year	181 708 293	115 048 218
Current year receipts	205 170 082	252 618 196
Interest Received	7 513 715	5 701 699
Less: Expenditure	(225 117 486)	(191 659 821)
Condition still to be met-transferred to liabilities (see note 3)	<u>169 274 604</u>	<u>181 708 293</u>
Refer to Annexure 1		

18. OTHER INCOME		
Other income	3 013 150	3 207 247
Administration fees	1 035 180	1 313 268
Total Other Income	<u>4 048 330</u>	<u>4 520 515</u>

19. GAIN ON TRANSFER OF WATER INFRASTRUCTURE

The provisions of Provincial notice 80 dated 27 September 2000, issued in terms of section 12 of the Local Government Municipal Structures Act, provides for the transfer of the Water Service Authority and Water Service Provider duties to the Amathole District Municipality, effective 01 July 2006, for the district municipality's areas excluding Buffalo city municipality. In terms of sub-paragraph 6(1) of Provincial notice 80 "The assets, liabilities and obligations of a disestablished municipality... (are) transferred to the new municipality...".

The ADM embarked on an asset verification program aimed at determining all immovable properties to be transferred from the local municipalities' financial records. Similarly, the ADM embarked on a process of third party confirmations and/or assessments of all consumer debtors, liabilities and obligations that were identified for transfer from the local municipalities.

Only immovable assets identified as per the ADM's verification exercise, the identified fleet currently being utilised within operations, and incumbent liabilities are incorporated into the financial records.

The financial records of the Amahlati Local Municipality was incorporated into the financial records of the ADM (Only municipality with un-disclaimed audited financial records) All unsubstantiated balances will remain within the local municipalities' financial records (Mbhashe LM, Mnquma LM, Great Kei LM, Ngqushwa LM' Nkonkobe LM, Nxuba LM).

The incorporation of the financial records of Amathole LM and various balances from other municipalities resulted in gains in the financial records of the ADM.

The gains (excess of assets over liabilities) are recognised through the Statement of Financial Performance.

Gain on transfer of Amahlati water infrastructure assets	15 824 654	-
Gain on transfer of other Local Municipality water infrastructure assets	276 238 055	-
	<u>292 062 709</u>	

20. OPERATING SURPLUS

Operating surplus is stated after the following:

Operating lease charges

<i>Premises</i>		
- Contractual amounts	3 035 416	2 261 722
<i>Motor vehicles</i>		
- Contractual amounts	1 251 854	174 453
<i>Office Equipment</i>		
- Contractual amounts	143 740	119 031
	<u>4 431 010</u>	<u>2 555 206</u>

Surplus on sale of infrastructure, plant and equipment	(63 400)	(219 860)
Depreciation on Infrastructure, plant and equipment	37 885 391	5 847 934
Amortisation on Intangible Assets	139 323	142 544
Loss on sale of assets	165 993	354 779
Gain on disposal of Infrastructure, plant and equipment		

Amount expended in respect of retirement benefit plans:	12 823 999	10 330 956
Defined contribution funds	11 972 932	10 075 064
Defined benefit funds	851 067	255 892

21. EMPLOYEE RELATED COSTS PER THE PAYROLL

Employee related costs- Salaries and Wages	70 273 494	46 498 125
Employee related costs- Contribution for UIF, pensions and medical aid.	13 909 835	9 291 463
Travel, motor car, accommodation, subsistence and other allowances	5 349 652	4 668 736
Housing benefits and allowances	433 733	348 723
Overtime payments	2 769 895	458 262
Bonus	4 628 437	2 586 939
Other benefits/allowances	5 424 867	3 211 735
Total Employee Related Costs	<u>102 789 913</u>	<u>67 064 051</u>

The employee related costs disclosed above represents the totals per the Payday Payroll reports. These are therefore the actual expenses per the payroll. The totals of the above note will therefore not agree to the Employee related costs per the Statement of Financial Performance due to the Statement of Financial Performance disclosing the total employee related costs as per the General ledger.

Remuneration of the Municipal Manager

Annual Remuneration	481 207	431 622
Performance Bonus	110 573	44 116
Acting Allowance	-	-
Cell Phone Allowance	-	13 560
Car Allowance	172 861	190 470
Contribution to UIF, Medical & Pension Fund	106 497	86 708
TOTAL	<u>871 138</u>	<u>766 476</u>

