



MBHASHE LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for

THE YEAR ENDED 30 JUNE 2008

Contact information:

Name of Municipality Manager:

N.C. Vusani

Contact telephone number:

047 489 1400

Contact e-mail address:

vusanic@mbhashemun.gov.za

Name of Chief Financial Officer:

S. Mini

Contact telephone number:

047 489 1400

Contact e-mail address:

minis@mbhashemun.gov.za

Name of relevant Auditor:

[The Office of the Auditor General - Mthatha](#)

Contact telephone number:

[+27475310409](tel:+27475310409)

Contact e-mail address:

malusi@agsa.co.za

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

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MBHASHE LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended
30 June 2008

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 41, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 21 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

N.C. VUSANI
Municipal Manager

Date

MBHASHE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2008

	Note	2008 R	2007 R
NET ASSETS AND LIABILITIES			
Net assets		92,357,749	66,698,243
Government grant reserve		9,652,509	9,652,509
Accumulated Surplus/(Deficit)		82,705,240	57,045,734
Non-current liabilities		-	-
Long-term liabilities	1	-	-
Current liabilities		52,836,036	8,043,599
Creditors	2	2,194,234	1,457,247
Unspent conditional grants and receipts	3	6,315,348	2,832,908
VAT	4	1,045,492	3,753,445
Current portion of long-term liabilities	1	-	-
Bank overdraft		-	-
Total Net Assets and Liabilities		<u>101,912,822</u>	<u>74,741,843</u>
ASSETS			
Non-current assets		63,910,603	53,569,844
Property, plant and equipment	5	63,910,603	53,569,844
Long-term receivables	6	-	-
Current assets		101,920,006	21,171,999
Consumer debtors	7	38,531	5,700,834
Other debtors	8	111,358	(2,342,392)
Current portion of long-term debtors	6	-	-
Bank balances and cash	9	37,852,331	17,813,557
Total Assets		<u>101,912,822</u>	<u>74,741,843</u>

**MBHASHE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2008**

	Note	2008 R	2007 R
REVENUE			
Service charges	10	2,587,187	2,610,398
Rental of facilities and equipment		198,313	423,841
Interest earned - external investments		1,266,069	383,044
Government grants and subsidies	11	67,114,414	50,191,635
Other income	12	1,937,787	2,674,365
Gains on disposal of property, plant and equipment		-	-
Total Revenue		73,103,768	56,283,283
EXPENDITURE			
Employee related costs	13	13,537,865	20,899,628
Remuneration of Councillors	14	9,214,465	1,341,071
Bad debts		5,893,613	-
Collection costs			-
Depreciation		2,841,607	2,549,836
Repairs and maintenance		616,877	1,528,376
Interest paid	15	-	2
Contracted services	16	-	-
Grants and subsidies paid	17	4,614,228	2,607,011
General expenses		10,725,608	8,449,124
Loss on disposal of property, plant and equipment			-
Total Expenditure		47,444,261	37,375,047
SURPLUS/(DEFICIT) FOR THE YEAR		25,659,507	37,375,047

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

	Pre-GAMAP Old Reserves and Funds R	Government Grant Reserve R	Accumulated Surplus/ (Deficit) R	Total R
2007				
Balance at 1 July 2007	-	9,652,509	57,045,735	66,698,244
Surplus/(deficit) for the year			18,908,236	18,908 236
Capital grants used to purchase PPE		9,166,332	(9,166,332)	-
Disposals of PPE				-
Offsetting of depreciation				-
Balance at 30 June 2007/	-	9,652,509	57,045,735	66,698,244
2008				
			25,659,507	-
Surplus/(deficit) for the year				25,659,507
Capital grants used to purchase PPE				-
Disposals of PPE				-
Offsetting of depreciation				-
Balance at 30 June 2008	-	9,652,509	82,705,242	92,357,751