AMATHOLE DISTRICT MUNICIPALITY

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

	2006/07 R	2005/06 R
Remuneration of the Chief Finance Officer		
Annual Remuneration	378 136	337 200
Performance Bonuses	102 453	87 540
Acting Allowance	-	-
Cell Phone Allowance	17 700	16 920
Car Allowance	135 469	137 903
Contributions to UIF, Medical and Pension Funds	96 837	87 586
Total	730 595	667 149
Remuneration of the Director: Administration		
Annual Remuneration	387 564	341 007
Performance Bonuses	103 592	82 935
Acting Allowance	-	-
Cell Phone Allowance	16 920	16 920
Car Allowance	129 406	141 720
Contributions to UIF, Medical and Pension Fund	93 455	83 627
Total	730 937	666 209
Remuneration of the Director: Engineering		
Annual Remuneration	380 368	341 007
Performance Bonuses	96 761	79 912
Acting Allowance	-	-
Cell Phone Allowance	17 700	16 920
Car Allowance	135 658	138 195
Contributions to UIF, Medical and Pension Fund	91 696	84 257
Total	722 183	660 291
Remuneration of the Director: Strategic Management		
Annual Remuneration	386 599	339 631
Performance Bonuses	70 578	18 918
Acting Allowance	-	-
Cell Phone Allowance	5 010	8 040
Car Allowance	136 360	148 316
Contributions to UIF, Medical and Pension Fund	87 509	79 354
Total	686 056	594 259
Remuneration of the Director: Human Resources		
Annual Remuneration	386 995	341 007
Performance Bonuses	88 792	76 219
Acting Allowance	-	-
Cell Phone Allowance	-	8 040
Car Allowance	136 528	141 047
Contributions to UIF, Medical and Pension Fund	89 044	86 621
Total	701 359	652 934
Remuneration of the Director: Health & Protection		
Annual Remuneration	388 830	341 007
Performance Bonuses	99 038	86 023
Acting Allowance	-	-
Cell Phone Allowance	17 700	16 920
Car Allowance	138 022	152 173
Contributions to UIF, Medical and Pension Fund	83 615	70 141
Total	727 205	666 264
Remuneration of the Director: Executive support services		
Annual Remuneration	60 273	-
Performance Bonuses	-	-
Acting Allowance	-	-
Housing subsidy	1 108	-
Cell Phone Allowance	3 600	-
Car Allowance	22 580	-
Contributions to UIF, Medical and Pension Fund	12 751	-
Total	100 322	-
The position for Director: Executive Services was filled on 1 May 2007		
22. REMUNERATION OF COUNCILLORS		
Executive Mayor	547 282	445 632
Speaker	428 979	366 405
Mayoral Committee Members	4 127 169	2 999 598
Councillors	4 100 766	2 874 288
Councillors pension contribution	-	395 413
Total Councillors' Remuneration	9 204 196	7 081 336
In-kind Benefits		
The Executive Mayor, Speaker and Mayoral Committee Members are full-time		
Each is provided with an office and secretarial support at the cost of the Council.		
Mayor has use of a 2 council owned vehicles for official duties.		
The Executive Mayor has one full-time driver/bodyguards		
The salaries, allowances and benefits of the political office-bearers are within the upper limits of the framework as prescribed by section 219 of the Constitution:		
23. PAYE AND UIF		
Opening balance	-	-
Current year payroll deductions	15 603 473	10 932 464
Amount paid-current year	(15 603 473)	(10 932 464)
Amount paid-previous year	-	-
Total	-	-
24. PENSION AND MEDICAL AID DEDUCTIONS		
Opening balances	-	-
Current year payroll deductions and Council Contributions	16 917 393	12 633 573
Amount paid-current year	(16 917 393)	(12 633 573)
Amount paid-previous year	-	-
Total	-	-

The pension fund contributions disclosed above includes contributions to the defined benefit and defined contribution funds. The municipality has accepted the exemption provided by Government Gazette No. 30013 dated 29 June 2007 which states that defined benefit plans can be accounted for as if they were defined contribution plans. Contributions made to the defined benefit plan has therefore been disclosed as contributions which has been recognised in the Statement of Financial Performance. No plan asset or liability was recognised.

AMATHOLE DISTRICT MUNICIPALITY

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

25. RETIREMENT BENEFIT INFORMATION

All Employees belong to one of the 4 defined contribution retirement funds, namely Cape Joint Retirement Fund, SAMWU National Provident Fund, Eastern Cape Municipal Pension Fund and National Fund for Municipal Workers or one of the 3 defined benefit pension funds namely Cape Joint Pension Fund, Government Pension Fund and South African Local Authorities.

On retirement an employee has Council has post retirement obligation to contribute 70 % to the medical cost of such an employee
As at 30 June 2007 104 pensioners of Council received a medical aid contribution.

	2006/07 R	2005/06 R
26. GRANTS AND SUBSIDIES PAID		
EC121	7 675 252	16 005 236
EC122	6 693 623	11 404 190
EC123	8 365 613	3 731 462
EC124	2 047 797	3 512 645
EC125	574 803	8 331 515
EC126	1 756 867	2 892 569
EC127	8 227 977	4 404 313
EC128	3 733 566	917 411
Total Grants and Subsidies	39 075 498	51 199 341

The grants paid to all Local Municipalities are in terms of the District Municipality's Integrated Development plan.
The above grants relates to priority project allocation to local municipalities.