MBHASHE LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 R	2007 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		77,500,002	68,581,662
Cash paid to suppliers and employees		(45,622,142)	(62,451,791)
Cash generated from/(utilised in) operations	20	31,877,860	6,129,871
Interest received		1,266,069	383,044
Interest paid		-	(2)
NET CASH FROM OPERATING ACTIVITIES		33,143,929	6,512,912
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(13,105,155)	(9,166,332)
Proceeds on disposal of property, plant and equipment		-	-
Decrease in non-current receivables		-	-
NET CASH FROM INVESTING ACTIVITIES		(13,105,155)	(9,166,332)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/ (Decrease) in funds and reserves		-	7,696,582
NET CASH FROM FINANCING ACTIVITIES		-	7,696,582
NET DECREASE IN CASH AND CASH EQUIVALENTS		20,038,774	5,043,163
Cash and cash equivalents at the beginning of the year		17,813,557	12,770,394
Cash and cash equivalents at the end of the year	21	37,852,331	17,813,557

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

1 BASIS OF PRESENTATION

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

[First – time Implementation of GAMAP/GRAP]

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

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

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

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

2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3 GOING CONCERN ASSUMPTION

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

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

4 GOVERNMENT GRANT RESERVE

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit)

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation. Land is not depreciated as it is deemed to have an indefinite life.

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

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

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

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

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

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

6 ACCOUNTS RECEIVABLES

Accounts receivables are carried at anticipated realisable value.

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

7 TRADE CREDITORS

Trade creditors are stated at their nominal value.

8 REVENUE RECOGNITION

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

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

8.1 Revenue from Rates

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

A composite rating system charging different rate tariffs is employed.

8.2 Service Charges

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

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

8.3 Fines

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

8.4 Rentals

Rentals are recognised on a time proportion basis.

8.5 Approved Tariff of Charges

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

8.6 Interest on Investments

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

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

8.7 Sale of Goods

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

8.8 Interest on Outstanding Debtors

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

8.9 Donations and Contributions

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

8.10 Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

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

9 CONDITIONAL GRANTS AND RECEIPTS

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

10 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

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

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

11 RETIREMENT BENEFITS

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

12 UNAUTHORISED EXPENDITURE

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

13 IRREGULAR EXPENDITURE

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

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

14 FRUITLESS AND WASTEFUL EXPENDITURE

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

15 COMPARATIVE INFORMATION

17.1 Current year comparatives:

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

17.2 Prior year comparatives:

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

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
1 LONG-TERM LIABILITIES		
Annuity Loans - DBSA	-	-
Less : Current portion transferred to current liabilities	-	-
	<hr/>	<hr/>
Total External Loans	-	-
	<hr/> <hr/>	<hr/> <hr/>

The Municipality has no external loans at present.

2 CREDITORS

Trade creditors	965,143	228,156
Payments received in advance		-
Staff leave	1,049,091	1,049,091
Provision for Performance Bonuses	180,000	180,000
	<hr/>	<hr/>
Total Creditors	2,194,234	1,457,247
	<hr/> <hr/>	<hr/> <hr/>

3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

IGG Fund	2,248	2,248
IGG Fund	23,072	21,166
Housing Development	1 063 593	1,063,593
Pilot Housing	4577	4,577
Willowvalle Road	5455.94	5,064
IDP	83 903.31	77,069
Free Basic	276 449.03	260,657
Town Planning	400 197.68	341,459
Town Planning	450 378	450,378
Survey	193 283.24	177,173
Ntlonyane	1126902.51	1,064,019
Equitable Share	3474.89	3,380
Extension	31577.95	29,122
Water Reticulation	6674	6,674

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

	2008	2007
	R	R
3 UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)		
IDP	114 363.07	104,745
IDP	709 286.28	668,762
FMG	644,443.31	175,104
LGSETA	33046	33,046
MIG	-	(2 453 750)
MSIG	861 428	517,428
Establishment of Ward Committee	280 995	280,995
Total Unspent Conditional Grant	6,315,348	2,832,908

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

4 VAT

Vat payable	1,045,492	3,753,445
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VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