27. GRANTS AND SUBSIDIES OUTSTANDING

	2006/07 R	2005/06 R
EC121	1 531 289	9 428 739
EC122	7 566 473	10 494 284
EC123	5 522 890	2 283 097
EC124	197 300	483 071
EC125	969 364	1 068 830
EC126	1 503 606	534 306
EC127	9 731 793	2 742 209
EC128	1 133 220	1 387 435
Total Grants and Subsidies	28 155 935	28 421 971

The above grants relates to priority project allocation to local municipalities.

28. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

28.1 Unauthorised expenditure

	2006/07 R	2005/06 R
Reconciliation of unauthorised expenditure		
Opening balance		-
Unauthorised expenditure current year	10 002 889	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
	10 002 889	-

The budget of the engineering services depreciation vote was exceeded due to unforeseen depreciation costs due to the take on of water assets, resulting in unauthorised expenditure of R10,002,889

28.2 Fruitless and wasteful expenditure

	2006/07 R	2005/06 R
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	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	-	-

28.3 Irregular expenditure

	2006/07 R	2005/06 R
Reconciliation of irregular expenditure		
Opening balance		6 097
Irregular expenditure current year	470 456	-
Condoned or written off by Council	(470 456)	-
Transfer to receivables for recovery- not yet condoned	-	(6 097)
Irregular expenditure awaiting condonement	-	-
	-	-

29. INVESTMENT INCOME

Interest revenue

	2006/07 R	2005/06 R
Unlisted financial assets	33 467 259	20 783 092
Current Account	814 381	748 534
Loans	56 247	85 960
Interest charged on trade and other receivables	2 550 655	673 654
	36 888 541	22 291 240

30. FINANCE COSTS

	2006/07 R	2005/06 R
Finance leases	114 824	148 059
External borrowings	1 218 530	-
	1 333 354	148 059

31. AUDIT FEES PAID

	2006/07 R	2005/06 R
Fees	1 159 472	933 073
	1 159 472	933 073

32. CASH GENERATED FROM OPERATIONS

	2006/07 R	2005/06 R
Surplus for the year	270 977 288	38 842 337
Adjustments for:		
Disposal of property, plant and equipment	172 644	134 919
Depreciation and amortisation	38 499 081	5 990 478
Contributions to provisions - current	-	2 781 794
Contribution to bad debt provision	61 385 444	(13 764 484)
Non cash flow: Property Plant and Equipment purchased from CRR	-	(13 093 057)
Non cash flow: Gain on transfer of water infrastructure from local municipalities	(274 972 816)	-
Non cash flow: Revaluation reserve off setting of depreciation	(474 366)	-
Investment income	(36 888 541)	(22 291 240)
Interest paid	1 183 906	148 059
Operating surplus before working capital changes	59 882 640	(1 251 193)
(Increase)/Decrease in inventories	(11 709 303)	72 399
Increase in consumer debtors	(43 288 390)	(1 941 732)
(Decrease)/increase in conditional grants and receipts	(7 708 032)	66 660 074
Increase/(decrease) in trade and other payables	11 074 620	(20 498 049)
Provisions paid	-	(2 100 641)
Increase in VAT receivable	(10 547 262)	-
Cash generated in operations	(2 295 727)	40 940 858

AMATHOLE DISTRICT MUNICIPALITY
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2006/07 R	2005/06 R
33. COMMITMENTS		
Authorised capital expenditure		
- Approved and contracted for	396 627 816	129 746 242
Infrastructure	372 440 812	128 338 702
Community	10 966 664	1 407 539
Heritage	-	-
Other	13 220 340	-
Investment Properties	-	-
- Approved but not yet contracted for	94 384 384	140 031 889
Infrastructure	93 123 197	137 782 359
Community	1 261 188	2 249 530
Heritage	-	-
Other	-	-
Investment Properties	-	-
Total	491 012 200	269 778 131
This expenditure will be financed from:		
- External Loans	-	-
- District Council Grants	487 541 860	266 121 061
- Own resources	3 470 340	3 657 069
	491 012 200	269 778 131

Operating leases

Operating leases - as lessee (expense)

Minimum lease payments due		
-within one year	2 353 614	691 493
-in second to fifth year inclusive	2 235 343	625 859
-later than five years	-	-
	4 588 956	1 317 352

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of 3 years and rentals escalate on average at 10% p.a. No contingent rent is payable.

Operating leases – as lessor (income)

Minimum lease payments due		
-within one year	50 113	84 333
-in second to fifth year inclusive	40 091	62 974
-later than five years	-	-
	90 205	147 306

Operating lease payments represent rentals receivable by the Municipality for certain of its properties situated in Stutterheim, Komga, Cathcart, Mount Pleasant and Maclean town.