5 PROPERTY, PLANT AND EQUIPMENT

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

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

5 PROPERTY, PLANT AND EQUIPMENT (continued)

30 June 2008

Reconciliation of Carrying Value	Land and Buildings	Infra- structure	Other	Total
	R	R	R	R
Carrying values				
at 1 July 2006	11,852,946	28,114,464	13,602,432	46,953,348
<i>Cost</i>	12,474,655	24,690,352	19,199,588	56,364,595
<i>Correction of error</i>	-	-	-	-
<i>Accumulated depreciation</i>	(704,520)	(6,256,520)	(6,906,244)	(9,411,247)
Additions	-	12,847,952	257,202	9,166,332
Capital under Construction	-	-	-	-
Depreciation	(82,812)	(1,078,729)	(1,680,066)	(2,841,607)
Disposals				-
<i>Cost</i>	-	-	-	-
<i>Accumulated depreciation</i>	-	-	-	-
Impairment losses	-	-	-	-
Other movements	-	-	-	-
Carrying values				
At 30 June 2007	11,148,426	34,705,895	13,602,434	53,569,844
<i>Cost</i>	12,474,655	33,292,256	19,764,016	65,530,927
<i>Accumulated depreciation</i>	(704,520)	(6,256,520)	(6,906,244)	(9,411,247)

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

5 PROPERTY, PLANT AND EQUIPMENT (continued)

30 June 2008

Reconciliation of Carrying Value	Land and Buildings	Infra- Structure	Other	Total
	R	R	R	R
Carrying values				
At 1 July 2007	11,148,426	34,705,895	13,602,434	53,569,844
Cost	12,474,655	33,292,256	19,764,016	65,530,927
Accumulated depreciation	(704,520)	(6,256,520)	(6,906,244)	(9,411,247)
Additions	-	12,847,952	25,702	13,105,155
Capital under Construction				-
Depreciation	(82,811)	(1,078,729)	(1,680,066)	(2,841,607)
Disposals				-
Cost	-	-	-	-
Accumulated depreciation	-	-	-	-
Impairment losses	-	-	-	-
Other movements	-	-	-	-
Carrying values at 30 June 2008	11,148,426	34,705,895	7,381,363	53,235,685
Cost	11,852,947	40,962,417	14,287,607	67,102,971
Correction of error				
Accumulated depreciation	(704,520)	(6,256,520)	(6,906,244)	(13,867,284)

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

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
6 LONG-TERM RECEIVABLES		
Car loans	-	-
Less: Current portion transferred to current receivables	-	-
Total	-	-

CAR LOANS

Senior staff of the Municipality have no car loans.

7 CONSUMER DEBTORS

As at 30 June 2007

Rates, Refuse, Water and Sanitation	6,457,641	6,226,332
Provision for bad debts	(6,419,110)	(525,498)
Total	38,531	5,700,834

Consumer Debtors: Ageing

Current (0 – 30 days)	8,721	(474,309)
31 - 60 Days	20,394	29,564
61 - 90 Days	37,667	
91 – 120 Days		
121 - 365 Days	6,390,858	4,321,674
+ 365 Days		
Total	6,457,640	3,876,929

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

2008 **2007**
R R

Reconciliation of the bad debts provision

Balance at the beginning of the year	(525 498)	(525,498)
Contribution to the provision	(5 893 613)	-
Write-off of bad debts		-
Reversal of provision		-
Balance at end of the year	<u>(6 419 111)</u>	<u>(525,498)</u>

8 OTHER DEBTORS

Staff, Lease Debtors, Land sale and Other	(2,342,392)	(2,342,392)
MIG	2,453,750	2,453,750
Unauthorized expenditure (see Note 23.1)	-	-
Fruitless and wasteful expenditure (see Note 23.2)	-	-
Amathole Project Funds	-	13,962,610
Total Other Debtors	<u>111,358</u>	<u>(2,342,392)</u>