Leases are negotiated for an average of 4 years and rentals escalate by an average of 12% annually.

34. CONTINGENT LIABILITIES

The following contingent liabilities have been disclosed and not recognised:

Iliso Consulting	93 588	93 588
Nedbank Ltd	25 000	-
S Hololoshe	87 592	-
PAS: Status quo analysis	500 000	-
	707 179	93 588

Iliso Consulting

Iliso Consulting demanded from Council an amount of R93 588 for services rendered in the Ngqushwa Municipality's Makhahlane Water Supply Project. Council's attorneys responded to the Iliso Consulting's attorneys informing them that the council was not liable, and if any summons were issued against Council, then Council would defend.

Matters are currently held in abeyance, as per agreement between parties, pending the investigation of the matter by the Amathole District Municipality and possible action against the construction company (Give Ziyawa Construction).

Nedbank Ltd

Amathole District Municipality rented a photocopier machine from Canon. The contract was allegedly ceded to Nedbank Ltd, which now claims outstanding rental.

Discussions are currently in progress between Amathole District Municipality and the Provincial Government. Nedbank Ltd has threatened to issue summons.

S Hololoshe

A previous employee utilised fraudulent means to obtain payment by generating false invoices.

A Warrant of Execution is to be issued in order to seek the Judgement debtor and his assets.

PAS: Status quo analysis

PAS has sued for services rendered and damages out of breach of contract. PAS failed to carry out the full terms of the contract and breached its obligations which has resulted in termination of the contract.

Currently there is an attempt at settlement. Dates for the pre-trial conference is still to be confirmed.

35. RELATED PARTIES

Relationships

Subsidiary / Municipal entity Refer to Note 3.1

Related party balances

Owing (to) by Amathole Economic Development Agency	(832 425)	290 944
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AMATHOLE DISTRICT MUNICIPALITY
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

2006/07
 R

2005/06
 R

36. PRIOR PERIOD ERRORS

Finance leases

Leases were not classified as operating or finance leases in accordance with IAS 17 in the prior financial years. Leases were assessed against the criteria of IAS 17 in the current financial year. This has led to certain leases being classified as finance leases which has resulted in the capitalisation of office equipment as well as recognising the corresponding liability. The prior period errors relating to leases have been corrected retrospectively.

Operating leases

In the past operating leases payments were incorrectly accounted for when they fall due and not on a straight line basis as required by IAS 17. Operating leases were straight lined in the current year and all errors were corrected retrospectively.

RSC levies

In the prior year no receivable was raised for RSC revenue where levy payers had not submitted a declaration in the reporting period where payment was due. This error was inconsistent with paragraph 51 of GAMAP 9. An exercise was undertaken in the current year to correct this error, the error has been adjusted for retrospectively.

Service bonuses accrual

No accrual was made in the prior year for services bonuses in accordance with GAMAP 19. This error was corrected in the current year and was adjusted for retrospectively.

Revaluation reserve

A portion of the revaluation reserve was incorrectly recognised in the prior financial years on the initial recognition of property, plant and equipment where land and buildings were acquired for zero or a nominal consideration. This error is inconsistent with paragraph 27 of GAMAP 17. The error was corrected in the current financial year and was adjusted for retrospectively.

Government Grants

The accounting for the government grant reserve in the prior year was inconsistent with paragraph 12 of IAS 20. IAS 20 paragraph 12 states that government grants shall not be credited directly to equity. This error was corrected in the current financial year by setting up the government grants received as deferred income. Where the government grants related to assets, the deferred income was released to the Statement of Financial Performance on a systematic basis being the period which is consistent with the useful life of the asset the grant is related to. An error also arose during the take - on of the DWAF water assets as the take on balance was incorrectly taken to the government grant reserve due to the assets being acquired for zero consideration. No government funding was received for the take on of the DWAF water assets. The errors were corrected retrospectively.

The correction of the errors resulted in adjustments as follows:

Finance leases

Statement of Financial Position

Adjustment against opening retained earnings 30 June 2005	115 510
Increase in finance lease liability	(1 204 594)
Increase in infrastructure, plant and equipment	1 837 194
Increase in accumulated depreciation	(777 926)
Increase in trade payables (Interest accrual)	(5 429)
	<u>(35 244)</u>

Statement of Financial Performance

Increase in finance charges	148 059
Increase in depreciation	345 357
Decrease in leasing and hiring costs	(458 172)
	<u>35 244</u>

Operating leases - Lessors and Lessees

Statement of Financial Performance

Increase in rental income	(33 925)
	<u>(33 925)</u>

Statement of Financial Position

Adjustment against opening retained earnings 30 June 2005	62 172
Increase in rental due	(28 247)
	<u>33 925</u>