9 BANK, CASH AND OVERDRAFT BALANCES

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

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

Cash book balance at beginning of year	<u>6,279,723</u>	<u>6,279,723</u>
Cash book balance at end of year	<u>11,101,908</u>	<u>11,101,908</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
Bank statement balance at beginning of year	14,499,569	4,730,885
Bank statement balance at end of year	<u>12,557,673</u>	<u>14,499,569</u>
 <u>Savings Account/ Investments Account</u>		
 Meeg Bank Limited – Various Accounts		
Cash book balance at beginning of year	4,379,060	4,169,723
Cash Book balance at end of year	<u>17,242,023</u>	<u>4,379,060</u>
 Bank statement balance at beginning of year	 4,379,060	 4,169,723
Bank statement balance at end of year	<u>17,242,023</u>	<u>4,379,060</u>
 First National Bank – Various Accounts		
Cash book balance at beginning of year	642,319	642,319
Cash Book balance at end of year	<u>642,319</u>	<u>642,319</u>
 Bank statement balance at beginning of year	 642,319	 642,319
Bank statement balance at end of year	<u>642,319</u>	<u>642,319</u>
 Standard Bank Limited - Dutywa Branch: Various Accounts		
Cash book balance at beginning of year	1,686,335	1,678,628
Cash Book balance at end of year	<u>1,709,324</u>	<u>1,686,335</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
Bank statement balance at beginning of year	<u>1,678,628</u>	<u>1,678,628</u>
Bank statement balance at end of year	<u>1,709,324</u>	<u>1,678,628</u>
10 SERVICE CHARGES		
Rates, Refuse removals	<u>2,587,187</u>	<u>5,700,834</u>
Total Service Charges	<u>2,587,187</u>	<u>5,700,834</u>
11 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	45 235 507	43,840,509
Municipal System Improvement Grant (MSIG)	734 000	216,572
Finance Management Grant (FMG)	1 000 000	347,468
LG SETA	-	99,330
Unknown Grants	3 212 410	-
Municipal Infrastructure Grant (MIG)	16 932 497	5 428 750
Etablissement of Ward Committees	<u>0</u>	<u>259,005</u>
Total Government Grant and Subsidies	<u>67 114 414</u>	<u>50,191,634</u>
11.1 Equitable Share		
The Equitable Share is an unconditional grant and is utilised to assist the local municipalities undertake service delivery.		
11 GOVERNMENT GRANTS AND SUBSIDIES (Continued)		
11.2 Municipal System Improvement Grant		
Balance unspent at beginning of year	517 428	-
Current year receipts	734 000	734,000
Conditions met - transferred to revenue	<u>(390 000)</u>	<u>(216,572)</u>
Conditions still to be met – transferred to liabilities (see note 3)	<u>861 428</u>	<u>517,428</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
11.3 Finance Management Grant		
Balance unspent at beginning of year	175 104	22,572
Current year receipts	1 000 000	500,000
Conditions met - transferred to revenue	<u>(530 660)</u>	<u>(347,468)</u>
Conditions still to be met – transferred to liabilities (see note 6)	<u>644,443</u>	<u>175,104</u>
11.4 LG SETA		
Balance unspent at beginning of year	33 046	-
Current year receipts		132,376
Conditions met - transferred to revenue		<u>(99,330)</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>33,046</u>	<u>33,046</u>
11.5 Municipal Infrastructure Grant		
Balance unspent at beginning of year	2 067 651	-
Current year receipts	16 932 497	2,975,000
Conditions met - transferred to revenue	<u>12 318 701</u>	<u>(907,349)</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>6 681 447</u>	<u>2,067,651</u>
11.6 Establishment of Ward Committes		
Balance unspent at beginning of year	280 995	-
Current year receipts	0	540,000
Conditions met - transferred to revenue	<u>0</u>	<u>(259,005)</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>280 995</u>	<u>280,995</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
11.7 Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act ... of 2007), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
12 OTHER INCOME		
Admin, pond, Licence fees, fines, sundry and sale of land	1 937,787	2,674,365
Recovery of unauthorised, irregular, fruitless and wasteful expenditure (Note 23)	-	-
Total Other Income	<u>1 937 787</u>	<u>2,674,365</u>
13 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	11 329 497	17 555 882
Employee related costs - Contributions for UIF, pensions and medical aids	2 193 282	2 889 513
Travel, motor car, accommodation, subsistence and other allowances		268 103
Housing benefits and allowances	15 085	6130
Overtime payments		-
Performance bonus		180 000
Total Employee Related Costs	<u>13 537 865</u>	<u>20 075 628</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
13 EMPLOYEE RELATED COSTS (continued)		
 <i>Remuneration of the Municipal Manager</i>		
Annual Remuneration	339 024	318 000
Performance Bonuses	-	44 500
Cellphone Allowance	22 016	12 000
Car Allowance	96 000	-
Contributions to UIF, Medical and Pension Funds	109 497	24 000
Total	<u>566 537</u>	<u>494 500</u>
 <i>Remuneration of the Chief Finance Officer</i>		
Annual Remuneration	271 219.20	290 000
Other Allowances , Cell,Housing	24 000	0
Perfomance Annual Bonus	0	27 100
Car Allowance	84 000	84 000
Contributions to UIF, Medical and Pension Funds	75 525.12	
Total	<u>454 744.32</u>	<u>401,100</u>
 <i>Remuneration of Individual S.57 Employees(Managers)</i>		
	<u>Admin.</u>	<u>Technical</u>
	<u>& HR</u>	<u>Services</u>
	R	R
30 June 2008		
Annual Remuneration	271 219	376 831
Performance Bonuses	-	27 100
Car Allowance	96 000	84 000
Other Allowances	86 300	26 400
Total	<u>453 519</u>	<u>514 331</u>