RSC levies

Statement of Financial Performance

Increase in RSC revenue	(6 968 048)
	<u>(6 968 048)</u>

Statement of Financial Position

Increase in Levies Consumer receivable	7 088 309
Increase in Vat liability	(120 262)
	<u>6 968 047</u>

Service bonuses accrual

Statement of Financial Position

Decrease in opening retained earnings	1 860 644
Increase in service bonus accrual	(2 493 969)
	<u>(633 325)</u>

Statement of Financial Performance

Increase in service bonus expense	633 326
	<u>633 326</u>

Revaluation reserve

Statement of Financial Performance

Increase in depreciation	232 841
	<u>232 841</u>

Statement of Financial Position

Adjustment against opening retained earnings 30 June 2005	(24 698 732)
Decrease in Revaluation Surplus	24 465 891
	<u>(232 841)</u>

AMATHOLE DISTRICT MUNICIPALITY
 NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2006/07 R	2005/06 R
Government Grant Reserve		
Statement of Financial Position		
Increase in accumulated surplus/(deficit)		(12 404 474)
Decrease in Government Grant Reserve		19 063 963
Increase in deferred income		(6 659 489)
		<u>-</u>

37. CAPITALISATION OF CMIP AND DWAF WATER INFRASTRUCTURE COSTS

Water infrastructure assets

On 1 July 2006 being the effective transfer date, Amathole District Municipality became the water services provider in terms of the Strategic Framework for water services. This entails that Amathole with effect 1 July 2006 provides water services to consumers. Previously Amathole District Municipality was the water services authority which meant that the municipality was responsible for ensuring access to water services.

The result of the above is that prior to 1 July 2006 Amathole did not have control over the water infrastructure assets that were being constructed. All payments made prior to 1 July 2006 for the construction of water infrastructure was expensed due to the probability of future economic benefits relating to the construction of the water infrastructure not flowing to Amathole District Municipality.

The value of the trade receivables taken over from the Local municipalities were not recognised in Council's records due the failure to meet the recognition and measurement criteria.

Subsequent to 1 July 2006 Amathole assumed control of the water infrastructure assets due to the District Municipality's decision to centralise the Water Service Provision function under the municipality

The capitalisation of this expenditure is not seen as a prior period error in accordance with Grap 3 due to no omissions or misstatements arising from the failure to use or misuse reliable information in the prior year.

The effect of the above on the 2006/07 annual financial statements is as follows:

	R
Statement of Financial Position	
Increase in Infrastructure, plant and equipment [Refer note 1]	329 496 501
Increase in deferred income [Refer note 13]	(329 496 501)
	<u>-</u>

38. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

Property, plant and equipment and intangible assets

Application software and License fees which are not considered to be an integral part of the related hardware has been reclassified from Infrastructure, plant and equipment to Intangible assets. in accordance with paragraph 4 of IAS 38/(AC 129).

The effect of the reclassifications as mentioned above are as follows:

	2 007	2 006
Statement of Financial Position		
Infrastructure, Plant and Equipment and Intangible Assets		
Decrease in Infrastructure, Plant and Equipment - Accumulated Depreciation	901 563	762 240
Increase in Intangible Assets - Accumulated Amortisation	(901 563)	(762 240)
Increase in Intangible Assets - Cost	1 077 816	1 077 816
Decrease in Infrastructure, Plant and Equipment - Cost	(1 077 816)	(1 077 816)
Statement of Financial Performance		
Increase in Amortisation	139 324	142 544
Decrease in Depreciation	(139 324)	(142 544)

39. RISK MANAGEMENT

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

Deposits and all call accounts attract interest at rates that vary with prime. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

At year end, financial instruments exposed to interest rate risk were as follows: balances with banks, call accounts and current accounts.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows: deposits with banks, staff loans and receivables

The municipality is exposed to the following guarantees:

Guarantees in lieu of Eskom and the Post office	130 000	130 000
	<u>130 000</u>	<u>130 000</u>

40. NON-COMPLIANCE WITH SECTION 89(a) OF THE MUNICIPAL FINANCE MANAGEMENT ACT

The Municipality failed adhere to determine the upper limits of the employee benefits and monitor the cost of the managers of the Municipal Entity

41. EVENTS AFTER THE REPORTING DATE AS AT 30 JUNE 2007

No events subsequent events have been identified subsequent to reporting date

APPENDIX A

AMATHOLE DISTRICT MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS
AS AT 30 JUNE 2007