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

EMPLOYEE COSTS	2008 R	2007 R
	<u>LED</u> <u>Strategic</u> R	R
30 June 2008		
Annual Remuneration	271 219	349 736
Performance Bonuses	0	27 100
Car Allowance	78 000	84 000
Other Allowances	102 809	26 400
Total	<u><u>452 028</u></u>	<u><u>487 236</u></u>
 14 REMUNERATION OF COUNCILLORS		
Mayor	477 707	411 057
Speaker	373 836	328 845
Executive Committee Members – Full Time	350 472	169 560
Councillors	0	431 609
	<u>0</u>	<u>-</u>
Total Councillors' Remuneration	<u><u>1 202 015</u></u>	<u><u>1 341 071</u></u>

In-kind Benefits

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

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

	2008	2007
EMPLOYEE COSTS	R	R
ESTATE MANAGER		
Annual Remuneration	222 000	
Travelling Allowance	84 000	-
Other Allowances	54 249	-
	<hr/>	<hr/>
Total Earnings	360 249	-
	<hr/> <hr/>	<hr/> <hr/>
COMMUNITY SERVICES MANAGER		
Annual Remuneration	216 000	
Other Allowance	67 497	
Travelling Allowance	78 000	
	<hr/>	<hr/>
Total Earnings	361 497	-
	<hr/> <hr/>	<hr/> <hr/>
17 GRANTS AND SUBSIDIES PAID		
Donations to local municipalities/ LED Projects	<hr/>	2 607 011
	<hr/> <hr/>	<hr/> 2 607 011

MBHASHE LOCAL MUNICIPALITY

18 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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

	2008	2007
	R	R
18.1 Statutory Funds		
Balance previously reported: -		
Revolving Fund		486,177
Loan redeemed and other capital receipts		127,429
	<hr/>	<hr/>
Total	<hr/> <hr/>	613,606
Implementation of GAMAP		
Transferred to Accumulated Surplus/(Deficit) (see 18.5 below)		127,429
Transferred to Government Grant Reserve		486,177
	<hr/>	<hr/>
Total	<hr/> <hr/>	127,429

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

18.2 Provisions and Reserves		
Balance previously reported		
Balancing Government Grant Reserve	<hr/>	3,496,658
	<hr/>	<hr/>
Total	<hr/> <hr/>	3,496,658
Implementation of GAMAP		
Transferred to Accumulated Surplus/(Deficit) (see 18.5 below)	<hr/>	3,496,658
	<hr/>	<hr/>

18.3 Property, plant and equipment

Balance previously reported		-
Implementation of GAMAP		
Infrastructure previously not recorded credited to Accumulated Surplus/(Deficit) (see 26.7 below)	<hr/>	56,313,416
	<hr/>	<hr/>
Total	<hr/> <hr/>	56,313,416