EXTERNAL LOANS	Loan Number	Interest Rate	Final Redemption Date	Balance at 01/07/2006	Received during the period	Redeemed written off during the period	Balance at 30/06/2007
LONG-TERM LOANS				R	R	R	R
DBSA Loan - Nkonkobe	8237	11%	2014/09/30		3 978 285	234 084	3 744 200
DBSA Loan - Great Kei	10876	15%	2019/06/30		1 571 512	-	1 571 512
DBSA Loan - Nxuba	11416	17%	2009/06/30		78 201	-	78 201
Loan - Amahlathi	100001	4%	2009/06/30		1 579 684	497 008	1 082 676
Loan - Amahlathi	100001	4%	2009/06/30		294 964	-	294 964
Loan - Amahlathi	100001	4%	2009/06/30		113 758	-	113 758
							-
							-
							-
Total long-term loans				0	7 616 404	731 092	6 885 312
CURRENT PORTION							
DBSA Loan - Amahlathi [In arrears]	11641	11%	2007/06/30	-	7 926	-	7 926
DBSA Loan - Nxuba	11240	16%	2010/12/31		9 497		9 497
							-
							-
							-
Total short term loans				0	17 423	-	17 423
TOTAL EXTERNAL LOANS				0	7 633 827	731 092	6 902 734

APPENDIX D
AMATHOLE DISTRICT MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2007

2005/06 Actual Income	2005/06 Actual Expenditure	2005/06 Surplus/ (Deficit)		2006/07 Actual Income	2006/07 Actual Expenditure	2006/07 Actual Surplus/ (Deficit)	2006/07 Budgeted Surplus/ (Deficit)
R	R	R		R	R	R	R
466 185 517	427 343 180	38 842 336	RATE AND GENERAL SERVICES	733 787 827	462 810 537	270 977 290	292 002 588
457 998 167	419 155 830	38 842 336	Community Services	724 408 727	453 431 437	270 977 290	291 593 198
128 604 451		128 604 451	Levies	10 911 627		10 911 627	-
14 585 397	8 237 683	6 347 714	Council General	3 679	65 634 282	(65 630 603)	(30 839 063)
6 000	5 245 580	(5 239 580)	Mayoral Committee	16 961	7 574 047	(7 857 147)	(7 485 700)
	450 163	(450 163)	Grants-in-aid	-	300 061		(303 035)
4 799	4 547 314	(4 542 514)	Executive Support Services	13 320	5 511 861	(5 498 541)	(8 157 199)
25 001 735	3 110 927	21 890 808	Municipal Manager	166 312 884	7 889 280	158 423 604	138 148 831
964 958	964 958		PIMMS	10 008	1 087 835	(1 077 826)	(1 519 345)
34 887	1 995 358	(1 960 472)	Internal Audit	20 439	2 383 353	(2 362 915)	(3 703 841)
2 693 064	5 039 570	(2 346 505)	Local Economic Development	2 933 807	8 951 869	(6 018 061)	(5 858 299)
2 125 373	5 142 856	(3 017 483)	Municipal Support Manager	1 835 193	5 256 496	(3 421 303)	(4 672 720)
-	1 439 808	(1 439 808)	Strategic Manager	1 663	1 410 412	(1 408 749)	(3 088 012)
4 205	3 629 833	(3 625 627)	Information Com Technology	98 110	7 473 148	(7 375 038)	(5 288 337)
-	89 180 936	(89 180 936)	Projects	1 738 186	58 077 310	(56 339 124)	(15 094 086)
1 082 616	10 230 203	(9 147 587)	Administration	71 283	3 034 314	(2 963 031)	(3 421 272)
5 888 641	8 885 159	(2 996 518)	Land and Housing	11 649 881	3 494 963	8 154 919	(4 214 773)
81 341	1 884 892	(1 803 551)	Buildings	3 620 387	5 322 645	(1 702 259)	700 288
45 204	273 846	(228 642)	Calgary Museum	59 605	497 893	(438 288)	163 298
			Supply Chain Management	825	1 464 364	(1 463 539)	(2 799 567)
			Council Support and Auxiliary Services	19 131	6 287 787	(6 268 655)	(6 844 945)
66 613	10 287 002	(10 220 390)	Financial Services	1 384 557	18 355 577	(16 971 021)	(20 723 770)
1 159 328	1 159 328		Budget Reform	941 532	941 532	-	(409 847)
459 374	7 021 929	(6 562 555)	Human Resources	1 204 104	9 806 350	(8 602 246)	(8 978 121)
164 360 224	164 141 687	218 537	Engineering Services	57 115 632	58 119 532	(1 003 900)	(413 723)
5 480 516	4 591 366	889 151	Building and Services Planning	5 546 690	4 828 521	718 169	128 551
87 870 048	59 869 093	28 000 956	Water Services	419 702 052	134 332 792	285 369 260	286 465 634
5 388 999	3 297 137	2 091 862	Project Management Unit	4 024 324	4 325 689	(301 365)	(74 625)
4 319 234	3 719 658	599 576	Health and Protection Services	4 904 673	4 852 246	52 427	(75 756)
3 460 620	3 550 894	(90 274)	Disaster Management	5 145 667	4 347 456	798 211	235 490
51 537	7 477 569	(7 426 032)	Municipal Health Services	3 694 196	3 137 245	556 951	(45 303)
4 259 002	3 781 080	477 921	Fire Services	6 856 132	5 909 575	946 557	(175 812)
			Municipal Health services	14 572 179	12 823 002	1 749 177	(61 743)
8 187 350	8 187 350	0	Subsidised Services	9 379 101	9 379 101	0	409 390
			Ambulance and Rescue Services				
8 187 350	8 187 350	0	Health Nursing Services	9 379 101	9 379 101	0	409 390
0	0	0	Economic Services	0	0	0	0
0	0	0		0	0	0	0
0	0	0	HOUSING SERVICE	0	0	0	0
0	0	0		0	0	0	0
0	0	0	TRADING SERVICES	0	0	0	0
0	0	0		0	0	0	0
466 185 517	427 343 180	38 842 336	TOTAL	733 787 827	462 810 538	270 977 290	292 002 588

APPENDIX E (1)

AMATHOLE DISTRICT MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	2006/07 Actual	2006/07 Budget	2006/07 Variance	2006/07 Variance	Explanation for Significant Variances greater than 10% vs Budget
	R	R	R	%	
REVENUE					
Service Charges	39 377 102	36 278 348	3 098 754	9%	Incompleteness of the records of the Local Municipalities consumers
Regional Service Charges	10 911 627	-	10 911 627	100%	Abolishment of RSC levies with effect 1 July 2006
Rental of facilities & Equipment	147 923	117 084	30 839	26%	Calgary conference facility rented out internally and externally
Income for agency Service	18 811 646	17 621 834	1 189 812	7%	
Government grants & Subsidies	331 476 548	326 649 340	4 827 208	1%	Grant funds spend during year, refer DWAF assets and annexure 1
Other income	4 048 330	124 835 062	(120 786 732)	-97%	Operating income from previous years included in budget
Gain on transfer of water infrastructure	292 062 709	292 062 709	-	0%	Gain on take on of Local Municipalities water infrastructure assets
Gains on disposal of PPE	63 400		63 400	100%	Assets disposed of during year
Total Revenue	696 899 285	797 564 377	(100 665 092)	-13%	
EXPENDITURE					
Employee related costs	114 870 043	127 667 629	(12 797 586)	-10%	
Remuneration of Councillors	141 314	141 314	-	0%	
Bad Debt provision	61 472 868	26 670 728	34 802 140	130%	Non incorporation of debtors of local municipalities due unverifiable nature
Collection Costs	837 658	837 659	(1)	0%	
Depreciation	38 024 715	8 066 595	29 958 120	371%	Accounting for take on of water assets
Repairs & Maintenance	11 346 847	13 245 921	(1 899 074)	-14%	Effective water maintenance and management
Grants & Subsidies Paid	3 179 618	9 573 650	(6 394 032)	-67%	Low levels of spending vs expected level
Grants & Subsidies Paid: Capital	35 895 881	57 657 784	(21 761 903)	-38%	Low levels of spending vs expected level
General expenses- other	194 802 979	250 131 543	(55 328 564)	-22%	Conditional grants-conditions met
Loss on disposal of PPE	165 993	-	165 993	100%	
Internal charges	888 716	1 867 629	(978 913)	100%	Allocation of vehicle cost to water function
Total Expenditure	461 626 632	495 860 452	(34 233 820)	-7%	
OPERATING SURPLUS/ (DEFICIT)	235 272 653	301 703 925	(66 431 272)		
Investment income	36 888 541	3 782 215	33 106 326	875%	Low levels of expenditure on projects
Finance costs	1 183 906	1 403 434	(219 528)	-16%	Capitalisation of finance leases and LM water and sanitation loans taken over
NET SURPLUS/(DEFICIT) FOR THE YEAR	270 977 288	304 082 706	(33 105 418)		

APPENDIX E (2)