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
18.4 Accumulated Depreciation		
Balance previously reported		-
Implementation of GAMAP		
Backlog depreciation: Land and buildings	-	
Backlog depreciation: Infrastructure	-	
Backlog depreciation: Other	-	
Total (debited to Accumulated Surplus/(Deficit)) (see 18.5 below)	-	
18.5 Accumulated Surplus/(Deficit)		
Implementation of GAMAP		
Transferred from statutory funds (see 18.1 above)	-	
Excessive provisions and reserves no longer permitted (see 18.2 above)	-	
Fair value of Property, Plant and Equipment previously not recorded (see 18.3 above)	-	
Backlog depreciation (see 18.4 above)	-	
Total	-	
19 CORRECTION OF ERROR		
During the year ended 30 June 2007, Municipality reversed an old balance of Amathole Projects Account which had been paid fully by Amathole District Municipality: -		
The comparative amount has been restated as follows: -		
Amathole Projects	-	
Loans Redeemed	-	
Net effect on surplus/(deficit) for the year	-	

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
20 CASH GENERATED BY OPERATIONS		
Surplus/(deficit) for the year	25,659,507	
Adjustment for:-		
Depreciation	2,841,607	
Bad debts written off	5,979,894	
Interest paid	-	
Investment income	<u>(1,266,069)</u>	
Operating surplus before working capital changes:	33,214,939	15,777,359
(Increase)/decrease in debtors	(5,662,303)	(1,663,900)
(Increase)/decrease in other debtors	2,453,750	-
(Decrease)/increase in conditional grants and receipts	3,482,440	4,147,456
Increase in creditors	736,987	-
Increase in VAT	<u>(2,707,953)</u>	<u>(1,477,317)</u>
Cash generated by/(utilised in) operations	<u>31,877,860</u>	<u>16,783,598</u>
21 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position :		
Bank balances and cash	37,852,331	17,782,545
Bank overdrafts	<u>-</u>	<u>-</u>
Total cash and cash equivalents	<u>37,852,331</u>	<u>17,782,545</u>

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
30 JUNE 2008**

	2008	2007
	R	R
22 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term liabilities (see Note 1)	-	-
Used to finance property, plant and equipment – at cost	-	-
Sub- total	-	-
Cash set aside for the repayment of long-term liabilities	-	-
Cash required for repayment of long-term liabilities	-	-

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

23 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

23.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

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

Incident

Unbudgeted expenditure - Municipality has no unbudgeted expenditure

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

		2008	2007
		R	R
23	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (continued)		

23.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

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

Incident

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

23.3 Irregular expenditure

Reconciliation of irregular expenditure

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

Incident

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

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE		
24 MANAGEMENT ACT		

24.1 Contributions to organized local government

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

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

24.2 Audit fees

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

MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R

24.3 VAT

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

24.4 PAYE and UIF

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

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

24.5 Pension and Medical Aid Deductions

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

**MBHASHE LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008**

2008
R

2007
R

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

The Municipality has developed a supply chain management policy.

25 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

- Approved and contracted for	-	-
<i>Infrastructure</i>	-	-
<i>Other</i>	-	-
- Approved but not yet contracted for	-	-
<i>Infrastructure</i>	-	-
<i>Other</i>	-	-
Total	-	-
This expenditure will be financed from:		
- Government Grants	-	-
	-	-

MBHASHE LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008	2007
	R	R
26 RETIREMENT BENEFIT INFORMATION		
All Councillors and employees belong to 2 defined benefit retirement funds administered by the Alexander Forbes and SAMWU Provident Fund.		
27 IN-KIND DONATIONS AND ASSISTANCE		
The Municipality has not received any donations during the year.		
28 CONTINGENT LIABILITY		
Claim for damages	<u> -</u>	<u> -</u>
The Municipality is involved in legal dispute with Manager of Protection Services and Works Manager.		
29 COMPARISON WITH THE BUDGET		
The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures D(1) and D(2).		