AMATHOLE DISTRICT MUNICIPALITY
ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY PLANT AND EQUIPMENT)
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	2006/07 Actual	2006/07 Budget	2006/07 Variance	2006/07 Variance	Explanation for Significant Variances greater than 10% vs Budget
	R	R	R	%	
LAND AND BUILDINGS					
Administration	1 041 779	6 139 120	(5 097 341)	-83%	ADM Office building under construction
Housing Schemes	-	-	-	0%	
Workshops & Depots	-	-	-	0%	
Land	-	-	-	0%	
	1 041 779	6 139 120	(5 097 341)		
INFRASTRUCTURE					
Reservoirs & Tanks	161 516 100	-	161 516 100	100%	Incorporating water infrastructure assets
Water - Other	24 800	821 590	(796 790)	100%	
Meters	1 446 800	1 857 000	(410 200)	-22%	
Work in Progress	329 496 705	-	329 496 705	100%	Incorporating water infrastructure work in progress
Purification works	23 235 282	-	23 235 282	100%	Incorporating water and sewerage infrastructure assets
Sewers	90 675 095	253 250	90 421 845	35705%	Incorporating water and sewerage infrastructure assets
	606 394 782	2 931 840	603 462 942		
COMMUNITY					
Clinics & Hospitals	-	-	-	0%	
Fire Stations	-	-	-	0%	
Museum & Art Galleries	882 924	-	882 924	100%	Construction started in 2005, and could not be completed
Security System	42 644	-	42 644	100%	Combined with office machines
INVESTMENT PROPERTIES					
	925 568	-	925 568		
OTHER					
Air Conditioners	-	-	-	0%	
Computer Hardware	3 156 411	2 949 903	206 508	7%	Combined with Tables and Desks
Computer Software	-	-	-	0%	
Office Machines	179 781	132 666	47 115	36%	Combined with Security Systems
Cabinets & Cupboards	149 115	866 029	(716 914)	-83%	
Chairs	24 832	-	24 832	100%	Combined with furniture and fitting : other, chairs
Furniture and Fittings : Other	46 286	47 300	(1 014)	-2%	Combined with furniture and fitting : other, chairs
Tables & Desks	132 165	336 726	(204 561)	-61%	Combined with Computer hardware
Medical Equipment	-	-	-	0%	
Fire Equipment	-	-	-	0%	
Laboratory Equipment	-	-	-	0%	
Lawnmowers	54 123	103 300	(49 177)	-48%	Lawnmowers not purchased
Compressors	-	-	-	0%	
Plant & Equipment : General	48 102	372 550	(324 448)	-87%	Combined with furniture and fitting : other, chairs
Fire Engines	964 500	-	964 500	100%	External funds utilised
Radio Equipment	-	-	-	0%	
Telecommunication Equipment	-	-	-	0%	
Motor Vehicles	530 587	-	530 587	100%	All motor vehicles purchased from priority project funds
Tractors	-	-	-	0%	
Trucks & Bakkies	8 930 783	5 459 420	3 471 363	64%	Purchased from Priority project funds and Water vehicles from local municipalities
	14 216 685	10 267 894	3 948 791	38%	
TOTAL	622 578 814	19 338 854	603 239 960	3119%	

APPENDIX F
AMATHOLE DISTRICT MUNICIPALITY
DISCLOSURE OF GRANTS & SUBSIDIES IN TERMS OF MFMA
AS AT 30 JUNE 2007

Name of Grant	Name of Organ of State	QUATERLY RECEIPTS					QUATERLY EXPENDITURE					GRANTS & SUBSIDIES DELAYED/WITHHELD					Reason for delay/ withheld	Compliance with DORA	Reason for non-compliance
		March 06	June 06	Sept 06	Dec 06	March 07	March 06	June 06	Sept 06	Dec 06	March 07	March 06	June 06	Sept 06	Dec 06	March 07			
MSIG	HLG&TA	250 000	500 000			477 524	972 225	65 966	137 637	40 735	324 075	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Budget Reform	Nat Treasury						971 999	101 010	535 495	453 698	(199 597)	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
MSP Project Management	DHLG&TA						3 160 747			179 814	88 586	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Seta	LGW Seta	83 913	44 976				340 046		58 114	4 430	193 902	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Land Use Management	DHLG&TA	459 400									131 530	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Community Develop Program	DHLG&TA	377 055					48 718	19 200			1 145 882	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
COM AWARE PROC	DHLG&TA											N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Disaster Management Funds	DHLG&TA			3 000 000			1 381 533					N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
LED	DHLG&TA					818 000						N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
PHP Funds	DHLG&TA	1 211 290	(36 086)		101 200	12 995 334	2 109 921	732 478	2 413 876	3 155 933	5 193 896	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Nkonkobe Drought Relief	DWAF										58 508	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Support to DM	DBSA	422 500										N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Land Reform & Settle Plan Proj	DLA	3 600				159 953	79 660	10 080	32 448	9 799	78 561	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Development-BNG	HLG&TA		3 452 400									N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
EDOT Funds	ECDOT	491 264			191 410	462 181						N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Dept Sport	DSA&C											N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Bucket Eradication	HLG&TA	4 463 000		5 000 000		3 207 932	3 155 035	2 447 988	403 039	3 702 003		N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
CMIP	HLG&TA	25 612 617	26 430 112	56 544 596	37 361 213	31 919 298	44 977 597	38 309 965	39 345 781	56 088 976	41 693 059	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
DWAF	DWAF	10 385 457					2 909 691	1 869 654	983 854	1 018 895	4 240 128	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A