APPENDIX A
MBHASHE MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2008

Category	Opening Balance	Additions	Under-Construction	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	Carrying Value
Land and buildings	11,852,946	0	0	0	11,852,946	621 708	82 811	0	704 502	11 148 426
Land	9 366 112				9 366 112				0	9 366 112
Municipal Buildings	2 486 834				2 486 834	621 708	82 811		704 502	1 782 314
Infrastructure	28 114 464	12 487 952	0	0	40 962 417	5,177,792	1,078,729	0	6,256,521	34,705,895
Infrastructure assets	28 114 464	12 487 952	0	0	40 962 417	5,177,792	1,078,729	0	6,256,521	34,705,895
Other assets	7 056 133	257 202	0	0	7 741 307	3 555 001	1 462 075	0	5 059 590	2 681 718
Computer equipment	867,327	128 788			996,115	768 551	316 362		1 127 427	-131 312
Furniture and fittings	433 598	128,414			989,984	427,973	133,783		561,756	428,229
Motor vehicles	4 359 609				4,359,609	1,786,423	871,922		2,658,345	1,701,264
Plant equipment	1 391 126				1 391 126	570 241	139 113		709 354	681 772
Mayoral Chain	4 473				4 473	1 813	895		2708	1 765
Recreational Facilities	6 546 301		0	0	6 546 301	1 628 662	217 992		1 846 654	4 699 646
Library Facilities	172 031				172 031	35 095				
Taxi Rank Development	598 843				598 843	149 711				
Community Halls	3 380 752				3 380 752	845 188				
Community Arts Centre	1 589 713				1 589 713	397 428				
Sports Facilities and Grounds	804 962				804 962	201 240				
Total	53 569 844	13 105 155	0	0	67 102 971	10 983 164	2 841 607	0	13 867 285	53 235 685

APPENDIX B
MBHASHE MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT
30 JUNE 2008

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

APPENDIX C
MBHASHE MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR
ENDED
30 JUNE 2008

2007				2008		
Revenue	Expenses	Surplus/ (Deficit)	Department	Revenue	Expenses	Surplus/ (Deficit)
R	R	R		R	R	R
51 761 881	6 640 022	45 121 859	Finance	73 103 768	13 622 722	59 481 046
-	20 222 811	(20 222 811)	Human Resource & Administration	-	15 432 379	(15 432 379)
-	2 636 690	(2 636 690)	Works	-	1 720 461	(1 720 461)
-	428 150	(428 150)	Estate	-	719 951	(719 951)
-	831 678	(831 678)	Protection	-	1 587 099	(1 587 099)
-	2 406 298	(2 406 298)	LED	-	3 564 385	(3 564 385)
-	4 029 396	(4 029 396)	Council	-	10 797 264	(10 797 264)
51 761 881	37 195 045	14 566 836	Total	73 103 768	47 444 261	25 659 507

APPENDIX D(1)

MBHASHE MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2008

	<u>2008</u> <u>Actual (R)</u>	<u>2008</u> <u>Budget (R)</u>	<u>2008</u> <u>Variance (R)</u>	<u>2008</u> <u>Variance (%)</u>	<u>Explanation of Significant Variances</u> <u>greater than 10% versus Budget</u>
Revenue					
Service charges	2,587,187	1,900,000	687,187	36%	
Roll over		6,620,749		100%	
Regional Services Levies – remuneration					
Rental of facilities and equipment	198,313	282,400	-84,087	-30%	
Interest earned - external investments	1,266,069	120,000	1,146,069	9,551%	
Government grants and subsidies	67,114,414	75,692,000	-8,577,586	-11%	
Other income	1,937,787	2,547,941	-610,154	-23%	
Gains on disposal of property, plant and equipment					
Total Revenue	73,103,768	87,163,090	-14,059,322	-16%	
Expenditure					
Finance	13 622 722	4,206,368	-9 416 354	-224%	
Human Resource and Administration	15 432 379	11,856,417	-3 575 962	-30%	
Works	1 720 461	40,913,300	39 192 839	96%	
Protection	719 951	6 586 332	5 866 381	89%	
Estate	1 587 099	6,674,921	5 087 822	76%	
LED	3 564 385	6,687,075	3 122 690	47%	
Council	10 797 264	10 238 676	558 588	-5%	
Total Expenditure	47 444 261	87,163,090	39 718 829	84%	
Surplus	25 659 507	-			

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

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

APPENDIX E

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

Grant and Subsidies Received

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/wit hholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act Yes / No	Reason for non-compliance
		Sept	Dec	March	June		Sept	Dec	March	June		S e p t	D e c	M a r c h	J u n e	S e p t			
LG SETA MIG MSIG FMG Establish Of Ward	MBH MUN MBH MUN MBH MUN MBH MUN MBH MUN																		